

## THE BOTTLENECKS OF INTRODUCING INNOVATION PRODUCTS IN THE COMMERCIAL BANKS OF THE RA

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**Abstract:** The current stage of banking activity is characterized by a high level of competition not only in terms of the number of banking products and services, the amount of interest rates on deposits and loans, but also especially in terms of their level of innovation.

Over the past years, the banking system of Armenia has managed to meet the required international banking standards as much as possible, as a result of which it has managed to integrate more closely into the international banking system. Due to the policy pursued by the Central bank of Armenia, strict sanctions, legislation, regulations, the banking services market is currently developing. Economic development and the emergence of new technological achievements are impossible without innovation. The purpose of the article was to study the theory of innovation, the history of its formation, to analyze the current stage of development of innovation theory and propose options for further development and solutions to existing problems for the banking system of the Republic of Armenia.

**Keywords:** bank, innovation, product, service, technology, development

**JEL code:** G21, O33

**Research objectives:** to find out which bank's services are currently used the most by bank customers, what features, advantages and disadvantages of bank innovations and what factors contribute to their development.

**Research novelty:** obstacles to the introduction of innovative products in commercial banks of the Republic of Armenia were identified and ways of their elimination were proposed, considering the leading international experience.

## **Introduction**

Banking innovations, on the one hand, are the most common economic phenomena of our time, on the other hand, they are at the stage of their formation and active development (Betmachnikov V.F. 2001). Creating and implementing innovations is practically the only opportunity for banks to optimize and promote their advantages. Today's digital technologies are reorienting the entire sphere of financial services (Kostenkova V.G., 2015).

In terms of the organization of the delivery of banking services and the development and improvement of the banking business in general, the last decade has been marked by major breakthroughs in the field of management and organization of bank activity.

The modernization of the banking sector is inextricably linked with the introduction of new banking products (Freeman C. 1987). Often, the need for innovation in the banking sector arises from reality itself. Today, people have become more informed, selective,

mobile and actively use the Internet. Customers are making greater demands on banks, which encourages them to strive for higher service quality and different banking products to meet the growing demands. In this regard, the number of new banking products and the speed of their delivery to the consumer have increased many times in recent years. The topicality of the topic is justified by the need to reveal the trends and features of the RA banking system, research, demarcate the problems facing the banking system, and point out ways to solve them.

The use of digital technologies for the global banking business is not new, but these technologies are still gaining momentum for Armenian banks. It should be noted that Armenian banks have only recently begun to actively introduce various means of remote service.

Today, the range of services offered by the bank and the quality of service are becoming more important, which means that price competition is becoming more important. All this determines the topicality and importance of the topic

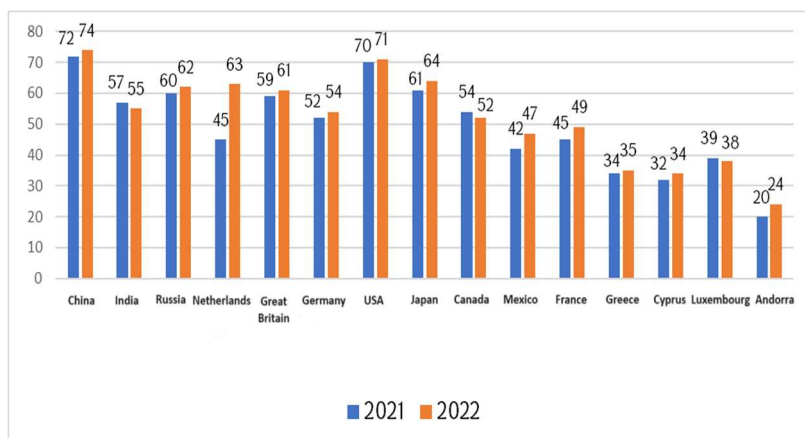
### **Research results**

The implementation of the latest technologies in the RA financial market is necessary to provide new services and use new payment instruments. On the one hand, the mentioned reforms are conditioned by the expansion of services provided by RA banks to clients and favorable competitive conditions, on the other hand, by the trends in the development of information technologies.

The challenges facing the RA banking sector, such as the increase in competition, the diversity of the demand of multi-profile

clients, the reduction of income and the advantage of technology, have forced the banks to develop a new human resource management system. To successfully face all these challenges, banks have implemented certain technological changes as quickly as possible.

We studied the penetration of financial technologies (fintech) into the banking system as a factor in the development of innovations (see Figure 1).



**Figure 1. Penetration rate of Fintech services in the banking systems of developing and developed countries, 2021-2022, (%)**

**Source: [www.statista.com/topics/2404/fintech/](https://www.statista.com/topics/2404/fintech/)**

Among the listed countries, China had the highest rate of involvement of fintech in banking systems in 2022-72%, then the USA - 70%, Japan - 64%, Russia - 62%, Great Britain - 61%.

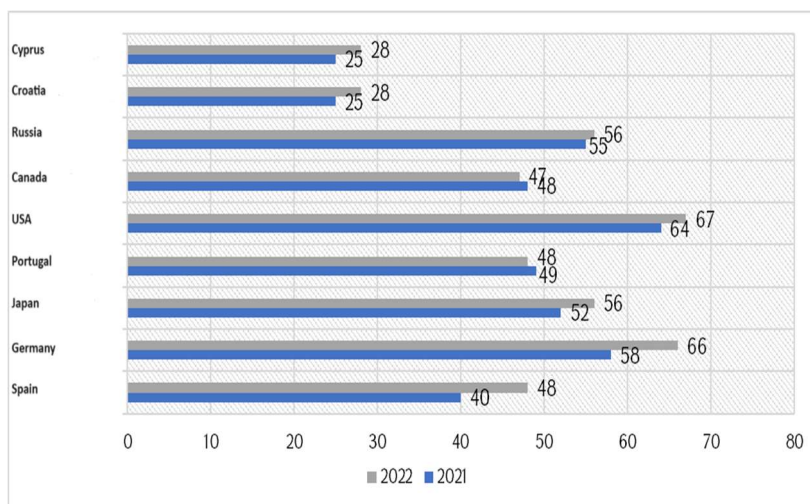
Of course, the US is considered one of the most advanced countries in the world when it comes to banking innovation, but according to research, the historically underdeveloped Asia-Pacific

(APAC) market, with about \$4 trillion in total financial services revenue, is poised to overtake the US as the world's leading fintech by 2030. The market. The CAGR (compound annual growth rate) is expected to be 27% during the period under review. This growth will be largely driven by developing countries, as they are home to large fintech companies, large unbanked populations, large numbers of small and medium-sized enterprises, and tech-savvy youth.

North America, home to the world's largest financial services industry, will remain an important fintech market and center for innovation. The corresponding segment is projected to quadruple to \$520 billion by 2030, while the CAGR will be around 17%. The UK and EU together represent the third largest market for financial institutions in the world and are expected to show significant growth in the fintech sector by 2030. Fintech spending in the region is estimated to grow fivefold between 2021 and 2030, with the payments industry seen as a key growth area. Latin American markets, led by Brazil and Mexico, are projected to post a CAGR of 29% during the period under review.

The Figure 2 shows the level of mastery of innovative banking products among the population of developed countries.

According to the chart, in such developed countries as Germany, the USA and the Russian Federation, 66, 67 and 56 percent of the population, respectively, own innovative banking products. The highest figure then belongs to Japan with 56%, and the lowest figure is Croatia with 28%.



**Figure 2. The level of ownership of innovative banking products in the population of developed countries, 2021-2022, (%)**

**Source: [www.statista.com/topics/2404/fintech/](https://www.statista.com/topics/2404/fintech/)**

Based on this, the number of bank branches in developed countries is continuously decreasing. For example, in the United States in 2020-2022, the number of users of electronic banking services reached 65%, in the last 6-7 years, about 5,000 branches were closed in the United States. Furthermore, one in nine US banks believe their branch networks will shrink by at least 10% in the next five years. The use of cash is declining in many countries, and people feel uncomfortable carrying large amounts of coins and various bills in their pockets and wallets. Today, the use of contactless card systems has become common for residents of large metropolitan areas.

Sweden has long been considering a complete rejection of cash. The decline in the popularity of cash has led to the fact that,

according to recent data, the share of cash in circulation among Swedes is only 2% of GDP.

The world's largest banks - the Spanish Santander, the Swiss UBS, the German Deutsche Bank, the British ICAP broker and the American Bank of New York Mellon Corporation - are preparing to issue a new electronic currency. The currency will be based on blockchain technology, which is used in Bitcoin payments.

In Russia, despite the growing demand for banking services, 60 million people are deprived of permanent access to banking services, every fourth person has a bank account, and only 10% of the population uses bank cards, while in Europe every an adult has 2-3 bank cards of different purposes. In Russia, such citizens make up 5% of the population. The main reason for such a situation in Russia is the lack of cheap and quality banking services. Today, there are 11 bank branches per 100,000 inhabitants of Russia. It is 5-6 times less than in developed countries and 3-4 times less than in Central and Eastern European countries.

In contrast to developed countries, in countries with developing economies, such as Kazakhstan and Turkmenistan, the level of ownership of innovative products is in the range of 37-47%. In 2022, Armenia's index is 6% lower than that of Azerbaijan, 1% lower than Georgia's and 16% lower than Kazakhstan's index.

According to the chart, Latvia, France and Germany are the leading economies in terms of bank assets. In those countries, innovative products make up 16, 21 and 25% of bank assets, respectively. Armenia, Portugal and Finland have the lowest rate by weight, respectively 12, 14 and 15%.

Now let's present the innovations that are current in a number of countries.

**Ecosystem.** Ecosystems are a new trend in financial technology. Ecosystem is a concept that came into business from biology. In the world of financial technology, the banking ecosystem is a unified space that includes all the necessary services that help the customer to use finances comfortably. For example, a banking ecosystem may include the following services: financial products, investments, customer support, voice assistant, insurance, travel, education.

Thanks to this fintech trend, the customer will soon no longer need to search for different products or services separately. Many problems and needs of customers can already be solved within the bank's ecosystem.

Investments instead of deposits and savings accounts. Along with the development of the banking sector and financial technologies, more people are beginning to trust banks, to consider them as intermediaries for making investments. Through their online services, banks provide training to clients, helping them understand the basic concepts of the investment market, as well as assemble their first portfolio. Therefore, more and more customers are choosing investments instead of regular deposits or savings accounts.

For example, the Russian Alfa-Bank provides brokerage services to individuals and legal entities, helps clients maintain an individual investment account (IIA). Alfa-bank has developed a wide range of investment products. It helps clients access international stock, commodity, money markets, as well as real estate and alternative investment markets.



**Open banking** (The World Bank, 2023): Open banking is a trend of using open APIs in the development of financial technologies. API (Application Programming Interface) is an open application programming interface. Open banking allows developers and partners to use banking interfaces and technologies and integrate them into their products. For example, banking services can be used to accept payments on the site. Banks themselves may also request and use information from other organizations, such as displaying exchange rate data. For example, the Russian Alfa-Bank already has its own digital technology called Alfa API. It opens up the following opportunities for partners:

- ✓ provides fast integration and transfer of large amounts of data,
- ✓ ensures personal data protection,
- ✓ Offers solutions that can be tailored to business needs.

Alfa API is suitable for IT developers, online accountants, fintech startups, holding companies, corporations, marketplaces and other fintech organizations.

**Big Data** (Open Banking, 2023 ):Another promising area of banking innovation is Big Data, the collection, processing, storage and use of large amounts of digital data. As the banking sector is associated with the accumulation of large amounts of data about customers and their financial transactions, banks are always looking for technologies to process and use this information. The processing of such information helps to understand what personalized offers can be offered to each specific customer in the future.

The studies show, that 18 commercial banks operating in Armenia have introduced innovative technologies. This means that

half of the existing banks managed to keep pace with the international market. Based on this circumstance and the experience of foreign banks, we can say that providing access to innovative banking products, increasing the quality of services, as well as reducing the tariffs of performed operations are considered an urgent problem for RA banks, which will lead to an increase in the efficiency and volume of the provided banking services.

The danger for banks lies in the fact that after their competitors appear, the role of banks may be quite limited, they will start acting as a back-office in the service delivery process chain, and some banks will become their face in the financial life of their clients. RA commercial banks cannot respond to these threats simply by being "more digital", that is, by closing branches and developing better mobile and internet banking services. This does not mean that the branches will be abolished or the role of the branches will be reduced, the role of the branches will be reduced, they will turn into more advisory centers, where more complex and detailed issues should be addressed. In the future, simpler services will gradually transition to remote control systems (What is Big Data?, 2022).

According to many bankers, the new digital companies are creating significant competition in the main types of banking services, depriving banks of some profits. One such example is Google, which launched a plastic debit card. It's used by millions of consumers on Google Wallet. And PayPal ranks first in many countries in the field of providing online payment services (Paypal.com, 2023). To achieve all this, it is first necessary to increase the level of security, because it is at a low level in RA. In

addition, measures can be taken to make it possible to carry out transactions with the cards of the "Armenian Card" system outside the borders of the Republic of Armenia, that is, to connect it to the EuroPay system. In order to succeed in this matter, the cooperation of the entire banking sector of the Republic of Armenia is also necessary, which is already being implemented and contributes to the facilitation of bank transfers and the increase of trust in internet banking services. It should also be noted that in addition to the cooperation of the banking sector in RA, the Central Banks of all the countries of the world also cooperate with each other, which makes it possible to learn about the events taking place in different countries in a very short period of time and, if necessary, to take measures to eliminate them.

### **Conclusion**

The expansion of the range of banking products and the continuous growth of market competition make it necessary for local banks to show great activity in the sustainable development of innovative activities. Current developments require a review of the restrictions presented to banks, evaluation of the results of banking activities, improvement of the existing legal framework, as well as development of existing competitive relations in the banking sector and establishment of healthy competitive conditions. Already today, it is impossible to imagine the stable economic development of the country without the provision of services using innovative technologies in the banking system.

At the present time, the main directions of the development of banking services of RA are: the orientation of the service delivery

to the demands of the customers, the improvement of traditional banking services, the promotion of the role of the banking products. , increasing the role of digital technologies in the development of banking products, expanding the network of commercial bank branches.

In our opinion, RA banks should develop programs aimed at increasing the role of bank marketing in order to promote banking services. Currently, the differences between the tariffs of the services provided by commercial banks of RA are very small and do not constitute a reason for ordinary consumers to prefer to use the services provided by this or that bank. In other words, there is almost no price competition. In this case, the implementation of the marketing activity should be prioritized, because for the effective implementation of the desired threat, logically, stable reasons for using the service provided by the bank may arise.

One of the ways to increase the effectiveness of the banking intelligence of RA is the establishment of branches and representative offices in other states, through which financial means can be attracted. The introduction of financial instruments will give the opportunity to the commercial banks of RA to reduce the credit parameters set by their own means, so not only the number of customers, but also the volume of the loan portfolio will increase.

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## **ՀՀ ԱՌԵՎՏՐԱՅԻՆ ԲԱՆԿԵՐՈՒՄ ՆՈՐԱՐԱՐԱԿԱՆ ԱՐԴՅՈՒՆՔՆԵՐԻ ՆԵՐԴՐՄԱՆ ՀԻՄՆԱԽՆԴԻՐՆԵՐԸ**

### **Ինեսսա Նուշիկյան**

Հայաստանի պետական տնտեսագիտական համալսարան,  
Բանկային գործ և ապահովագրության ամբիոն, հայցորդ

**Բանալի բառեր** - բանկ, նորարարություն, արդյունք, ծառայություն, ինովացիա, զարգացում

Բանկային գործունեության ներկա փուլը բնութագրվում է մրցակցության բարձր մակարդակով ոչ միայն ծառայությունների քանակի, ավանդների և վարկերի տոկոսադրույքների չափի, այլև առավելապես դրանց նորարարության մակարդակի առումով:

Բանկային նորարարությունները, մի կողմից, մեր ժամանակների ամենատարածված տնտեսական երևույթներն են,

մյուս կողմից գտնվում են իրենց ձևավորման և ակտիվ զարգացման փուլում: Նորարարությունների ստեղծումն ու իրականացումը բանկերի համար գրեթե միակ հնարավորությունն է՝ օպտիմալացնելու և խթանելու իրենց առավելությունները: Այսօր թվային տեխնոլոգիաները վերափոխում են ֆինանսական ծառայությունների ամբողջ ոլորտը:

Հայաստանի բանկային համակարգը վերջին տարիների ընթացքում կարողացել է հնարավորինս բավարարել պահանջվող միջազգային բանկային չափանիշները, ինչի արդյունքում կարողացել է առավել սերտ ինտեգրվել միջազգային բանկային համակարգին:

Շնորհիվ ՀՀ Կենտրոնական բանկի վարած քաղաքականության, խիստ պատժամիջոցների, օրենսդրության, կանոնակարգերի ներկայումս բանկային ծառայությունների շուկան զարգացում է ապրում: Առանց նորարարության անհնար է տնտեսական զարգացումը և նոր տեխնոլոգիական նվաճումների ի հայտ գալը:

Հոդվածում վերլուծել է ինովացիոն տեսության զարգացման ներկա փուլը և առաջարկել հետագա զարգացման տարբերակներ և առկա խնդիրների լուծումներ ՀՀ բանկային համակարգի համար:

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