COMPETITION IN THE BANKING SECTOR: THEORETICAL ASPECTS, ESSENCE, SPECIFICITY

CONCURENȚĂ ÎN SISTEMUL BANCAR: ASPECTE TEORETICE, ESENȚA, SPECIFICUL

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Abstract

The theory and practice of competition has traditionally been of interest to economics for many centuries. The problem of competition appears as one of the global issues of economic theory. Banking competition is a dynamic process of competition between commercial banks and other credit institutions, within which they seek to secure a strong position in the banking services market. This is one of the types of market competition, which is formed as credit institutions carry out monetary, investment, settlement and payment and other activities related to the creation and sale of their products and services on the banking market. The competitiveness of a commercial bank is identical to its competitive potential as a set of competitive advantages, the use of which automatically means achieving superiority. At the same time, the competitive position of a bank is determined not only by the quantity and quality of its competitive advantages, but also, first of all, by the scale of the segments of the financial market, covered by interbank competition. The problem of a reliable assessment of banking competition in the banking market is of particular relevance in connection with changes in the institutional structure of the banking sector. In the scientific literature there is still no unambiguous interpretation of the concept of "competitiveness", the methods and tools for its assessment differ. For the Republic of Moldova, the fiercest competition in the banking business is an objective reality, which is constantly increasing as the network of credit institutions and other various financial institutions develops.

Despite numerous studies devoted to the problem of competitiveness in economic activity, some issues related to the specifics of banking activities have not yet been sufficiently studied. In this regard, the article investigates the theoretical foundations of the development of competition, summarizes various approaches to the definition of banking competition and identifies their inherent advantages and disadvantages, analyzes methods for assessing banking competition, investigates approaches to assessing the competitiveness of banks, examines various methods for assessing the state of competition, studies the features of competition in banking sector.

Key words: assessment methods, banks; banking competition, competitiveness,
JEL G21; G24

1. Introduction

At present, the problem of competition, primarily in a market economy, acts as one of the global issues of economic theory. Competition is an economic competition between business entities for the opportunity to maximize profits and strengthen their position in the market.

In this regard, the issues of competition, including banking, are of paramount importance, since its development plays an important role in the development of the country's economy and the banking system. The concept of "competitiveness" and increased competition between banks has become along with the concept of "efficiency", and the

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problem of achieving competitive advantages is one of the main in business, managerial, economic and political life.

The competitiveness and financial strength of a bank are the main factors that determine its strategic position in the modern business environment. At the same time, this role depends on the effective use of both the capabilities of the banking market as a whole and its individual structural elements. For the Republic of Moldova, the fiercest competition in the banking business is already an objective reality, which is constantly growing with the development of the network of credit institutions and other various institutions. Banking competition is a dynamic process of competition between banks and other credit institutions, in which they seek to secure a strong position in the banking services market. Since competition in general, including banking, is influenced by globalization, the introduction of developed information and communication technologies, the problems of identifying and studying the theoretical foundations of the development of competition, the essence and features of banking competition, as well as approaches to assessing the competitiveness of banks, become relevant.

Proceeding from the goal, the following tasks were set and solved in the work: consideration of modern concepts devoted to the problems of competitiveness, research of the nature, essence and features of banking competition, analysis of methods for assessing banking competition, study of the features of competition in the banking sector. The research results will allow developing and implementing the competitive strategy of the bank.

2. Analysis of theoretical approaches to the definition of banking competition and competitiveness

The concept of a bank as an institution is essentially formed during the period of the emergence of banking. As specialized credit and settlement institutions, banks have emerged since the 15th century, as a result of the Banca di San Giorgio created in Genoa in 1407. At the turn of the 19th and 20th centuries, the era of competition began for banks. This process became especially acute in the 60s, when competition for private clients began, and banks began to compete in who would offer the most favorable terms. The theory and practice of competition has traditionally interested economic science for many centuries, and the problems of its regulation were developed by representatives of various directions of economic thought.

For the first time, the theory of competition was considered by A. Smith, who formulated the concept of "competition" as rivalry that increases prices when supply is reduced and decreases when there is an excess of supply and identified the conditions of competition. In addition, having analyzed the activities of the English and Scottish banks, the scientist noted that free competition equally forces all bankers to be more considerate in their transactions with their clients, so that their rivals do not distract these latter to themselves. Thus, A. Smith, defining competition only as competition in the market, was based on the behavioral approach[Smith, 1992: 278].

The ideas of the behavioral approach of competition were developed by representatives of the neoclassical school: A. Marshall, G. Moore, W. Jevons, P. Heyne,[Marshall, 1920: 54; Moore, 2014; Jevons, 2018;Heyne et al., 2006: 345] They saw competition as a struggle for a limited amount of economic resources and especially for the
consumer's money with which they can be purchased. So, in the work of A. Marshall, the central place was occupied by the analysis of factors influencing the formation of prices, such as demand, supply and production costs. He defined the pricing mechanism as the ratio of supply and demand, establishing the influence of market competition on prices. Moreover, the scientist believed that the condition for effective competition is freedom of private property and entrepreneurship.[Marshall, 1920]

The transformational processes taking place in the economy led to the formation of a structural approach (E. Chamberlin, J. Robinson, A. Cournot, K. Menard, W. Eucken, and others) based on the theory of market morphology.[Chamberlin, 1933:663; Robinson, 1934:673; Cournot, 1838; Menard, 1999; Eucken, 2004] Thus, the publication in 1933 of the books by E. Chamberlin and J. Robinson laid the foundation for the development of the theory of competition as a systemic phenomenon, and also laid and developed the foundations of the theory of such types of markets as: perfect competition, monopolistic competition, oligopoly and monopoly.

In his writings, E. Chamberlin focused on product monopoly, arguing that the combination of competition and monopoly was typical of the market in those years, and emphasized non-price competition, although he did not reject price competition. At the same time, J. Robinson emphasized monopoly, or enterprise oligopoly, arguing that there is practically no pure monopoly on the market.[Chamberlin, 1933; Robinson, 1934]

The birth of a new direction in Western economic thought is associated with the name of D.M. Keynes, who, while investigating the problems of microanalysis, argued that the mechanism of the market and free enterprise cannot ensure rapid growth of national income, and ensuring effective economic development is possible only with the help of the state through monetary and budgetary policy. The scientist, considering the problem of banking regulation, noted that even with the most skillful monetary control, one can find himself in a very difficult position if he does not have the necessary funds.[Keynes, 1936]

Competition, as an element of the market mechanism aimed at eliminating deviations from the normal development of the economy, is considered from the standpoint of a functional approach. Scientist J. Schumpeter defined competition as the rivalry between the old and the new. The market is skeptical about innovations, but if they come true, the mechanism of competition drives out the enterprises using outdated technologies from the market. In this regard, he argued that, in terms of economic growth, competition is the rivalry of the old with the new. Moreover, the main function of the "entrepreneur", according to J. Schumpeter, is the implementation of innovations and their introduction into production.[Schumpeter, 1994]

In turn, the neoclassical school (L. Mises, F. Hayek), argued that spontaneous market regulation of the economy is more effective for society than government influence on the economy.

According to L. Mises's concept, the domination of public ownership of the means of production and planned economic regulation exclude the possibility of maintaining market relations, and rational regulation of the economy from the center is impossible, since where there is no free market, there is no price mechanism, without which there is no economic calculation.[Mises, 1994]. In turn, F. Hayek argued that the only possible basis for freedom and the preservation of civilization is private property and setting prices based on supply and
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...demand. He considered competition as the rivalry of parallel market actors interested in achieving similar goals and justified the need to create an appropriate legal system to protect and develop competition, prevent monopolization and preserve competition in public life.[Hayek, 1999]

M. Porter interprets the concept of competitiveness as a property of a product or service of a subject of market relations to appear in the market on a par with similar goods, services or competing subjects of market relations present there. It is a dynamic characteristic, since it is not constant over time, due to the constantly changing competitive environment; it has a multi-level character, each of which uses its own set of characteristics to determine the competitiveness of subjects.[Porter, 1998] Since, due to the specifics of the organization of activities, competition in the banking market has significant differences from a similar phenomenon in the market between commodity producers, which confirm the need for its independent study.

The theory and practice of banking competition is most fully presented in the works of Skinner C. The author made an attempt to form a theory of banking competition. He focuses on such issues as the concept and scope of banking competition, its driving forces, forms of competition, patterns of development of banking competition and reveals the specifics of competition in the banking sector. Emphasizing the existence of market self-regulation and state regulation, he reveals the content of these processes, specifies their forms. The author emphasizes that market self-regulation can be both spontaneous and conscious, thereby substantiating the need for state regulation of banking competition, characterizes direct and indirect methods of regulating competition, and formulates his opinion on the boundaries of state regulation.[Skinner, 2007]

Researcher Weill L. proposes to understand banking competition as "the process of rivalry between banks, each of which strives to conquer its own niche and constantly maintain it as long as possible, and when the banking market changes, to improve it in different ways and techniques." Other researchers understand banking competition as a dynamic process of rivalry between the subjects of the banking market for securing a strong position in this market. Other scholars understand banking competition as a dynamic process of rivalry between the subjects of the banking market for securing a strong position in this market.[Weill, 2013]

A large number of scientists agree with the opinion of Moore G. defining banking competition as a mechanism for the functioning and development of the entire banking services market. Banking competition is a historical natural process carried out through the functioning of the subjects of society, based on an understanding of economic laws and aimed at realizing various economic interests within the framework of the chosen models of financial behavior of credit and financial institutions. According to some authors, the subjects of banking competition include not only banks, but also other financial and non-financial institutions that are participants in the banking market. Based on this understanding, banking competition is considered as a dynamic process of rivalry between participants in the banking market, the main goal of which is to strengthen and expand their positions in the market.[Moore G, 2014].

An interesting approach is Bodla B. and Verma R., who based the interpretation of competition on the criterion of the effectiveness of economic activity. Competition in the
banking sector is also defined as a dynamic process of rivalry between credit institutions, during which they strive to secure themselves a strong position in the market of loans, deposits and other banking services, as well as in alternative financial markets.[Bodla&Verma, 2006: 52].

Olivero M.P., Li Y., and Jeon B.N. define banking competition as a dynamic process of rivalry between credit institutions, during which they seek to secure a position for themselves in the market of loans, deposits and other banking services, as well as in alternative financial markets, that is, the authors formulate a narrower approach to the definition of this concept and exclude the possibility of any -or other types of interaction between banks, except for rivalry. [Olivero, 2011]

Korobov Yu. proposes to understand banking competition as a dualistic process of rivalry between banks, which is a complex of customer transactions carried out through traditional and innovative banking instruments, which is possible on the basis of the implementation of positivist type of economic behavior by customers, namely the rational process of making consumer decisions about choosing a bank as an intermediary for the implementation of a transaction, the essence of which is the formation by the client of a sufficiently large number of competitive alternatives (banking products and banks offering them) and the subsequent logical choice of a specific banking product and a supplier bank based on the ranking of competitiveness criteria.[Korobov, 2010: 13]

The essence of banking competition is most clearly reflected in the most important characteristic of banking services in the market - its competitiveness. Moreover, economic science has not yet developed a common opinion on the nature and definition of the competitiveness of banks. The most common understanding of competitiveness is the ability to compete in markets for goods and services. To determine the competitiveness of a banking service, it is necessary to compare its properties with the properties of competitors' services and study the behavior of customers and their reactions to services.

The competitiveness of a bank is identical to its competitive potential as a set of competitive advantages, the use of which automatically means the achievement of superiority. At the same time, the competitive position of the bank is determined not only by the quantity and quality of its competitive advantages, but also, first of all, by the scale of the financial market segments covered by the banking competition.

Shaffer S. defines a bank's competitiveness as the ability to comprehensively satisfy and retain existing customers, as well as win the preferences of new ones through the development of new instruments and territories. However, the author's definition lacks such a characteristic of competitiveness as its relativity.[Shaffer, 2004]

According to Skinner C., there are three main approaches to determining the competitiveness of a bank. So, competitiveness is:
1. A set of interrelated indicators, characteristics of products, aimed at disclosing their consumer value from the point of view of customers.
2. An indicator or a set of indicators characterizing the bank's position in the market.
3. A set of opportunities for maintaining existing market positions and developing new ones. [Skinner, 2007]

So, in the above definitions, competitiveness is described from the standpoint of bank management, the phenomenon with the help of existing indicators.
According to Pait, the competitiveness of a bank is its ability to defend its economic interests in a competitive environment by providing services that meet the requirements of customers, that is, products that would better meet the needs of customers in terms of profitability and reliability than competitors. However, proposing to use the “price / quality” criterion, this definition ignores the specifics of banking services.

The competitiveness of a bank is not ability, but the result of competition, expressed in a certain number of transactions and their volume, during which consumers of banking services considered the competitive offers of various entities and made a rational choice in favor of a particular bank. The author defines the competitiveness of a bank as superiority over the services of peers in specific market segments in a certain period of time and in terms of the potential to develop, produce and sell competitive banking services in the future. [Pait, 2009].

The proposed interpretation combines the advantages of the approaches of leading scientists and takes into account such provisions of competitiveness as: goods and / or services must be competitive, and this superiority must be achieved without prejudice to the financial condition of the bank. This definition is quite controversial, since, giving it, the author tried to characterize rather the essence of the potential of a bank's competitiveness and to link the competitiveness of a credit institution with the competitiveness of individual banking services and products. Since the banking service has no material form, this makes it difficult to identify and assess the competitiveness of consumers.

Baumgarten L. defines the competitiveness of a bank as the ability to ensure the production of services that are better in quality and greater in quantity than other banks, in the conditions of effective use of competitive potential, building up existing and creating new competitive advantages at the lowest cost per unit of services provided. [Baumgarten, 2005: 80]. However, in this formulation, the terms “production of services”, “large in quantity”, “best in quality” - these terms are suitable to describe the competitiveness of products, but cannot be applied in the banking sector. In addition, the author's definition combines the competitive potential of a credit institution and the process of developing and implementing a competitive strategy.

The study of Beck T. is of the greatest scientific interest, which examines the competitiveness of a bank at two levels: functional - as a property, the quality of a bank to appear on the market on a par with competitors, which is expressed in its possession of competitive potential and indicative - as a complex multi-level economic and market characteristic of a bank which reflects the level of its superiority in relation to competitors in two components: economic and market, and also determines the future competitive position that the bank can take in the industry and beyond due to its competitive potential. [Beck, 2013: 222]

Thus, the author believes that the competitiveness of a bank is identical to its competitive potential as a set of competitive advantages, the use of which automatically means the achievement of superiority. However, the competitive position of a bank is determined not only by the quantity and quality of its competitive advantages, but also by the scale of the financial market segments. Ignoring this fact significantly reduces the meaningful value of the given definition.
After analyzing the above definitions, we can conclude that banking competition is understood as a dynamic process of rivalry between banks and other credit institutions, which results in a stable position in the banking services market. Under the influence of competition, the range of services provided is expanding, prices for banking products and services are regulated to an acceptable level.

Competition is the strongest incentive for banks to move to efficient ways of providing services, that is, it provides an environment conducive to their development and improvement.

Thus, competition in the banking sector of the economy is a process of rivalry between the institutions of the banking market, simultaneously interested in achieving the same goal, in modern conditions, under the influence of the regulatory influence of the central bank.

3. **Essence, functions and specifics of the bank’s competitiveness**

Competition in the banking system is much more difficult than in any other sector of the economy, since it is the driving force behind qualitative changes in the banking sector, aimed at increasing the stability of credit institutions, diversifying operations and expanding the availability of financial services. Its features are determined by the composition of participants, the structure of the sphere of competition, the specifics of the product, the forms of competition, the impact on other spheres of the economy and public life, which brings its own characteristics directly into the process of banking competition, which distinguishes it from classical competition.

In the Republic of Moldova, the regulation of competition was initially carried out by the Government Decision "On urgent measures to demonopolize the national economy", which established as the main direction the development of the spirit of competition and the limitation of monopolistic activity. [6] Subsequently, the Law of the Republic of Moldova on the limitation of monopolistic activity and the development of competition was approved, which established the organizational and legal bases for the development of competition, measures to prevent, limit and repress monopolistic activity. [13] As a result of the above-mentioned law being more declarative in nature, it was replaced by the Law on the Protection of Competition, which established a separate body to deal with the protection of competition. According to the competition law, it represents the competition in which the independent actions of the economic agents effectively limit the possibility of each of them to exert a unilateral influence on the general conditions of movement of the goods on the respective market.[14]Competition in the financial market is one of the varieties of market competition, while the specificity is determined by such moments as: subject of competition, object of competition in the financial market, subject of competition, area (sphere) of competition.

The subject of competition is a competitor, that is, a financial and other organization that provides products and services to the market that are regarded by the consumer as substitutes for the products of original services. The main subjects of banking competition are banks. However, the subjects of banking competition are not only banks, but also all other financial and non-financial organizations, as well as non-bank credit organizations (leasing, factoring and forfeiting companies, pension funds, insurance, investment, and others) – participants in the banking market. The object of banking competition is the economic benefit of competing entities, and the object of competition in the financial market is a client, that is, a legal entity.
or individual using a certain set of financial services. In this capacity, he has the choice. The subject of competition is a service through which financial institutions seek to win the recognition and financial resources of customers. In a broad sense, this is the satisfaction of a need. A narrow understanding of the subject of competition leads to the identification of competitors providing analogous or substitute services.

The sphere of banking competition is the banking market - this is not one industry, but a very complex diversified conglomerate, that is, an entity that has very wide boundaries and consists of many elements. The total number of banking industries coincides with the number of banking services - credit, investment, settlement and cash, trust, consulting and others, each of which has its own specific structure, determined by current and potential competitors, service consumers, resource providers and substitute service providers. Consequently, the scope of banking competition is vast, and the competitive environment is diverse and varied. When introducing a particular banking product to the market, a bank almost always faces competition not only from other banks, but also from non-banking and non-financial organizations. At the same time, the environment of the bank's environment consists of three components: internal; microenvironment (immediate environment) and macro environment.

The essence of the competitive environment expresses the relationship between the system of market competitive relations, characteristics and functions performed. Under the functions of the competitive environment understands the function of the development of competition, stimulating (innovative) and social functions. The functions of the competitive environment are aimed at creating and maintaining the conditions necessary for the development of competitive relations. The innovative function is that, entering into competition, credit institutions improve technologies, services and banking products offered, and reduce the costs of their activities. The social function makes it possible to ensure the achievement of the goals set by commercial banks, in conjunction with the benefits of all other subjects of the competitive environment.

The main criterion for the efficiency of the financial intermediation sector is its ability to perform the function of redistributing financial resources in the economy, which contributes to production activity and an increase in the quality of life of the population. In addition, banks carry out the function of redistributing resources in the economy; the banking system is the main element of the settlement and payment mechanism in the state; they have the right to accumulate funds of legal entities and individuals. Banking activities, as a rule, are characterized by a high level of development of competitive relations, and therefore, the theoretical principles of competition analysis are applicable to them. At the same time, these principles are specific, determined by the special status of banking. So, these include the principles of antimonopoly legislation, which, in relation to banking institutions, were practically not used until a certain time. For the first time, serious restrictions on consolidation activity in the banking sector were established by the Bank Holding Companies Act 1956 in the United States.

Another principle is the principle of efficiency, according to which the banking system must ensure commercial efficiency, efficiency for the national economy, as well as sustainability. Banks must be profitable; their internal activities must be optimal. However, at the same time, the services provided to other economic entities should have an acceptable
cost. Given that the internal problems of the banking system can quickly be transferred to other spheres of the economy, the issue of ensuring its sustainability is undeniable.

The principle of economic justice indicates the inadmissibility of creating an equalization system instead of a free market. It is necessary to proceed from the assumption that some subjects of competition will always be somewhat more successful than others, which will make it possible to get more profit, occupy the market of less successful competitors, etc. However, these advances should not come at the expense of market monopolization. Moreover, with the annual repetition of such a situation, the monopoly opportunities of individual banks will increase, which will further increase the gap between the subjects of competition with partially monopoly opportunities and pure competitors, which will lead to a decrease in the efficiency of the banking system.

In turn, the principles of competitiveness management envisage the implementation of control and supervision over the banking system in order to maintain the optimal state of the banking system in compliance with the balance of implementation of the principles of efficiency, economic justice and high social responsibility, in particular such as: focus on specific markets and consumer needs; the use of an integrated system, including: methodology, economics, technology, management, competitiveness and others.

Banking activity is characterized by a high level of development of competitive relations. Analysis of literature sources shows that, depending on scientific views, scientists also define in different ways the perimeter of factors that have a direct impact on the competitiveness of the bank and determine it. A rational grouping of factors affecting competitiveness is presented in the works of A.A. Thompson and A.J. Strickland, where the following factors are indicated: technological, production, distribution, marketing, qualification, organizational capabilities. The authors, in their grouping of competitiveness factors, along with the factors that ensure the competitiveness of products and the current competitive potential of the organization, highlight the organization's potential as a separate block of enterprise competitiveness factors, determined primarily by the strategic potential that characterizes the organization's adaptive capabilities, which, in our opinion, plays a decisive role for the banking sector [Thompson & Strickland, 2006].

The question of the factors of development of competition is multifaceted, since various participants in this market are involved here: service buyers (clients); service sellers (banks); state. Justifying the factors of the development of competition in the banking market, it should be borne in mind that competition is possible either between sellers or between buyers, but not between sellers and buyers. Therefore, it is advisable to consider the factors of the development of competition in the banking services market from three sides: the buyer, the seller and the state, and also take into account that the action of factors can be carried out in two directions; some can cause the development of competition, while others restrain it.

So, on the part of buyers of services, the following factors can be distinguished: quality and diversification of services; the image of the service seller; the nature of banking services; efficiency of service provision; availability of state support for receiving services; development strategy of the buyer of services. The main factor is the quality of services, since the degree of their use depends on this, and therefore, the reliability of the bank. The quality of banking services creates many specific conditions. These conditions are dynamic and change along with the change in the very requirements of customers, but there are also
traditional ones, without which the required quality of banking services cannot be achieved. In determining the factors causing the development of competition on the part of buyers, one should be based on the client's requirements for the bank, which include: the presence of state support in obtaining services, as well as the presence of a development strategy for the buyer of services, which implies the generation, search and use of competitive advantages of traditional and innovative type in its activities. In recent years, such a factor as the degree of security in obtaining financial services has become very important. The rapid pace of development of information technologies, Internet banking, electronic money and other banking technologies are accompanied by new risks for the buyer of services, and this may affect the degree of use of services. Prompt and timely receipt of services is very important for the client. However, this depends not only on the bank, but also on the client himself. He must determine in advance his need for investment services, including for the future. This is possible only if he has a strategy for the development of his activities.

The factors causing the development of competition from the sellers of services are: the stability of the bank; competitive position of the bank; increasing the financial literacy of clients and others. The first two factors are generally accepted and do not cause much discussion, however, the problem of increasing the financial literacy of clients is very relevant, since it is precisely the client's inability to correctly understand the content and conditions of a particular banking service that subsequently leads to serious problems in the implementation of contracts signed with banks.

Unfortunately, such cases are not isolated. Sometimes it is believed that banks are not interested in the financial literacy of their clients. Therefore, for banks, work to improve the financial literacy of clients should become a priority. The factors hindering the development of competition on the part of service sellers were: lack of a strategy for the development of the banking services market; underdeveloped banking infrastructure; risks of competition in the banking services market. Thus, the development strategy of the banking services market should be based on the prospects for the development of the buyer's activities. Therefore, the formation of a market for services can be bilateral in nature, i.e., with the participation of both a buyer and a seller of services. In this case, we are talking about studying the need for services from the buyer.

A particular role is played by such a factor as the risks of competition in the banking services market, since they do not relate to a specific type of investment service, but to the entire range of investment services offered on the market. Considering that the banking services market, on the one hand, sells services, and on the other hand, these services are bought by a bank client, a market of buyers and a market of sellers are distinguished, and the activity of each is accompanied by certain risks both in the market of buyers of services and in the market of sellers, which have a specific character, which form the risks of competition in the banking services market. In turn, among the factors restraining the development of competition on the part of the state, the following should be noted: poor predictability of the state of the country's economy; lack of a stimulating system for the development of banking competition; lack of a centralized system for regulating the development of competition in the banking services market.

Banking competition manifests itself in a variety of forms. So, according to the type of economic activity, banking competition is divided into intra-industry and intersectional, and
according to the category of participants into interbank and competition between non-bank financial institutions. Depending on the market entities participating in banking competition, the competition between the sellers of banking services and the competition between buyers of services are distinguished, and depending on the degree of concentration of the subjects of banking competition, individual competition and group competition. Competition between sellers of banking services - involves the relationship between sellers regarding the establishment of prices and volumes of supply of goods on the market, manifested in their rivalry for the most favorable conditions for the sale of banking services and in obtaining the maximum profit on this basis, and competition of buyers - the relationship of buyers regarding the formation of prices and the volume of demand in the market, manifested in the competition between them for access to the banking services they need and to the most favorable purchase conditions. When researching the activities of banks that compete in a certain market segment, the main goal is to identify the potential of competing banks, determine their strengths and weaknesses, and assess their own capabilities to promote better and more competitive products in the selected market segment. In this regard, markets of perfect and imperfect competition are distinguished. Perfect banking competition is unrestricted competition that develops in conditions when a very large number of banks operate in the financial market, offering identical (standardized, homogeneous) goods and services that are in terms of competition in equal conditions and compete mainly by price methods. Imperfect banking competition is competition limited due to the fact that one or several subjects of market relations occupy a dominant position in the market and thus appear to be out of competition, in other words, the conditions of competition are not equal. It is obvious that today there is practically no free competition, since in real markets all these conditions are in the overwhelming majority of cases not satisfied. For these reasons, the overwhelming majority of markets are related to imperfect competition markets. Imperfectly competitive markets are subdivided into pure monopoly, oligopolistic competition, pure competition, and monopolistic competition.

Price and non-price competition is distinguished depending on the methods of competition used. Within the framework of price competition, they mainly use only price methods of fighting competitors. It can be open, when banks broadly notify consumers about price reductions, and hidden - an output product (service) with significantly improved consumer properties and its offer at a reduced price. A feature of price competition in the banking sector of the economy is the lack of a clear relationship between the use value of a product and its price, which allows the bank to freely set and change the size of interest rates, the size of the commission, and tariffs for services. In this regard, the line between open and hidden price competition is vague, and the framework in which the bank has the ability to significantly maneuver interest rates, the level of commission fees and service tariffs is quite extensible. Non-price banking competition is primarily associated with changes in the quality of services based on certain criteria (the speed of internal work processes, the level of costs for correcting errors, the efficiency of work processes, the level of employee motivation, labor productivity, the degree of credit risk, etc.), correlated with the level of costs for the production of banking services. It is aimed at changing the quality component of the services provided or the products offered in accordance with certain criteria: the range of services, the possibility of providing benefits and bonuses, the efficiency of work in the bank, the costs of
correcting errors, the efficiency of the provision of services, the attitude towards the client, the qualifications of personnel, the amount of credit risk), and which relate to the costs associated with the provision of bank services. Indicators of non-price banking competition include: quality, speed and level of customer service, information about the service, reducing circulation costs through the introduction of remote banking products, meeting customer needs for individual service, the presence of bank offices, machines, terminals, mass active and creative advertising, issuance of various plastic cards, the possibility of settlements and payments by bank card and others.

In its most general form, competition in the banking sector can be defined as a dynamic process of rivalry between credit institutions, where the concept of effective workable competition deserves special attention. The competitiveness of a bank is defined as a characteristic of the efficiency of work and profitability of activities in a competitive environment, the implementation of which occurs at the expense of the funds available to the bank, it is identical to its competitive potential as a set of competitive advantages, the use of which automatically means achieving superiority. At the same time, the competitive position of the bank is also influenced by the specific features of banking competition, in which the:

1. the specificity of the banking product. According to formal criteria, banking is a service that is the result of a banking operation in order to satisfy the client's stated need. Accordingly, the product traded by the bank is a service that is the result of a banking transaction in order to satisfy the client's stated need. However, these services have a dual nature: the relationship between the buyer and the seller is superimposed on the relationship between the lender and the borrower. Thus, operations to attract customer funds, from a purely formal point of view, can be considered a realized service only when the money is returned to customers. To a large extent, it is precisely because of this that banking is extremely sensitive to changes in the socio-economic situation, is associated with increased risks and is prone to crises;

2. not only the services provided by banks are specific, but also their subject matter. As you know, money has a special social status. By making transactions for the placement and attraction of funds, banks act as conductors of monetary policy. Moreover, the non-cash component of the money supply is the obligations of banks to customers. As a result, the banking sector involves the interests of not only the state, but also all legal entities without exception, as well as the majority of citizens in the sphere of activity;

3. banking has always been subject to regulation and supervision by the authorized government body. The very creation of a credit institution is due to a significant number of formalities and requirements. A specific feature of competition in the banking sector is the need to comply with the regulations and standards that impose on credit institutions the obligation to maintain capital adequacy, provide liquidity and limit the risks assumed;

4. the banking system serves as the "circulatory system" of the entire market organism. At the same time, banks act not only as a kind of settlement and cash centers, but also provide economic growth, meeting the need for credit resources. Due to this, banks are not limited to the role of modest intermediaries, but to a certain extent perform the functions of controllers and regulators of the economic life of society.

It should be noted that banking competition has its own distinctive features, which include:
development of forms and high intensity;

- competitive space, which is represented by numerous banking markets, in which banks act as both sellers and buyers;

- the specifics of pricing, which is due to external factors that do not allow setting prices depending only on the cost of services, but providing an opportunity to produce expensive high-demand products with hidden commissions;

- a significant dependence of the competitive advantages of banking products on the convenience (or inconvenience) of their receipt by customers (place, time, set, speed, etc.);

- public trust is the most important factor in banking competition (the loss of trust of a bank’s customers leads to a loss of competitiveness and often to bankruptcy, regardless of the quality and cost of its products and services);

- group banking competition, which may be present along with individual.

Depending on the maturity of market relations, the specifics of the legislative environment and a variety of other factors, specific mechanisms of competition always develop not only in different countries, but also in different segments of the banking services market within each specific country. However, neither the number of banks, nor the forms of ownership of credit institutions, nor the degree of concentration of capital and assets of financial intermediaries alone give an answer to the question of to what extent the competitive environment contributes to improving the efficiency of banking services and maintaining the financial stability of credit institutions.

4. Conclusion

Currently, competition is the driving force behind qualitative changes in the banking sector, aimed at increasing the stability of credit institutions, diversifying operations and expanding the availability of financial services. In this regard, the creation of economic and legal conditions for the development of effective competition in the banking sector with good reason can be considered as a priority area for the banking supervision body and the antimonopoly service.

The categories competition and competitiveness, as multifaceted phenomena, have evolved historically. Comprehension of its evolution, reflected in the works of scientists, helps to gain a deeper and more comprehensive understanding of the current situation in the banking sector, the peculiarities of banking competition in the realities of the 21st century, to identify problematic points in the practice of forming and implementing competitive advantages in the banking system. Competition and competitiveness are key concepts in economic theory and banking practice. It contains a concentrated expression of the economic, personnel, organizational and managerial and other capabilities of banks.

A bank's competitiveness is characterized as the ability to successfully operate in a specific market in a given period of time by developing and implementing competitive services. The implementation of banking products and services is the most important type of activity of any bank. The strategic goal of the bank and all its services is to increase profits by: attracting the maximum number of clients; expanding the market for their products and services; increasing market share. The analysis shows that banking competition is a dynamic process of competition between banks and other credit institutions, within which they seek to secure a strong position in the banking services market. It is the presence of competition that
causes the expansion of the range of services provided, regulation of their prices to an acceptable level. In addition, competition encourages banks to move to more efficient ways of providing services and provides an environment conducive to their development and improvement.

An important characteristic of banking competition is the competitive environment of the bank as a set of acting subjects and factors that determine the inclusion of mechanisms for self-regulation of relations in the banking market between the largest number of credit institutions and consumers of banking services with a general trend towards an increase in the number and volume of transactions and the amount of profit.

Banks with market power have more opportunities to maintain long-term relationships with their clients (relationship lending strategy), they can provide more favorable financing conditions for companies, and competition itself can create incentives for the implementation of strategies that involve linking customers to the bank through differentiation of services provided and active use of loyalty programs. The key factor of the bank's success and its competitive advantage is effective interaction with clients, meeting their needs in terms of the range and quality of services.

Thus, the formation of a competitive environment, the development of competition in the banking sector of the economy is the most important condition for effective banking, increasing the role of banks in the life of the country.

Competition is the driving force behind qualitative changes in the banking sector aimed at increasing the stability of credit institutions, diversifying operations and expanding the availability of financial services. Intensified banking competition and increased customer requirements for banking services lead to the fact that banks are forced to use competitive methods in order to adapt to changes in the external environment and ensure success in the competition. To determine its competitive position, a bank needs to assess the effectiveness of its activities in the market.

Competitive pressure prompts banks to improve business processes, develop points of sale and diversify product lines in order to increase their share in various segments of the financial services market. The achievement of these goals leads to the expansion of the scale of activities and the search for additional sources of funds. Consolidation of the banking business plays a key role in solving these problems, in the course of which the narrow limits of organic growth are overcome and the favorable conditions for gaining a competitive advantage are provided.

Bibliography