International Journal of Religion
2024
Volume: 5| Number 4 | pp. 492 – 501
ISSN: 2633-352X (Print) | ISSN: 2633-3538 (Online)
ijor.co.uk
DOI: https://doi.org/10.61707/0hpmm961

A study on Overseas Chinese bank in Indonesia - Focusing on Bank Central Asia

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Abstract

This study seeks to comprehensively analyze the historical development and current status of the Indonesian banking industry. Furthermore, it aims to delve into the origins, developmental trajectory, and current standing of Overseas Chinese Bank Central Asia, a pivotal player in the Indonesian banking landscape, while evaluating its competitive edge. Drawing from this examination, practical implications and strategic developmental approaches will be proposed. Through an extensive review of literature, we will scrutinize the evolution and present state of Indonesia's banking sector, along with the establishment, growth history, and current position of Bank Central Asia. Utilizing Porter's Five Forces analysis model, we will assess the competitive dynamics of Bank Central Asia, complemented by a SWOT analysis to scrutinize its internal and external environments. Despite its inception by overseas Chinese, Bank Central Asia has emerged as a frontrunner in Indonesia's financial realm. While it exhibits deficiencies in digital transformation, product innovation, customer experience, risk management, and collaborative innovation, it boasts strengths in network expansion, talent cultivation, and system enhancement for promotion and development. Leveraging these competitive advantages, Bank Central Asia has sustained its leading position within the Indonesian financial landscape. To maintain this competitive edge, Bank Central Asia must astutely navigate market trends, competitor actions, and regulatory shifts, making informed decisions and flexibly adjusting strategies as needed. Leveraging its external networks and internal strengths, Bank Central Asia has upheld a sterling reputation and achieved sustainable growth. The exploration of these Overseas Chinese banks not only sheds light on the intricacies of the Southeast Asian economies but also offers valuable insights into the dynamics of global banking and finance.

Keywords: *Overseas Chinese, Indonesia, Bank Central Asia, Competitiveness Analysis, Development Strategy*

INTRODUCTION

With the conclusion of the 2022 G20 Summit in Bali, Indonesia, the world's spotlight has shone brightly on the nation. Boasting strong economic performance and impressive returns in the capital markets, Indonesia, situated in Southeast Asia and home to a large population, emerged as a prime destination for international capital in 2022. In recent years, Indonesia has experienced rapid economic growth, primarily driven by domestic factors. All key macroeconomic indicators show promising trends, and the economic structure has become more robust. In 2017, Indonesia's gross domestic product surpassed the milestone of 1 trillion U.S. dollars, underscoring its potential for sustained growth. The comparatively low labor costs in Indonesia, in contrast to developed nations, make investing in the country an effective means of cost reduction. Furthermore, Indonesia's youthful demographic profile, coupled with its large population, signifies significant development potential, rendering it an ideal backdrop for this research.

In 2016, Wang Yonghui & Hu Yiyi highlighted Indonesia as home to over 10 million overseas Chinese, making it the country with the highest concentration of this demographic worldwide. Representing the third-largest ethnic group in Indonesia, Chinese Indonesians are dispersed across the archipelago, predominantly originating from southern Chinese provinces such as Fujian, Hainan, and Guangdong. Notably, in Forbes' 2018 ranking of Indonesia's top 10 billionaires, half were of Chinese Indonesian descent, with Huang Huizhong, hailing from Fujian, reigning as the wealthiest, followed by his brother Huang Huixiang, whose

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family holds vast oil palm estates equivalent to eight times the size of Singapore. The substantial economic influence wielded by overseas Chinese Indonesians underscores their pivotal role in the country's economy.

Furthermore, Zou (2022) contends that Indonesia possesses distinct and manifold identities and power advantages, evidenced by robust national strength, strategic geographical positioning, and impressive economic progress. This multifaceted prowess, coupled with its burgeoning systemic significance and leadership within ASEAN, amplifies its influence across various multilateral platforms. Notably, banks serve as vital intermediaries in Indonesia's economic development, with commercial banks intimately intertwined with daily life through ubiquitous payment methods like bank cards and mobile banking. However, despite their significance, scant attention has been devoted to studying Indonesia's banking sector, particularly the pivotal role of Bank Central Asia (BCA), the nation's largest privately-owned bank founded by overseas Chinese.

Since the 19th century, the presence of Chinese enterprises in Indonesia has steadily increased, with a notable surge observed post-2010, marked by the influx of over 1,000 subsidiaries of Chinese multinational corporations. This paper seeks to delve into the competitiveness and success drivers of Bank Central Asia, serving as a beacon among Indonesia's privately-owned banks and founded by Overseas Chinese.

By scrutinizing the competitiveness of Bank Central Asia and pinpointing existing challenges through SWOT analysis, this research aims to facilitate global firm's entry into the Indonesian market. Through identifying avenues to bolster the bank's core competitiveness and leveraging its strengths, this study endeavors to enrich the understanding of Indonesia's banking landscape while fostering strategic insights for Bank Central Asia's sustained growth and development.

The Current State of Indonesia's Banking Industry

Liu (2023) asserts that despite ongoing global economic challenges, Indonesia's economic resilience remains robust, with a promising outlook. Boasting a population exceeding 270 million, Indonesia stands as the world's fourth most populous nation. Characterized by its youthful demographic and status as the largest Muslim-majority country, Indonesia holds key memberships in both the Association of Southeast Asian Nations (ASEAN) and the G20. In 2017, it ranked as the 16th largest economy globally by international exchange rates and the 7th largest by purchasing power parity, underscoring its potential as a significant contributor to the global economy.

Indonesia's banking sector traces its roots to the post-independence era when the government nationalized numerous Dutch and allied financial institutions in the 1950s, establishing indigenous banks. The ascent of Suharto's regime in 1968 ushered in a sweeping financial reform, catalyzing rapid industry growth marked by extensive bank network expansion, robust loan volumes, increased autonomy for banks, and a surge in bank numbers. By 1997, prior to the financial crisis, Indonesia boasted 144 domestic commercial banks, 4,150 branch banks, 44 foreign and joint venture banks, and 1,527 government banks. However, this expansion precipitated the collapse of the banking sector during the ensuing financial turmoil.

The 1998 financial crisis dealt a severe blow to Indonesia's banking landscape, leaving many institutions burdened with non-performing loans and prompting governmental intervention. Mounting bad debts necessitated significant state expenditure, reaching up to 55% of GDP between 1997 and 2000. To rejuvenate the sector and restore market confidence, the Indonesian government established the Indonesian Bank Restructuring Agency (IBRA) in 1998, laying the groundwork for present-day banking stability. Subsequent reforms included the introduction of a new Banking Act in 1999 and the establishment of the National Banking Authority, alongside bank mergers such as the formation of Mandiri Bank, presently the largest bank in terms of capital and size.

Yameen (2022) underscores the need for robust credit risk management in the Indian financial market, emphasizing the importance of effective mechanisms to mitigate credit risks. Rahayu & Suhendro (2016) advocate for government policies aimed at enhancing bank health and risk reduction, acknowledging the complex and challenging nature of such endeavors.

Statistical data from 2005 reveals Indonesian banks' total assets amounting to Rp 1,477 trillion, with capital at Rp 163.30 trillion, net profit at Rp 22.65 trillion, deposits totaling Rp 1,127.90 trillion, and loans standing at Rp 730.20 trillion. Notably, the bad debt ratio stood at 8.3% with a net bad debt ratio of 5.8%, with the top 10 banks holding 75% of total assets. As of 2022, Indonesia is home to 107 commercial banks, reflecting a decline in numbers compared to previous years, notably in 2019 when five commercial banks ceased operations.

Bank Central Asia has emerged as a cornerstone of Indonesia's financial landscape, offering a comprehensive suite of wealth management services catering to affluent individuals and corporate entities alike. Its pivotal role underscores its integration into the asset management divisions of major corporations, further solidifying its significance within the industry.

Bank Central Asia's Private Banking service is tailored to offer comprehensive wealth management solutions to high net worth individuals and families. Typically, private bankers, who are seasoned and credentialed financial advisors or bankers, forge deep relationships with clients, understanding their financial objectives and preferences to deliver personalized advice and service. Bank Central Asia's offerings encompass various aspects:

Portfolio Construction: Bank Central Asia constructs and manages investment portfolios tailored to clients' financial goals, risk tolerance, and investment preferences.

Asset Allocation: Clients receive guidance on allocating assets across diverse investment avenues to mitigate risk and optimize returns.

Estate Planning: Assistance is provided in structuring estate plans, including wills and trusts, to facilitate the transfer of assets.

Tax Planning: Bank Central Asia advises clients on tax planning strategies aimed at minimizing their tax burden.

Commercial Bankers at Bank Central Asia prioritize confidentiality and offer discreet financial services to clients, ensuring a higher level of attention and a close rapport with professional financial experts. Established in 1957 by Lim Shao Liang, an overseas Chinese entrepreneur, Bank Central Asia has solidified its position in Indonesia's financial landscape. By 2016, it surpassed Singapore's DBS Bank to become Southeast Asia's largest bank by market capitalization, boasting $24.5 billion in market capitalization. Originally belonging to Lim Siew Leong, Indonesia's erstwhile wealthiest individual, the bank faced a crisis during the Asian financial downturn in 1997. Consequently, it was taken over by a government restructuring agency in 1998 to safeguard depositors' interests.

Bank Central Asia went public in 2000, with 51% of its shares sold to investment firm Farindo in 2002. Subsequent changes in ownership led to the Huang brothers assuming control in 2010. By 2012, Bank Central Asia ranked as Indonesia's largest commercial bank, with total assets of $43.5 billion and annual profits of $1.2 billion, securing the second position among Indonesian banks on the 'Global 2000 Listed Companies' list for 2021, with total assets of $76.6 billion, underscoring the company's robust performance and stature.

HISTORY OF BANK CENTRAL ASIA (BCA)

Bank Central Asia (BCA) traces its origins to the entrepreneurial vision of Lim Shao Leong, the former richest man in Indonesia, born on July 16, 1916, in the village of Niu Zhai, Haikou Town, Fujian Province, China. Originally known as Semarang Knitting Factory Trading and Industrial Company, founded in 1955, the institution later evolved into a banking entity under the umbrella of the Salim Group. BCA commenced operations on February 21, 1957, headquartered in Jakarta.

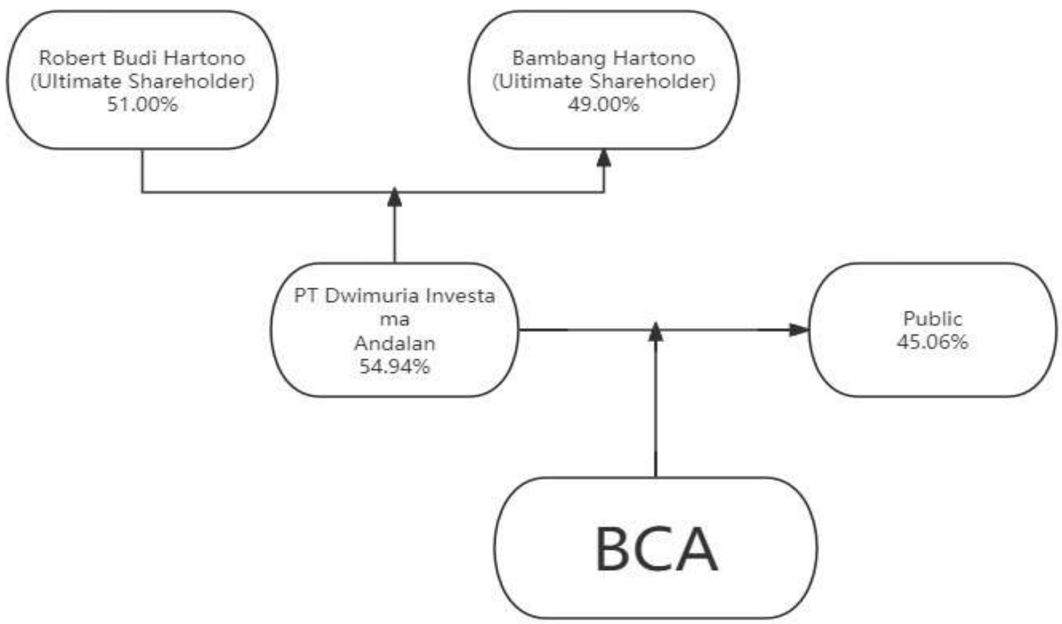
In 1977, BCA obtained approval from the Indonesian Ministry of Finance to operate as a foreign exchange bank. Subsequent policy changes in October 1988, aimed at liberalizing Indonesia's financial sector, facilitated the establishment of new banks and branch expansions. In 1990, BCA expanded its network through the introduction of automated teller machines (ATMs), placing 50 ATMs across Jakarta by 1991, enabling convenient bill payments for services like Telekom Indonesia and Citibank credit cards.

The 1997 Asian financial crisis had a profound impact on Indonesia's banking sector. In May 1998, amid riots targeting the Chinese community, including the Lim Shao Liang family and the Samrin Group, a significant number of BCA branches and ATMs were vandalized, triggering a run on the bank. Consequently, on May 28, 1998, BCA was placed under the control of the Indonesian Bank Restructuring Agency (IBRA). Despite these challenges, BCA resumed operations later that year, with third-party funds returning to pre-crisis levels by December 1998. The bank regained autonomy in 2001 following its release from IBRA's oversight.

BCA embarked on a path to public ownership, commencing with an initial public offering (IPO) in 2000, divesting 22.55% of its shares previously held by IBRA. Subsequent share offerings by IBRA in 2001 and a strategic private placement bid in 2002 saw further dilution of IBRA's ownership, with Farindo Investment of Mauritius emerging as a significant stakeholder. In subsequent years, IBRA divested its remaining shares through public offerings and a limited offering, culminating in the Indonesian government's complete divestment in 2005 through PT Perusahaan Pengelola Aset (PPA).

In 2010, the Huang brothers solidified their control over BCA through a transactional acquisition, marking a new chapter in the bank's leadership. On February 23, 2006, BCA's Board of Directors endorsed its corporate core values, emphasizing customer focus, honesty, integrity, teamwork, and the pursuit of excellence. BCA aspires to be the preferred bank and a cornerstone of Indonesia's economy, striving to excel in payment settlement and financial solutions for businesses and individuals while prioritizing customer satisfaction and stakeholder value.

As of December 31, 2021, BCA boasted 24,508 employees, predominantly holding university degrees, reflecting the bank's commitment to nurturing a highly educated and skilled workforce. The final shareholder composition, as outlined in the corporate annual report, underscores the dominant ownership position held by the Huang brothers, with 54.94% of shares attributed to



them.

* In the portion of shares owned by public shareholders as of 31 December 2023, some 2.46% are held by parties affiliated to

PT Dwimuria Investama Andalan. In addition, Commissioners and Directors own 0.14% of BCA shares

Fig 1. Composition of BCA shareholders

Source: Bank Central Asia, Inc. www.bca.co.id

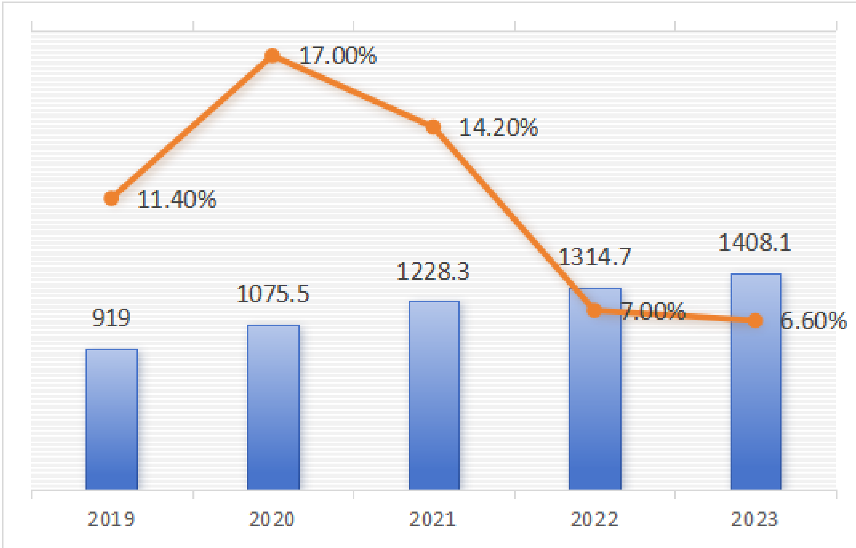


Fig 2. Asset Growth of Bank Central Asia(from 2019 to 2023)

Source: Bank Central Asia, Inc. www.bca.co.id

As depicted in Figure 2, the total assets of Bank Central Asia have exhibited a notable growth trend over the past five years, albeit with fluctuations in the growth rate. In 2019, the bank experienced a growth rate of approximately 10%, followed by a significant increase to 17% in 2020. This surge can likely be attributed to pandemic-induced fiscal stimulus measures and the relaxation of monetary policies. Subsequently, in 2021, the growth rate moderated to 14.2%, potentially reflecting the gradual economic recovery and the tapering of government stimulus efforts. Finally, in 2022, asset growth decelerated to 7%, possibly influenced by market saturation and heightened competition.

Overall, these data indicate that Bank Central Asia have managed to achieve relatively stable growth across various market conditions. However, sustaining robust asset growth necessitates a vigilant understanding of shifts in the economic landscape and market dynamics, coupled with proactive measures to adapt accordingly.

Table 1. Net Income Growth of Bank Central Asia(from 2018 to 2023)

	net income (in trillion rupiah)	net profit growth rate
2018	25.9	10.90%
2019	28.6	10.50%
2020	27.1	-5.00%
2021	31.4	15.80%
2022	40.7	29.60%
2023	48.6	19.40%

Source: Bank Central Asia, Inc. www.bca.co.id

The data depicted in Table 1 illustrates the fluctuating trajectory of Bank Central Asia's net income growth rate over the past five years. In both 2018 and 2019, the net profit growth rate remained relatively stable, standing at 10.9% and 10.5%, respectively, indicating steady expansion. However, the onset of the COVID-19 pandemic in 2020 precipitated a downturn, reflected in a net profit growth rate of -5.0%. This decline is attributed to heightened risks and diminished profitability amid the pandemic-induced economic turbulence.

Nevertheless, subsequent years witnessed a remarkable recovery, with the net profit growth rate accelerating to 15.8% in 2021 and surging further to 29.6% in 2022. These robust growth figures suggest a gradual rebound from the pandemic's adverse effects.

Overall, the fluctuating net profit growth rate of Bank Central Asia underscores its adaptive resilience in navigating volatile economic landscapes, reflecting the bank's ability to thrive amidst challenging conditions.

DEVELOPMENT STRATEGY OF BANK CENTRAL ASIA(BCA)

SWOT Analysis of Bank Central Asia

Strengths (S)

Diversified Services: Bank Central Asia boasts a wide array of financial products and services spanning personal, commercial, corporate, and investment banking, alongside e-banking solutions, catering to diverse customer segments and fostering a robust business portfolio.

High Customer Loyalty: With a steadfast commitment to customer service and personalized financial solutions, Bank Central Asia has cultivated strong customer relationships, bolstering customer loyalty and retention.

High Visibility and Market Share: As a prominent brand in Indonesia's financial landscape, Bank Central Asia commands a significant market share, supported by an extensive branch and ATM network, solidifying its leading position in the privately-owned banking sector.

Weaknesses (W)

Limited International Presence: While dominant domestically, Bank Central Asia's international footprint is modest, constraining its exposure to diverse markets and potentially increasing reliance on the domestic market.

Offline Business Model: The reliance on physical branches may impede Bank Central Asia's ability to tap into Indonesia's burgeoning digital banking landscape, potentially limiting customer outreach and growth opportunities.

Lack of Digital Finance Expertise: Relative to competitors, Bank Central Asia may lag in digital innovation and execution, posing challenges in capitalizing on the evolving digital finance landscape.

Opportunities (O)

Rapid Digital Economy Growth: The burgeoning digital economy presents opportunities for Bank Central Asia to bolster its digital financial services, leveraging its technological prowess to enhance offerings such as mobile banking and e-commerce, thereby augmenting customer experience and market share.

Digital Transformation Collaboration: Collaborating with fintech firms can facilitate innovation and digital transformation, enabling Bank Central Asia to adopt cutting-edge technology and business models, expand its digital footprint, and bolster competitiveness.

International Expansion: Amidst Indonesia's participation in the 'One Belt, One Road' initiative, Bank Central Asia can seize opportunities for overseas investment and cooperation, diversifying its business and mitigating domestic market dependence.

Threats (T)

Industry Competition: Intense competition within Indonesia's financial sector, including from domestic and international banks like Bank Danamon, poses a threat to Bank Central Asia's market share and profitability, necessitating continual enhancement of competitiveness.

Stringent Regulatory Environment: Adapting to stringent regulatory requirements is crucial for Bank Central Asia to ensure compliance and navigate regulatory pressures, which may escalate operating costs and administrative complexities.

Digital Security Risks: Addressing cybersecurity risks and safeguarding customer data and privacy against cyber-attacks and data breaches is imperative to maintain customer trust and ensure business continuity amidst evolving digital security threats.

Rapid Advancement in Fintech: The swift evolution of fintech, propelled by breakthroughs in artificial intelligence, blockchain, and big data, poses a transformative impact on the traditional operations and customer interactions within the financial services sector. Bank Central Asia must proactively track these technological trends and bolster innovation in digital transformation to uphold its market competitiveness.

In essence, Bank Central Asia (BCA) stands as a trailblazer in Indonesia's financial arena, boasting a diversified suite of products and services, underpinned by a customer-centric ethos and robust brand presence. Nevertheless, its reliance on offshore ventures and risk management framework pose certain vulnerabilities, compounded by challenges such as intense market competition, regulatory scrutiny, and economic volatility. Hence, BCA must continually enhance its offerings and innovate to fortify its market standing in Indonesia's financial landscape. Concurrently, seizing opportunities in digital finance, fintech collaborations, and offshore expansions can fuel BCA's growth trajectory while mitigating threats.

While BCA enjoys competitive advantages like an extensive branch network, robust financial stability, and a foundation of customer trust, it grapples with external pressures including heightened competition, regulatory oversight, and digital security risks amidst the evolving landscape of the digital economy. To sustain its competitive edge and foster growth, BCA must proactively embrace opportunities, fortify its digital transformation initiatives, innovate its product suite, refine customer service standards, and bolster risk management protocols. Furthermore, leveraging platforms such as the 'One Belt and Road' initiative for international cooperation, BCA can expand its global footprint and diversify revenue streams, thereby reducing dependence on domestic markets. Continuous vigilance, adaptability, and strategic agility will be pivotal for BCA to navigate market dynamics and sustain its trajectory of innovation and resilience.

Five Forces Model

In the 1980s, Michael Porter, an esteemed American management scientist widely recognized as the "father of competitive strategy," introduced the Porter's Five Forces analysis model. This model revolutionized business strategy development and continues to exert a profound influence on the field. Grounded in economic principles, the Five Forces model identifies five factors that shape the competitive landscape and market allure of an industry: the bargaining power of suppliers, the bargaining power of buyers, the threat of new entrants, the threat of substitute products or services, and the intensity of competitive rivalry within the industry. Variations in these forces ultimately impact the industry's profit potential. Whether in domestic or international markets, across diverse sectors offering products or services, the principles of competition are encapsulated within these five competitive forces. Porter's model is widely embraced both domestically and internationally, guiding strategic decisions across various industries.

Yang & Yu (2020) contend that amid a backdrop of sluggish global economic growth and persistent trade tensions leading to currency depreciation and commodity price fluctuations, the Indonesian banking sector faces heightened uncertainty in the international economic and financial landscape. While the sector receives support from the Indonesian government, it largely relies on its inherent competitiveness in the free market. By employing the Five Forces model, companies can discern their competitive environment and devise strategies to enhance their overall competitiveness within that framework. This study aims to evaluate the competitive position of Central Asian banks within the industry using Porter's Five Forces model.

Competitive Rivalry within the Industry

Bank Central Asia stands as the largest private bank in Indonesia, amid competition from other state-owned, rural, and private banks. Notable competitors such as Bank Rakyat Indonesia and Bank Mandiri pose significant competition, leveraging their extensive presence and long-standing history in the Indonesian banking landscape. Bank Rakyat Indonesia (BRI), established over a century ago, and Bank Mandiri, formed through a merger of four state-owned banks with over 140 years of collective history, are prominent players in the market. Additionally, Bank Indonesia, with its focus on small and micro-enterprises and a vast service network, exerts considerable influence in the small business credit sector.

Threat of New Entrants

The Indonesian banking industry presents high barriers to entry and formidable technical hurdles, constraining the influx of new competitors. Potential entrants encounter substantial capital and resource requirements to establish brand recognition and market positioning. Moreover, stringent government regulations and capital mandates further deter new entrants, thereby reducing the threat posed to Bank Central Asia by potential competitors.

Substitutes

The emergence of financial services provided by internet companies presents a viable alternative to traditional banking services, influencing consumer habits amidst rapid market and technological developments. Small and medium-sized enterprises (SMEs) face escalating capital requirements and evolving financial service offerings. Crowdfunding has emerged as a novel financial product, significantly alleviating SMEs financing challenges. Crowdfunding platforms offer SMEs a solution to consumer and partner acquisition, without imposing interest burdens, thereby reducing financial pressures. In Indonesia's less mature market, crowdfunding represents a feasible option for SMEs, exerting some impact on traditional banking institutions.

Bargaining Power of Suppliers

Traditionally, the banking sector catered to a limited pool of customers, with modest retail and SME deposit volumes, resulting in weak supplier bargaining power. However, with the burgeoning internet industry and financial sector, customers now have diverse alternatives beyond traditional bank deposits, expanding supplier options. This trend is bolstered by the expanding internet landscape, empowering suppliers with increased bargaining power over time.

Bargaining Power of Buyers

The homogeneity of internet financial products and relatively low customer loyalty afford purchasers a broad spectrum of choices. Buyers can select from various financial products, diversifying their risk exposure. In line with Porter's Five Forces model, while the number of buyers may be limited, their collective volume wields substantial influence over bank sales. Consequently, buyers enjoy an advantageous position in the market, with ample choices and strengthened bargaining power. This enhanced bargaining power facilitates easy customer migration to other banks if prices and services fail to meet expectations. Retaining customers is paramount for Bank Central Asia amid intensifying industry competition. Leveraging its brand image, reputation, and market dominance, Bank Central Asia must enhance service quality and efficiency to meet evolving customer demands. Embracing transformation and bolstering innovation capabilities are imperative for Bank Central Asia to navigate future market dynamics and ensure sustainable development.

CONCLUSION

Indonesia stands as the largest economy in Southeast Asia and the fourth most populous nation globally, boasting a significant overseas Chinese community. Historical migrations, spurred by conflict and economic hardship in China, led many to seek livelihoods in Indonesia, particularly from Fujian and Guangdong provinces. These settlers played pivotal roles in Indonesia's business landscape, with numerous Chinese individuals finding success, including Lin Shaoliang, the founder of Bank Central Asia. Established post-Indonesia's independence, Bank Central Asia has emerged as the nation's largest private bank, ranked second in Forbes Indonesia Business Ranking 2021 with a market capitalization of $76.6 billion. With over 20,000 employees, Bank Central Asia commands a prominent position in Indonesia's financial sector, leveraging robust financial strength.

This study conducts a detailed analysis of opportunities and challenges within Indonesia's banking industry, which has experienced rapid economic growth. Utilizing Porter's Five Forces model and SWOT analysis, we assess Bank Central Asia's strategic positioning. Over the past five years, the bank has witnessed steady asset growth, averaging over 5%, and maintained a net profit growth rate exceeding 10%. However, the advent of internet finance presents both opportunities and threats to traditional financial institutions. Bank Central Asia's workforce, predominantly comprising individuals with bachelor's degrees or higher, underscores the importance of effective talent management.

Strategic recommendations for Bank Central Asia's future development include prioritizing talent development and establishing robust reward systems. Collaboration with fintech companies and enhancing risk management capabilities are also paramount. Accelerating digital transformation, focusing on information security, and innovating to meet diverse customer needs are additional imperatives. By enhancing customer service and loyalty, Bank Central Asia can further solidify its brand reputation.

As a leader in Indonesia's financial sector, Bank Central Asia faces both competitive advantages and challenges. Strengthening digital transformation, product innovation, customer experience, and risk management, alongside fostering cooperation and innovation, will bolster its competitiveness. SWOT analysis offers valuable insights for strategic decision-making, guiding Bank Central Asia in navigating market trends, competitor dynamics, and regulatory changes. Continuous monitoring and adaptation will be essential for sustained success.

Acknowledgment

This work was supported by the Ministry of Education of the Republic of Korea and the National Research Foundation of Korea(NRF-2023S1A5A2A01082822)

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