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### Innovations in banking

Today, bank customers increasingly use new banking technologies, from which we can conclude that for further development of the bank and attracting customers to the bank, and also for successful competitive struggle on the market resources, the bank needs to develop new technologies. In this article we considered the concepts of banking innovation and also the different interpretations of this concept. Range of financial services expands every year, there are always new kinds of products and services on the market. This factor increased the competition between credit institutions for each client. Therefore, each bank builds its own relations with the client, based on the principles of partnership. Thus, credit institutions not only care about preserving, but also the increase of capital of its clients by continuously offering new products and services that contribute to the development of business activity of the people. Under the influence of many economic and social factors banking products and services are evolving. The article also describes issues and recommendations for improvement of innovative banking products.

**Key words:** banking innovations, classification of banking products, banking products, banking services.

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### Банк саласындағы инновациялар

Қазіргі таңда, банк клиенттері күннен-күнге көбірек жаңа банктік технологияларды пайдаланып келеді, бұдан шығатын қорытынды, банктің әрі қарай дамуы үшін және банк клиенттерін қызықтыру үшін, сонымен қатар ресурс нарығында табысты бәсекелестік күрес үшін банк жаңа технологияларды дамыту керек. Осы мақала шеңберінде банктік инновациялық ұғым және осы ұғым туралы әр түрлі түсініктер қарастырылады. Қаржылық қызмет көрсету спектрі жыл сайын кеңейіп келеді, яғни нарықта үнемі жаңа өнім және жаңа қызмет түрлері шығып отырады. Несиелік ұйымдар арасындағы әр клиент үшін шиеленіскен бәсекелестік күрес үшін осы фактор қызмет етеді. Сондықтан әрбір банк серіктестік қағидаларына сүйене отырып, клиентпен қарым-қатынас құрады. Осылайша, халықтың іскерлік белсенділігін дамыту үшін үнемі жаңа өнім мен қызметтерді ұсыну жолы арқылы несиелік ұйымдар сақтау қамқорлығын ғана емес, сонымен қатар өздерінің клиенттерінің капиталының көбеюін де қамқорлыққа алған. Көптеген экономикалық және әлеуметтік факторлардың әсерінен банктік өнімдер мен қызметтердің эволюциясы жүреді. Мақалада сондай-ақ, инновациялық банктік өнімдерді жетілдіру ұсынысы және мәселелері сипатталады.

**Түйін сөздер:** банктік инновациялар, банктік инновациялар классификациясы; банктік өнім, банктік қызмет көрсету.

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### Инновации в банковской сфере

На сегодняшний день клиенты банка всё больше и больше пользуются новыми банковскими технологиями, из чего можно сделать вывод, что для дальнейшего развития банка и привлечения в банк клиентов, а также для успешной конкурентной борьбы на рынке ресурсов банк должен развивать новые технологии. В рамках данной статьи рассматриваются понятия банковских инноваций, различные трактовки данного понятия. Спектр финансовых услуг ежегодно расширяется, на рынке постоянно появляются новые виды продуктов и услуг. Данный фактор служит обострением конкурентной борьбы между кредитными организациями за каждого клиента. Поэтому каждый банк строит свои отношения с клиентом, опираясь на принципы партнерства. Таким образом, кредитные организации не только заботятся о сохранении, но также и о приумножении капитала своих клиентов путем постоянного предложения новых продуктов и услуг, которые способствуют развитию деловой активности населения. Под влиянием многих экономических и социальных факторов происходит эволюция банковских продуктов и услуг. В статье также описываются проблемы и даны рекомендации по совершенствованию инновационных банковских продуктов.

**Ключевые слова:** банковские инновации, классификация банковских инноваций, банковский продукт, банковская услуга.

## **INNOVATIONS IN BANKING**

In the current economic conditions, the relevant issue of the banking system is the competitiveness. One of the main factors of successful banking is the policy of continued innovations. This statement derives from certain assumptions that characterize existing currently the situation of the economy:

- firstly, relations of banks with clients are based on partnership;
- the second cause of the emergence of new types of banking services is competition between banking institutions in the conditions of market relations;
- the third reason is the expensive development of new banking technologies.

However, innovations in the banking business include not only technical or technological development, but also the introduction of new business forms, new ways of working in the market of new products and services, new financial instruments.

The President of the Republic of Kazakhstan Nursultan Nazarbayev in his annual address to the people of Kazakhstan “Through crisis to renewal and development” noted that “despite the global crisis, the difficulties experienced by us during this period, we cannot afford to focus entirely on their decision. Our future depends on further economic modernization and the development of basic infrastructure. Following its strategic choice, we consistently continue our work in those sectors of the economy, where we can be really competitive and occupy niches in foreign markets” [1].

In our opinion, it’s a real talk about the banking sector, given that in the pre-crisis time the largest banks in the country reached the level of international competition, came into the competition with foreign banks, which present in the CIS markets.

In modern conditions of development of Kazakhstani economy, the strengthening of the banking system is the most important condition. However, the use of banks for innovative development and economic growth requires increasing the role of the state. The state of the banking system is characterized as post-crisis adaptation to modern economic conditions of functioning. Currently, we have the stable and successful process of recovery of volumetric (quantitative and qualitative) indicators of banking activities.

Modern banking system of the Republic of Kazakhstan is a diverse field of services to its customers from traditional deposit-

loan and cash transactions, which determine the basis of banking, to the latest forms of monetary and financial instruments used by banking institutions.

As of 01.01.2016, in Kazakhstan, according to the National Bank, the banking sector was

represented by 35 second tier banks, 16 of them banks with foreign participation, including 13 subsidiary banks. The following table can briefly describe the structure of the banking sector [2].

**Table 1** – The structure of the RK banking sector

The structure of the banking sector	01.01.2015	01.01.2016
The number of second-tier banks, including:	38	35
– banks with 100% state participation in the authorized capital	1	1
– second-tier banks with foreign participation	16	16
– subsidiary banks of the second level	14	13
The number of branches of banks	395	346
Note: official data of the National Bank of Kazakhstan <a href="http://www.afn.kz/">http://www.afn.kz/</a> [3]		

Currently, 5 commercial banks of the RK, whose assets in total make up about 60% of the banking system, have received high rating “stable”

by the leading international rating companies such as “Fitch Ratings”, “Moody’s» and «Standard and Poor’s”.

**Table 2** – The concentration of the banking sector of the Republic of Kazakhstan

Name of indicator / date	01.01.2015	01.01.2016
The share of 5 largest banks in total assets of the banking sector of Kazakhstan %	52,4%	59,2%
The share of 5 largest banks in total loan portfolio of RK banking sector %	58,9%	63,4%
The share of 5 largest banks in total customer deposits of RK banking sector %	51,0%	60,6%
Note: official data of the National Bank of Kazakhstan <a href="http://www.afn.kz/">http://www.afn.kz/</a> [3]		

In accordance with the dynamically changing conditions every commercial bank as a full-fledged financial market participant is forced to change himself, becoming the initiator of intra-organizational innovation processes.

Next, we should consider the current condition of the banking sector of Kazakhstan. Assets of second tier banks of the Republic of Kazakhstan as of 1st January 2016 are 23 784,4 billion tenge (as of early 2015 – 18 239,0 billion tenge), an increase for the year 2015 amounted to 30,4%. In the assets structure the largest share (60,6% of total assets) is the loan portfolio (principal debt) in the amount of 15 553,7 billion tenge (as of early 2015 – 14 184,4 billion tenge), an increase for 2015 -9,7%.

Loans to legal entities amount to 7 307,2 billion KZT with the share of 47,0% of the loan portfolio (at the beginning of 2015 – 7 016.2 billion tenge or 49.5% of loan portfolio), an increase for 2015 is 4.1%. Loans to individuals comprise 3 872,9 billion tenge with a share of 24.9% of the loan portfolio (at the beginning of 2015 – 3 707,9 billion or 26.1% of the loan portfolio), increasing in 2015 to 4.4%. Consumer loans are 2 622,7 billion tenge with a share of 16.9 % of the loan portfolio (at the beginning of 2015 – 2 639,9 billion or 18.6% of the loan portfolio), reduction in 2015 – 0,6%. Loans to SMEs are 4 242.2 billion KZT with the share of 27,3% of the loan portfolio (at the beginning of 2015 – 3 248,1 billion or 22,9% of loan portfolio),

an increase for 2015 year is 30.6%. NPL – non-performing loans (overdue more than 90 days) total 1 236.9 billion tenge or 8.0% of the loan portfolio (at the beginning of 2015 3 340,2 billion or 23.5 per cent of the loan portfolio). Provisions against loan portfolio amounted to 1 642,4 billion or 10,60% of the loan portfolio (at the beginning of 2015 3 569,8 billion or 25,2% of the loan portfolio) [3].

Supporting the thesis that “the national banking system – an attribute of statehood, a necessary element of economic independence, political sovereignty,” it is possible to highlight the key issues of the accelerated development of the national banking system of Kazakhstan, which, in our opinion, are as follows:

1) the national banking system should be adequate not only socio-economic policy of the state, but also across the country, the needs of the regions in ensuring that each person and each business entity funds, extra resources for the development and future growth. This correlates with the most important tasks set by the program before the national banking system in improving the efficiency of financial intermediation in the economy of Kazakhstan, ensuring the accessibility of banking services throughout the territory of the Republic of Kazakhstan;

2) the obvious need for qualitative changes in the development of the banking system, which means transparency, transparency towards customers and investors, introduction of advanced business models, new banking technologies and banking products. This will bring Kazakhstan’s banking system from lagging behind developed countries to a higher level of development according to such indicators, as: bank’s capital in relation to GDP, bank assets to GDP and loans to GDP. These indicators are currently lower than similar indicators in the EU, UK, USA and Japan;

3) To implement every decision of the active scenario of the banking system development in conjunction with the development of the economy it is necessary to have methodological tools and mechanism of innovative activity of each subject of the banking system.

Development and implementation of banking innovations for commercial banks have become usual activity of commercial banks, which can be divided into four main stages:

Stage 1. Gathering and processing information about the market, analysis of potential needs for new banking products and services.

Stage 2. Development of innovative strategy of banks, new product concepts and technology

of its introduction to the market of banking services (preparation of documents, development of technology for banking transactions, training employees, determining methods of implementing the product (services) in the market environment, the quality test of the product among the customers.

Stage 3. The organization for the promotion of innovative product (service), its sale to customers. Key success factors at this stage are: correct choice of pricing policy, definition of goods movement, based on the life cycle of a banking product (the introduction stage, the maturity stage, the decline stage).

Stage 4. Evaluation of the results of implementation of innovative products (services) and the analysis of selected innovation strategies.

Banking innovations depending on their intended use acquire new characteristics. It allows to systematize the classification of banking innovations, highlighting among them: technological, scientific, organizational, information, communication, marketing, social, psychological, service and others. The entire set of banking products and services that characterize innovation driven by the interaction of market participants, promoting, selling and consuming innovation, which underlines their institutional framework.

Promotion of new banking products and services based on the modern information and communication technologies provides a basis for the innovative banking business.

New banking products and services materialize in exact/concrete payment systems. Given instruments allow making payments online and at the same time they are the integral element of this payment system. As the new innovative electronic technologies develop in the banking sector, the interrelations of banks and clients have also changed. For instance, so called distant banks or self-service banks began to function; financial services are offered via Internet. Also a client can individually and distantly use banking services via e-mail and communications via computer networks.

Development of innovative retail payment instruments allows time gap decrease between attraction and placement of resources. This defines the growth rate of economy, as banking sector is an intermediary between the subjects, the owners of temporarily funds, and subjects, who are in need for these free funds.

Foreign experience, gradual transition to international standards and unification in the field of banking business organization, regional development of banks’ branch networks, risk-

management, accounting, supervision and audit has a significant impact on implementation of useful innovations in domestic banking practice. Just implementation of copying innovations defines an opportunity of supporting banks' competitive position in the domestic market; it stimulates client interests to offered modified product lines [4].

It seems that the major directions of innovative development in banks of the Republic of Kazakhstan must be the following:

- Automation of banking business-processes, implementation and development of self- and distant service technologies and technologies of virtual banking products;

- Improvement of forms and methods of management aimed to integrate management and control procedures in daily operations of banks; in human resources management – provide specialization of top-managers and maximum universalization of executives; integration of business-consulting procedures in functions of all client managers of a bank;

- Structure and functional changes in bank divisions, which allows to provide a multi-channel services to clients;

- Optimization of regional network of domestic banks on the basis of realization segmentation and specialization principles.

Innovative transformations in domestic banking sector, development and implementation of new products are the conditions for the full satisfaction of needs of corporate and private clients, the demands that are the parts of modern conception of banking marketing, which navigates banking sector to a consumer. It is necessary to attribute all innovations in banking business processes, which assists to reach significant effects, which is seen in income increase or expense minimization, decrease (optimization) of risks of work, gaining competitive advantages for a bank.

World and leading domestic experience shows that in the strong competitive activity the competition goes not just for gaining capital resources and material wealth, but also for capability of participants of production process in development and implementation effective innovations of technological, organizational and commercial character.

Accelerated and large-scale development of new technologies leads to the point that in the whole world economic growth is more defined by that part of production and equipment, which are based on progressive knowledge and modern decisions. Today continuous mastering the new technologies is one of

the primary directions of development for entities of developed countries. Essentially, innovation is a result of investment in designing to receive new knowledge, innovative idea on people's life spheres (technologies; goods; organization forms of socium's existence as education, management, labor management, service, science, informatization and so on) renovation and consecutive process of its implementation (production), with fixed obtaining additional values (profit, surpassing, leadership, priority, radical improvement, qualitative superiority, creativity, progress) [4].

Choice of any strategy, as innovative, always means building an individual organizational-economic mechanism, providing its renovation. In order to specify aims and results of the innovative work, also in order to systemize approach to its many possible appearances, classification of innovation is needed.

Banking innovations are classified by many features, in our opinion, we should allocate the most basic, which definitely create conceptions of banking services, structuring banking market and growth dynamics of financial sector of the economy. First of all, banking products can be delimited by reasons of origin. For this aim reactive and strategic innovations are highlighted [5].

Reactive innovations are related to conducting so called a defense strategy by banks, which aims a survival of a credit organization in the market and they are mainly a reaction to innovations of a competitor-bank. In this case, the bank has to innovate in order to survive in a competitive environment of a market. Strategic innovations are mainly directed to anticipate the necessity of innovative transformation, their main aim is to gain particular competitive advantages in perspective. At the place of work of a commercial bank innovations can be divided into main and providers. Main innovations define the most important part of the bank's innovation, as its success in the market directly related to offer of its spectrum of products and services. Inside the group of main innovations also two categories can be allocated: the actual product innovations and market innovations.

The actual product innovations are directly related to the creation of new banking products, development of new services and also their promotion in the market, for which they were made. Market innovations unite complex of activities, which allow realize already created products in new markets and open up new areas for use.

Provider innovations play the second role, as they are not directly linked with the main

functions of the credit organization. This group of innovations has a technological feature and includes innovative transformations of managing structure, methods of main productive process organization, i.e. process of rendering services and banking products realization, and improvement of banking technologies and so on [6].

Innovation, itself, is effective-introductive, and oriented to a realization of results of scientific elaboration in products and technological processes, used in practice.

The impetus for innovative transformation in the banking sector is specificity of its development under the conditions of the globalization and competition, the necessity of solving contradictions between economic subjects (banks, supervisors, representing the interests of the government, and clients).

Considering the essence of innovations in banking, first of all, it should be emphasized that they may occur in any component of the bank's business processes and determines useful result (effect) as for bank itself (income increase or cost minimization, risk decrease, gaining competitive advantages, leading to widening a client database, increase the market share), and for clients too, which on the basis of new quality of the products can more fully meet their needs.

Precisely the presence of 'new quality', 'more attractive consumer qualities in comparison with analogues' defines the banking product, or 'more complete banking technology' as an innovation. Banking products with improved features are able to meet the increasing needs of the clients, and use of more complete technologies of its creation allows providing development of the delivery channels.

Only constant improvement in banking can keep the competitive advantages, and accordingly, provide sustainability of client and resource database, increase of capitalization through internal (profit) and external sources.

It seems that establishment (idea), type of the innovation, area of its valuable use, scale of resulting effect (for a bank and a client) is defined by form of the bank's participation in the innovative process:

– Banks own innovations, i.e. banks direct realization an innovative project, development of a new product, strategy of promotion and so on;

– Participation of the bank in the innovative process as a providing structure (crediting, participation in the venture funds, examination of the projects, investment consulting, underwriting and so on), the work which aims to assist innovative activity of economic subjects.

Bank's work aiming to assist innovation of economic subjects, which is closely connected with the development and realization of its own banking innovations, is depended on it. We should determine that for making a mechanism of innovative development assistance more foreground is bank's work related to rendering consultancy and information services, interaction with the real sector of the economy in a search and an examination of investment projects, facilitating the development of the enterprises, sectors and regions of the country, search for potential investors, and also a help to enterprises in preparation and holding bonded loans.

Saying about the perspectives of the innovative development in the banks of the Republic of Kazakhstan, first of all, we should determine the necessity of transformation of target priorities of activity, and also the demand of orientation on standards of innovative management, assuming continuous implementation new or more modern technologies, products, organization and management procedures, methods and decisions. Only in this case, it is possible to increase adaptability of banks to changes of market conjunctures and clients' preferences, achieving required level of competitiveness under the conditions of financial globalization.

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