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## **THE MAIN INNOVATIVE ASPECTS OF FUNCTIONING OF THE BANKING SECTOR**

*Thesis is devoted to the analysis of the main directions of the development of the banking system on the basis of innovation. An assessment of the factors causing obstacles to the implementation of innovations in banks was carried out. The main vectors of the activation of the innovation process in the banking sector and the implementation of the appropriate strategy for the development of the financial market have been determined.*

**Key words:** *bank, banking innovations, financial market, globalization, Internet banking, banking services.*

In modern conditions, the formation of a new global system is taking place within the framework of the post-industrial development of the world economy. The main trends of such development include: the formation of an innovative economic system, increasing the role of innovations, non-material assets and scientific knowledge as a strategic factor of economic growth, the intensification of integration processes and the development of the global economic space due to the strengthening of the interdependence of national economies. Therefore, today it is innovations that are the most important factor in economic development, as they create competitive advantages of individual countries in the world market, representing a symbiosis of economic growth and social progress.

The dynamics of innovation processes in the financial market are particularly noticeable, where the systematic introduction of the latest products and technologies is the key to the success of implementing business models and the effective conquest and retention of relevant market segments. In this regard, the selection of innovative vectors for the development of the banking sector should be understood as a response to the modern processes of globalization, securitization and informatization, which have significantly changed the appearance of the entire financial market. After all, the latest products and technologies of recent decades, related to electronic transactions, bank cards, modern tools for investing funds and hedging financial risks, have radically changed the entire banking activity, giving it a significant dynamism.

Banking innovations are usually interpreted as a process of modernization of the bank's activities, which consists in improving the provided products, operations, services, business processes or creating new ones aimed at better meeting the needs of customers. It is banks that are marked by a much more effective use of digital channels and mobile devices, which are the levers that allow to change the financial services industry, supporting innovative solutions with forward-looking strategies and cutting-

edge business models [1, p. 82]. In some studies, it is emphasized that banking innovation is a necessary element that allows to ensure the competitiveness and profitability of the bank [2, p. 84; 3, p. 28].

The main incentive for innovative transformations in the banking sector is the specificity of its development in the conditions of globalization and competition, as well as the need to confront high risks of business activity and the increasing threats of global financial crises. At the same time, the process of optimizing the business model of a modern bank on an innovative basis contains certain problems and contradictions. On the one hand, increased competition in the financial market requires the bank to make constant efforts to reduce costs in order to increase the efficiency of its activities, which requires the introduction of increasingly strict schemes of control over spending of funds and analysis of efficiency. However, on the other hand, the need to meet the requirements of the times forces banks to increase the costs of implementing new information and telecommunication technologies, to develop electronic distribution channels in addition to the existing network of branches, and therefore commercial banks are facing with the need to resolve the contradiction between the desire for savings and the need to make large capital investments in innovation.

It should be noted that the implementation of innovative activities of banks in our country may also be accompanied by a number of other problems:

- the high cost of innovative technologies, which contradicts the task of ensuring the maximum availability of banking services for the general public and seriously increases the risks of losing the bank's competitive positions;
- the relatively low level of income of a large part of the population, which does not allow for the formation of an adequate level of market demand for innovative banking products, which may cost more;
- insufficient demand for banking innovations due to a low level of financial literacy and insufficient awareness of bank clients about the availability and possibilities of using the latest banking products and technologies;
- the absence or lack of qualified banking personnel in the field of innovative activity, which can become a significant obstacle in the process of developing innovative banking products and technologies;
- the imperfection of the legislative and regulatory basis, which determines the framework conditions that regulate banking activity, including its innovative component.

Overcoming these obstacles is a national-level problem that requires a comprehensive solution both at the level of banks and in the process of implementing the state innovation policy. This determines the very possibility of innovative development of the banking sector, which can be carried out according to the following main aspects:

Firstly, the introduction of innovative banking products and the latest services capable of meeting the widest possible range of consumer needs in the financial market, as well as the modification of already existing types of banking services with the use of technological innovations. The main direction of victory in the competition for the client is technological innovation in the product range of banks, which should be

creation of new and improvement of already existing banking products, as well as the use of modern information technologies and technological equipment in order to increase the efficiency and competitiveness of banking services.

Secondly, a change in the concept of promotion of bank products to the consumer, the introduction of innovative methods of their sale and the latest marketing strategies, which lead commercial banks far beyond the limits of intermediary activities in the redistribution of credit resources and ensuring the movement of cash flows. The active use of online technologies creates favorable conditions for ensuring the transparency of market relations, allowing clients to choose the most beneficial banking service offers without spending much energy and time, which significantly narrows the possibilities of price dictation for banks due to the monopolization of entire sectors of the financial market, as was the case before.

Thirdly, the modernization of the organizational structures of the bank and its individual structural divisions, as well as internal control systems in banks, which contribute to increasing the efficiency of the bank's functioning, the speed of management decisions and the formation of an effective banking risk management system. In many countries, there is a transition from the classic branch model to the remote banking service model, and more and more banking operations are carried out by customers without visiting the bank. In connection with such trends, the business model in the banking business is increasingly based on shifting the center of gravity to remote banking, while the functions of the existing retail network are gradually narrowing and bank branches are increasingly turning into specialized service centers with the expansion of customer self-service areas.

In conclusion, we can say that the innovative strategy of banks is aimed primarily at optimizing the management of resource potential, better meeting the existing needs of customers, as well as the development and technical improvement of services to adequately respond to new demands of the clientele in accordance with economic changes in a globalized environment. Further research into the activation of innovations in the banking sector should be one of the key tasks of the state's modern economic policy. This will have a positive effect on the revival of the innovative potential of our country.

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