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## INNOVATIONS AND INNOVATIVE ACTIVITIES IN DOMESTIC BANKING: THEORETICAL ASPECT

The publication is dedicated to substantiating the thesis that the modern development of banking is impossible using only traditional approaches in creating effective banking business models. The sphere of financial entrepreneurship is significantly different from the sphere of material production or provision of various types of services. Until recently, innovative activity was identified with the technical and technological development of enterprises, scientific and technological progress, and production processes. However, the effect of the introduction of innovations and the growth of the role of the service sector led to the fact that innovations became the driver of the formation of new consumer properties not only of goods, but also of services. Thus, routine approaches and traditionalism no longer meet the needs of the financial services market, customer requests. Given the significant differences between financial intermediation and other types of business, the implementation of innovations and implementation of innovative activities in banking is different from those innovative processes that accompany the sphere of material production. Therefore, questions of methodology and practice of using innovations and innovative activities in banking as a form of financial intermediation do not lose their relevance. In order to reveal the theoretical content of the concepts, the presented article examines the existing author's approaches to the definition of the concept of «banking innovations», analyzes their common features and highlights essential differences.

It is substantiated that the dependence of banks on the development and introduction of innovations in the business model is manifested in two planes. First of all, banking competition is intensifying, and the strengthening of a specific bank's own competitive position is impossible without new ideas and innovations. The most obvious in this regard is the development of the so-called «product» line of the bank. However, only changing the product line will not be a guarantee of market success. Separately, it is worth emphasizing the fact that in order to build a successful banking business model, it is necessary to implement innovative approaches to the set of measures that form the content of the bank's management system. Secondly, the question of ensuring and maintaining a certain financial stability in the banking system in general and individual banks in particular, which takes on a special meaning during the introduction of martial law and military operations, is now acute. The key to financial stability can be new tools in the anti-crisis management system, which are impossible without the general innovative focus of the banking business.

**Key words:** *bank, banking, innovations, banking innovations, innovative activity of the bank, management.*

## ІННОВАЦІЇ ТА ІННОВАЦІЙНА ДІЯЛЬНІСТЬ У ВІТЧИЗНЯНОМУ БАНКІВНИЦТВІ: ТЕОРЕТИЧНИЙ АСПЕКТ

Публікацію присвячено обґрунтуванню тези про те, що сучасний розвиток банківництва неможливий із застосуванням виключно традиційних підходів у створенні ефективних банківських бізнес-моделей. Сфера фінансового підприємництва суттєво відрізняється від сфери матеріального виробництва чи надання послуг різного виду. Ще донедавна інноваційна діяльність ототожнювалася із технічним та технологічним розвитком підприємств, науково-технічним прогресом, виробничими процесами. Проте, ефект від впровадження інновацій та зростання ролі сфери послуг призвели до того, що інновації стали рушієм формування нових споживчих властивостей не лише товарів, а й послуг. Таким чином, рутинні підходи та традиційність уже не відповідають потребам ринку фінансових послуг, запитам клієнтів. Зважаючи на суттєві відмінності фінансового посередництва від інших видів бізнесу, реалізація інновацій та здійснення інноваційної діяльності у банківництві є відмінною від тих інноваційних процесів, які супроводжують сферу матеріального виробництва. Тому питання методології та практики використання інновацій та інноваційної діяльності у банківництві, як формі фінансового посередництва не втрачають актуальності. Для розкриття теоретичного змісту понять у представленій статті розглянуто існуючі

авторські підходи до дефініції поняття «банківські інновації», проаналізовано їх спільні риси та виокремлено сутнісні відмінності.

Обґрунтовано, що залежність банків від розвитку та запровадження інновацій у бізнес-модель проявляється у двох площинах. Насамперед, відбувається загострення банківської конкуренції, а посилення власних конкурентних позицій конкретного банку неможливе без нових ідей та інновацій. Найбільш очевидним у цьому відношенні стає розвиток, так званої, «продуктової» лінійки банку. Проте лише зміна продуктової лінійки не стане запорукою ринкового успіху. Окремо варто наголосити на тому факті, що для побудови успішної банківської бізнес-моделі необхідним стає впровадження інноваційних підходів до комплексу заходів, що формують зміст управлінської системи банку. По друге, нині гостро постає питання забезпечення та підтримки певної фінансової стабільності у банківській системі загалом й окремих банків зокрема, яке у період запровадження воєнного стану й військових дій набуває особливого змісту. Запорукою фінансової стабільності можуть стати нові інструменти в системі антикризового управління, що неможливі без загальної інноваційної спрямованості банківського бізнесу.

**Ключові слова:** банк, банківництво, інновації, банківські інновації, інноваційна діяльність банку, управління.

### **Setting up a problem in general and its connection with important scientific and practical tasks.**

As practice shows, routine and traditionality no longer meet the needs of the financial services market, and the shortening of economic cycles and the return of crises to the economic and financial systems require new management approaches. Today, innovative activity plays an extremely important role in the development of not only those economic entities engaged in the production of new goods or products, but also those that provide services, including financial ones. In domestic realities, banking institutions continue to be the main financial intermediaries and, recently, show more interest in innovation. Given the significant differences between financial intermediation and other types of business, the implementation of innovations and implementation of innovative activities in banking is different from those innovative processes that accompany the sphere of material production. Therefore, methodological and practical issues of using innovations and innovative activities in financial intermediation require in-depth study.

**Analysis of recent studies in which the solution to the problem is initiated.** Until recently, innovative activity was considered only as a way to develop entrepreneurship, which is mostly related to equipment, technologies, and production processes. The growing role of the service sector, the expansion of the possibilities of remote service led to the fact that the content of innovations actually became the formation of new consumer properties. As noted by S. B. Iehorycheva: «Innovativeness in modern conditions becomes the best brand of the bank, which attracts customers, partners, investors, and qualified staff to it» (*Iehorycheva, 2010 [1]*). Researchers such as V. V. Rysin, I. R. Bobryk also focus on the competitive aspect. In particular, they note that: «The innovative activity of banks should be considered as one of the most effective methods of fighting in the competitive war» (*Rysin, Bobryk, 2020*). Dependence of banks on the results of innovative activities has two manifestations. On the one hand, there is always a factor of intensifying competition. As you know, competition in the banking sector is mainly non-price in nature, affecting the ability to generate income streams. On the other hand, the most important feature of the banking business is that it is more prone to loss of stability than other sectors and branches of the economy. Thus, domestic authors N. V. Tarasevych and A.M.Lytvynenko note that: «Crises in the bank can arise both in the process of managing operations and in the process of managing development» (*Tarasevych, Lytvynenko, 2014*). Researcher of banking innovations S. B. Iehorycheva, calling the banking sphere potentially «one of the most innovative», at the same time states that: «Crises reveal the most pressing problems of bank functioning, change the composition of the clientele, force to modernize strategies, activate the innovative focus of banking business» (*Iehorycheva, 2010 [4]*). These aspects encourage an in-depth study of the prospects that banks will receive from the activation of innovative activities, from the introduction of innovations into the general business management system, in particular, in the direction of the development of management and anti-crisis measures.

**The objectives of the article.** The purpose of the publication is to substantiate the theoretical essence of banking innovations, to identify the peculiarities of their manifestation in banking as a special field of business, to evaluate possible ways of their application in the management system of banking business models.

**Summary of the main research material with full substantiation of the scientific results obtained.**

Along with globalization, deregulation and liberalization of financial markets, access to the field of financial services for non-banking institutions has been simplified, and therefore, in addition to the traditional threats in banking, another problem has been added - the fight for the client not only with banks, but also with other entities, especially in the field of making payments, money transfers, quick lending, etc. The needs of consumers of banking services have undergone significant changes under the influence of the development of the latest telecommunications and information technologies. That is why the requirements for high-quality and high-tech banking services are constantly growing, and the attitude of financial and credit institutions to the field of innovation has changed significantly. Given the significant differences between financial intermediation and other types of business, the implementation of innovations and implementation of innovative activities in banking is special and has significant differences compared to the sphere of material production or the market of non-financial services.

Undoubtedly, entrepreneurs, introducing innovations, want to increase the number of customers, win back a larger share of the market niche, beat competitors, reduce costs, etc., which are aimed at ensuring the growth of business profits or obtaining other economic effects. As far as the banking sphere is concerned, the achievement of this content is also important. But, as it was found, the emergence of innovations in the banking sector is enhanced by the influence of external factors and the presence of competition of a special content. The banking product is not unique, is not subject to patenting, cannot be the object of intellectual protection.

For a deeper understanding of the features of innovative activity in banking, let's summarize the author's definitions of the concept of «banking innovations» in the table 1.

In conclusion, it can be stated that the majority of authors are inclined to the opinion of banking innovation as a result of certain actions of a banking institution, and this result concerns various aspects of banking activity. As a result, the researchers see: a decrease in transaction costs; growth of the client base; growth of the resource base of banks; improvement of the technological process; market share growth; ensuring the efficiency of activities from the position of «profit-liquidity-risk», etc.

Table 1 - Author's definitions of the concept of «banking innovations»

| Author                            | Definition, source  |
|-----------------------------------|---|
| Kryvykh Ya.M., Dranitsyna A.O.    | «...a process aimed at developing new or improving existing banking products (services), technologies for their promotion, as well as new innovative methods of managing a banking institution with the aim of obtaining additional income and competitive advantages» (Kryvykh, Dranitsyna, 2019)  |
| Dziubliuk O.                      | "Banking innovations are, in fact, business processes, the development of which in modern conditions is carried out according to three main vectors, namely: - creation and introduction of innovative banking products and improvement of existing banking services; – formation of the latest technologies for the promotion of banking products to the final consumer; - improvement of organizational and information technology support of banking activity" (Dziubliuk, 2019) |
| Ivanov S. V.                      | «...this is the result of the bank's activity aimed at creating new products and technologies, as well as innovative methods of managing a banking institution to obtain additional income and competitive advantages» (Ivanov, 2018).  |
| Hetman L. H.                      | «...this is the process of modernization of the bank's activities, which consists in improving products, operations, services, business processes or creating new ones, aimed, on the one hand, at better meeting existing customer needs or forming new ones, on the other – at expanding the range of services, products and obtaining additional profit» (Hetman, 2016).   |
| Kuznietsova M. A., Huihova Yu. I. | «...the final result of the process of improving the bank's vital activities, which is based on the modernization of banking products and services, the management process, and the implementation process, the purpose of which is to maintain competitive positions on the financial market» (Kuznietsova, Huihova, 2020).  |

Continuation of Table 1

| 1                              | 2  |
|--------------------------------|--|
| Iehorycheva S. B.              | «...a banking innovation is the result of the bank's activity, aimed at obtaining additional income in the process of creating favorable conditions for the formation and placement of resource potential with the help of innovations that help customers in obtaining profit» (Iehorycheva, 2010 [4]).   |
| Tkachuk V. O.                  | «The final result of the process of modernization of all aspects of the bank's activities, which consists in improving banking services, business processes, service, organization, management and marketing in order to achieve competitive advantages in the market» (Tkachuk, 2013)   |
| Kuzminov S.V.,<br>Zadoia Yu.A. | «...any changes that will improve customer service and increase the effectiveness of banks as institutions» (Kuzminov, Zadoia, 2018).  |
| Karcheva I. Ya.                | «...the result of the innovative activity of the bank, which was embodied in the form of a high-quality new or improved product or service, implemented on the market, or an improved technological process used in banking activities, as a result of which the satisfaction of customer needs is improved, competitiveness and efficiency of activities increases from the position «profit-liquidity-risk» and the bank is developing on an innovative basis» (Karcheva, 2016). |

However, there are a number of authors who interpret this concept from the standpoint of the so-called «process» approach, in particular O. Dziubliuk, Ya.M. Kryvykh, A.O. Dranitsyna. This interpretation brings us closer to the concept of «innovative activity» of banks, which I. Ya also notes in his dissertation research. Karcheva: «In the conditions of the information society, it is more appropriate to talk not about individual banking innovations, but about the systematically organized innovative activity of banks – as a permanent complex systematized process of finding ideas and their implementation into specific new and more advanced products, services, technologies, management organization, entry with them to the competitive market, conquering the market, obtaining economic, strategic and social effects» (Karcheva, 2016). This approach hides a broad interpretation of the innovative activity of banking institutions, which basically contains a set of coordinated actions. It is worth noting that the domestic scientific opinion is also represented by a narrower approach to understanding the innovative activity of banks. From this point of view, the innovative activity of the bank is seen as a new way of communication or a new channel for selling banking products.

**Conclusions, discussion and recommendations.** Thus, summarizing the results of the research, under the concept of «banking innovations (banking innovation)» we propose to understand a specific management goal and/or the result of the bank's innovation-oriented business strategy in the form of introducing new products, services, and processes for the bank and its customers into the operational activities, means of communication, service and data processing technologies, etc.

Accordingly, the innovative activity of the bank, in our opinion, should be understood as a continuous process of changing and improving banking products, management and technological processes, methods and ways of communication with counterparties with the aim of achieving competitive advantages of the banking institution on the financial market, as well as forming its progressive image.

It follows from the conducted research that the emergence of innovations in the banking sector is determined by external factors and internal needs, among which the ability to resist crisis factors plays an important role. Currently, the threat of the realization of a crisis scenario remains a rather powerful factor in the functioning of banks and the banking system. There is no doubt that the banking business in modern conditions is under constant threat of unfolding crisis both of an individual bank and, in general, of a systemic crisis. In this aspect, the opinion of the domestic scientist P. M. Chub is interesting: «The marketing and PR campaign of a banking institution can be defined as an important element of anti-crisis management. In crisis conditions, the main thing is to choose non-traditional moves and tie them to the already existing bank brand» (Chub, 2012). The above once again emphasizes the need to introduce



innovative activities into bank management mechanisms, in particular anti-crisis, because it is unconventional approaches in the conditions of the information economy that are able to resist crisis factors and growing competition there. It follows from the above that banking institutions become those entrepreneurial structures that, with the help of innovative activities, can achieve new business goals, overcoming inertia, forming new traditions, while simultaneously preventing the negative development of crisis processes.

#### Author's contributions.

Conceptualization: Mostovenko Nataliia

Data storage: Mostovenko Nataliia

Formal analysis: Mostovenko Nataliia

Purchase of funding: Mostovenko Nataliia

Methodology: Mostovenko Nataliia

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