The Ramifications of Banking Monopoly on Consumer Trust, Customer Satisfaction, and Industry Competition Dynamics

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A R T I C L E I N F O

Article history:
Received 14 March 2021
Revised 25 April 2021
Accepted 18 May 2021

Key words:
Banking monopoly,
Consumer trust,
Customer satisfaction,
Business competition,
Financial innovation,
Service accessibility,
Financial inclusion.

A B S T R A C T

The dominance of large banks in the banking industry has become an issue that affects the accessibility of financial services, the level of competition, and innovation in the sector. This research aims to analyze consumer perceptions of monopolistic practices in the banking sector and their impact on customer trust and satisfaction. Literature study is used as the main method in this research, by reviewing various academic sources and related industry reports. The results of the analysis show that consumers tend to have less trust in a banking system dominated by a few financial institutions, especially when they experience limitations to choose services that suit their needs. The dominance of large banks also results in low levels of innovation, as the lack of competition reduces the incentive for banks to develop new products and services. Limited competition leads to increased service costs and limited access for certain groups, such as Small and Medium Enterprises (SMEs) and communities in remote areas. The lack of diversification of banking services can slow down financial inclusion and widen economic disparities. This study provides insights for regulators and industry players to design more equitable and public interest-oriented policies. Policies that support fair competition, financial innovation, and increased service accessibility are needed to create a more inclusive and competitive banking industry.

INTRODUCTION

The banking sector plays an important role in economic stability and public welfare in the era of globalization and rapid digitalization. Banking functions as a financial service provider, and as a key driver of economic growth through credit, investment, and other financial transactions (Abbasi et al., 2016). In recent decades, concerns have been raised about the dominance of a few large banks creating monopoly or oligopoly conditions in many countries. Massive bank consolidation has reduced the number of competing financial institutions, potentially limiting consumers' choices and increasing their dependence on a handful of firms (Liu, 2021). This phenomenon is increasingly relevant in modern economies, where fair competition is a key factor in improving the efficiency and innovation of financial services (Yang & Meyer, 2015). It is important for regulators to create policies that support diversity in the banking sector and prevent dominance that could harm consumers and the economy as a whole.

Monopolies in the banking sector have created problems for consumers, such as high transaction costs, limited access to credit, and lack of transparency in services (Claessens & Laeven, 2020). Consumers often feel they do not have sufficient alternatives to switch to a more competitive bank. The lack of transparency coupled with the inability to choose a more competitive bank alternative further worsens the consumer experience and lowers their level of satisfaction with the available banking services (van der Cruijsen et al., 2021). Various studies have shown that in less competitive banking systems, service innovation is often slower than in systems with higher levels of competition (Berger et al., 2019). This highlights the importance of creating a more competitive banking ecosystem to drive innovation that can improve service quality and provide better alternatives for consumers (Palmié et al., 2020). Therefore, it is important to understand how consumers perceive monopoly in the banking sector and how it impacts their trust and satisfaction with banking services.

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The existence of monopolistic practices can pose various challenges for consumers. One of the main problems that often occurs is the lack of choice for consumers to determine banking services that as their needs (Gomber et al., 2018). According to research conducted by Claessens and Laeven (2020), the dominance of large banks in a country can face to unhealthy competition, where small banks find it difficult to survive or even develop. Consumers tend to be trapped in a system that favors a handful of financial institutions in the absence of more competitive alternatives. This results in less competitive pricing of services as well as a lack of flexibility in credit policies and other banking products.

Another problem that arises is the lack of transparency in banking practices that are monopolized by a small number of financial institutions. Stiglitz (2017) highlights that in less competitive markets, financial institutions tend to set policies and service rates without considering the interests of consumers. This creates information gaps that can be detrimental to customers, especially in terms of interest rates, administrative costs, and loan terms. This lack of clarity in the system has the potential to reduce public trust in the banking industry, which in turn can hamper economic growth due to decreased public participation in formal financial services.

Another issue that also needs to be considered is the impact of monopolistic practices on innovation in the banking sector. Berger et al. (2019) found that in a less competitive environment, banks tend to have lower incentives to invest in technological innovation and service quality improvement. Without sufficient competition, large banks may not feel the need to develop more efficient and user-friendly products and services (Goetz, 2018). This may hinder the development of the banking sector to face the challenges of the digital economy, especially with the increasing need for technology-based financial services such as digital banking and cashless payment systems.

The phenomenon of monopoly in the banking sector is an issue that needs to be observed due to its far-reaching impact on consumer trust and satisfaction. Consumers are often left with little choice of financial services and are trapped in high transaction costs, uncompetitive interest rates, and less innovative services (Claessens & Laeven, 2020). This condition can reduce people's trust in the banking industry and encourage them to seek alternatives outside the formal banking system, such as fintech or informal financial services that are potentially less secure. Therefore, it is important to understand how consumers perceive these monopolistic practices and their impact on their loyalty and satisfaction.

The urgency of this research also lies in the long-term implications of monopoly in the banking sector on economic stability. Stiglitz (2017) emphasizes that a lack of competition can slow innovation and increase the risk of economic instability due to policies that favor large financial institutions over the public interest. The banking sector could potentially lose relevance in the digital era, where transparency and competition are key to attracting consumer trust if monopolistic practices continue without a clear evaluation. Therefore, empirical studies on consumer perceptions of banking monopoly are needed to identify policy measures that can create a fairer, more competitive and innovative financial system.

The purpose of this study is to analyze how consumers perceive monopolistic practices in the banking sector and their impact on their trust and satisfaction. This research seeks to understand consumers' perceptions of the dominance of large banks in the banking industry and how this affects their experience of using financial services. The research also aims to explore the impact of banking monopoly on the accessibility of services, the level of competition, and innovation in the banking industry. This research is expected to provide insights into how the monopolistic structure of the banking market contributes to consumer satisfaction or dissatisfaction.

RESEARCH METHOD

This research uses a literature study approach to analyze consumer perceptions of monopoly in the banking sector and its impact on their trust and satisfaction. The literature study was conducted by reviewing various academic journals, books, and industry reports that discuss banking monopoly and consumer responses to market structures dominated by a few financial institutions. According to Mankiw (2020), monopoly in the financial services industry can reduce market efficiency and limit consumer choice, can affect their satisfaction with the services provided. Therefore, this study explores economic theories and consumer behavior in the banking industry.

The data sources in this study were obtained from various relevant literature, including previous studies that discuss the effect of monopoly on consumer behavior and preferences. According to Berger et al. (2019), a less competitive banking system can lead to high service costs and low innovation, which in turn negatively impacts customer experience. This study compares different approaches that have been implemented in other countries to address the issue of monopoly in the banking sector and evaluates the effectiveness of the strategies used to increase customer trust and satisfaction.

The analysis in this study is conducted by examining trends and patterns that emerge in published studies. The research can provide insights into how consumer perceptions of banking monopolies evolve over time and how various factors, such as regulation, transparency, and innovation, can influence these perceptions. Haan and Vlahu (2016) emphasize that consumer trust in the banking sector is strongly influenced by fair competition and effective regulation to ensure fair services for the public. Therefore, this study also evaluates the policies that can be implemented to increase public trust in banking institutions under market conditions that tend to be monopolistic.

RESULT AND DISCUSSION

Consumer Perceptions of Monopolistic Practices in the Banking Sector and Their Impact on Trust and Satisfaction

Monopolistic practices in the banking sector are often seen as a phenomenon that can limit competition and reduce choice for consumers. When a few large banks control most of the market, consumers are likely to face limited options in choosing financial services. According to Stiglitz (2017), monopoly in the financial services industry can lead to higher prices for banking services, less transparent administrative costs, and reduced service quality. This contributes to dissatisfied consumers who feel they do not have many alternatives to choose better banking services. This situation is further exacerbated when regulations governing monopolistic practices are not strong enough to protect consumer interests.

Consumer perceptions of banking monopolies are not necessarily negative, but most tend to be skeptical of the dominance of a few large banks in the market. According to research conducted by Claessens and Laeven (2020), consumers in countries with less competitive banking systems often feel less satisfied with the services they receive because banks have little incentive to improve innovation and service. The banks have the power to set high interest rates on loans and low interest rates on savings, which has a direct impact on consumer welfare.

Another impact of banking monopoly is the decline in consumer trust in the financial system. Berger and Udell (2018) stated that consumers tend to trust financial institutions that have healthy competition because they believe that market mechanisms will encourage banks to provide the best service. Consumers feel that banks do not need to strive to maintain customer loyalty so that their trust in fairness and transparency in banking services can be eroded (Hurley et al., 2014).

Consumers' perceptions of banking monopolies are also influenced by personal experiences and information they get from the media and recommendations from others. According to Guiso et al. (2019), negative news about monopolistic practices and cases of abuse of market power by large banks can worsen the image of the banking industry in the eyes of consumers. This results in an increased tendency for people to look for alternatives, such as technology-based financial services (fintech) that offer higher transparency and lower costs.

There are some advantages perceived by consumers in a banking system dominated by a few large players. According to Demirgüç-Kunt and Levine (2019), banks with large market shares often have higher financial stability and can offer more reliable services compared to smaller financial institutions. This gives consumers a sense of security and makes it easier to access all the financial services they need. Monopolies can still lead to market inefficiencies and reduce customer satisfaction without strict regulations (Armentano, 2014). Regulations that are not strong enough to maintain competition have resulted in large banks focusing more on maximizing profits than improving customer experience.

One of the key challenges to addressing the negative impact of monopoly is how regulatory policies can create a balance between financial system stability and consumer protection. Financial system stability is essential to prevent financial crises that can harm the entire economy, but should not be achieved at the expense of consumer satisfaction (Barnett, 2011). Hellmann et al. (2021) assert that appropriate regulation should ensure that despite market concentration in the banking sector, consumer interests are protected through transparency, price competition, and fairer access to financial services. Policies that encourage competition between major banks and financial service providers will benefit consumers, create a more dynamic market, and ultimately maintain a balance between financial system stability and consumer protection.

Consumer perceptions of monopolistic practices in the banking sector are strongly influenced by several key factors, including the level of competition, transparency of services, and applicable regulations. Consumers often feel trapped in an inadequate choice, which can lead to dissatisfaction and decreased trust in financial institutions. When consumers feel that they have no viable alternatives, they tend to assume that banking institutions operate within a monopolistic framework, which can result in negative perceptions of service quality and fees charged.

Service transparency also plays an important role in shaping consumer perceptions of the banking sector. When information regarding products and services is not clearly conveyed, or when hidden costs are not disclosed, consumers may feel cheated or disrespected. This creates distrust of financial institutions which in turn can damage the relationship between banks and their customers. One concrete example of this problem is the hidden fees that are often applied by some banks, such as obscure administration fees, high international transaction fees, or fees that only appear after a customer opens an account or takes out a particular product. Strict and clear regulations are necessary to ensure that financial institutions operate in a fair and transparent manner so that consumers can make more informed decisions and feel more empowered to choose services that suit their needs.

It is important for regulators and financial institutions to pay attention to consumer perceptions and needs to design policies and business strategies that are more oriented towards customer satisfaction. Financial institutions can develop products and services that are more in line with market expectations. For example, increasing transparency in communications and providing clear information on product costs and benefits can help build consumer trust. Regulators can encourage fairer competition in the banking sector by removing entry barriers for new banks and fintechs, giving consumers more choices. A customer-focused approach will increase consumer trust and loyalty, and contribute to the overall stability and sustainability of the banking sector. In the long-term, creating an enabling environment for competition and transparency will result in greater benefits for consumers, as well as drive innovation and efficiency in the banking industry.

Impact of Large Bank Domination on Service Accessibility, Competition, and Innovation in the Banking Industry and its Implications for Consumer Behavior

The dominance of large banks in the banking industry has become a global phenomenon that affects the accessibility of financial services for the public. According to Beck et al. (2018), the presence of large banks often creates barriers for groups with limited access to finance, especially small and medium-sized enterprises (SMEs) and individuals with unfavorable credit histories. Large banks prefer to cater to more profitable market segments so that people with special financial needs are often marginalized from formal banking services.

The dominance of large banks also hinders competition in the banking sector. According to Philippon (2019), the more concentrated a financial industry is, the higher the likelihood of monopolistic practices that harm consumers. The lack of competition results in large banks having the power to set higher interest rates on loans and lower on savings, which directly impacts the financial costs that customers have to bear (Berger et al., 2017). This situation also makes it difficult for small banks and new financial institutions to enter the market and offer more competitive services.

The dominance of large banks has mixed impacts. Schindler (2017) explains that large banks tend to be slow to adopt technological innovations compared to more agile fintech companies. This is due to bureaucratic complexity and reluctance to take greater risks to develop new digital services. As a result, the banking industry is often left behind to provide more efficient and technology-based financial solutions for consumers.

The implications of the lack of competition and innovation in the banking industry greatly affect consumer behavior. Consumers who are dissatisfied with large bank services tend to look for alternatives, such as digital-based financial services or informal financial systems (Chiu, 2016). According to Claessens et al. (2018), the growth of fintech and neobanks is clear evidence that consumers are increasingly looking for more flexible, transparent, and accessible financial options. However, for people who still rely on traditional banking services, limited choice remains a major obstacle.

The accessibility of banking services is also influenced by the policies and strategies implemented by large banks. According to Carletti et al. (2020), many large banks are more focused on expanding their global business rather than improving financial inclusion at the domestic level. Many people, especially in rural and developing areas, continue to experience difficulties in accessing basic banking services such as business loans, savings, and digital payment services.

Governments and regulators have an important role to play in ensuring that the dominance of large banks does not harm consumer interests. Policies such as market share caps, encouragement of financial innovation, and regulations that support competition can help create a more balanced banking ecosystem (Bourreau & Valetti, 2015). According to Vives (2020), stricter regulations against monopolistic practices and encouragement of fair competition can help improve service quality and provide greater benefits to consumers.

The dominance of large banks in the banking industry has a significant impact on service accessibility, competition and innovation. While the presence of large banks is often associated with greater financial stability, which can provide a sense of security for consumers and investors, the negative impacts cannot be ignored. One of the main consequences of this dominance is reduced choice for consumers. When a large part of the market is controlled by a few large banks, consumers are often forced to accept the products and services offered without many alternatives and thus lack full control over their financial decisions. This can result in higher service costs, as large banks do not have a strong incentive to compete on price or service quality.

This dominance can also slow down innovation in the banking industry. Large banks with their more rigid structures and complex bureaucracies are often less responsive to changing consumer needs and new technological developments than smaller, more nimble financial institutions. Large banks tend to have a slower process in making decisions and implementing changes, which is due to a more hierarchical and less flexible managerial structure. They focus more on maintaining stability and managing risk rather than investing in innovation or introducing new products that can meet evolving market needs. Consumers may lose access to more innovative products and services that could improve their banking experience. Delay in adopting technology for large banks means losing customers who prefer the innovation and convenience offered by competitors.

Therefore, more progressive policies are needed to promote fairer competition and ensure that consumer interests remain a priority in the development of the banking sector. Regulators should consider measures that can reduce entry barriers for new banks and fintech financial institutions, which often offer more innovative solutions and lower costs. For example, the reduction of unnecessary regulations and support for financial technology initiatives can create a more conducive environment for the growth of new players in the market. Policies that encourage transparency in fees and services are also crucial to empower consumers to make more informed decisions. Regulators will increase the accessibility of banking services, and encourage innovation that can meet evolving consumer needs by creating an ecosystem that supports competition. This approach will contribute to the development of a banking industry that is more inclusive, efficient, and responsive to the needs of society thereby creating greater benefits for all stakeholders.

CONCLUSION

The dominance of large banks in the banking industry has a significant impact on the accessibility of financial services, the level of competition, and innovation in the sector. The dominance tends to create barriers for certain groups of people, especially small and medium enterprises and individuals with limited access to finance. The lack of competition among banking institutions results in less dynamic market conditions, which can harm consumers through uncompetitive interest rates and suboptimal services.

Large banks are often less responsive to technological change and innovation than smaller, more agile financial entities, such as fintech companies and neobanks. This potentially hinders the development of more efficient and inclusive financial solutions for society. Consumers who are dissatisfied with traditional banking services are starting to look for alternatives that offer greater flexibility, even though not all communities have equal access to digital financial services.

More progressive regulation is needed to ensure that the dominance of large banks does not suppress competition and still provides benefits to consumers. The government and financial authorities should adopt policies that support financial inclusion, encourage healthy competition, and ensure that innovation in the banking industry can develop equitably. Large banks also need to increase their efforts to provide more inclusive and technology-based services in order to optimally meet consumer needs. With a more balanced approach between regulation, competition, and innovation, the banking sector can evolve in a fairer way and provide greater benefits to all segments of society.

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