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DIGITALIZATION OF BANKING SERVICES AMID OF INSTITUTIONAL REDUCTION THE RUSSIAN BANKING SYSTEM

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Abstract

Digitalization processes in the global economic and financial space affect all spheres of social life in different countries. The financial accessibility of society to basic banking services is no exception, which is expressed in the ability and opportunity to use the transactional channels of the banking system. In this case, multidirectional processes arise: on the one hand, the number of banking system organizations in the context of the digitization of the banking business is decreasing; on the other hand, the question arises how the level of financial accessibility is formed in such conditions. The Russian banking system has been experiencing institutional reduction in recent years, and under such conditions, the trends in the digitalization of financial accessibility, which have not been fully investigated, become relevant issues. This article aims to identify trends in the accessibility of the population to basic banking settlement and cash transactions in the context of the quantitative reduction of banking organizations in Russia. The results of the study show no negative impact of the reduction in the number of credit institutions on the number of banking transactions and their volume in monetary form, which indicates positive trends in the digitalization of banking services for the Russian population.

Keywords: Banking system, bank accounts, banking operations, digitalization of economy, financial inclusion

1. Introduction

The banking sector in the economy of any given country plays a significant role in terms of ensuring sustainable economic growth and effective redistribution of financial capital between industries, sectors and spheres of social activity. The importance of the banking system in the domestic practice has recently been reduced to the consolidation of credit institutions and an increase in the level of concentration of banking assets and capital (Ibragimov et al., 2021). Since 2015, a differentiated regulation of the banking system with the allocation of a group of systemically important banks, at the beginning of 2022 - 13 credit institutions, the total share in the assets of the Russian banking sector - more than 65% (Central Bank of the Russian Federation, 2022, 3 October). Specific features of this category of banks are higher requirements for compliance with banking standards in comparison with other banks, as well as a high role in ensuring economic growth of domestic industries (Tashtamirov, 2020).

However, the significance of the banking system itself should not always be reduced to the selection of the largest banks and the principle of "too big to fail" (TBTF). This refers to the idea that some financial institutions are so large/important/complex that their bankruptcy costs society more than the necessary costs of bailing them out. As a result, policymakers will have to rescue these large financial institutions using taxpayers' money when they get into trouble (Chang & Xuan-Hai, 2021). Accordingly, the importance of the banking system is expressed in terms of its scale, sustainability and efficiency in terms of national economic utility (Avis, 2021) as well as reliability in terms of society and retail customers.

Another important trend in the development of the Russian banking system in recent years is the reduction in the number of credit institutions. To date, in the scientific economic literature there is no unambiguous opinion about the optimal institutional structure of the country's banking system. It is problematic to answer precisely the question: "How many banks should there be in the economy?" The debate on this question has been going on for a long time (Ezrokh, 2018; Pirogova, 2016; Tavbulatova & Tashtamirov, 2021). There are three approaches to answering this question:

1. The fewer the better - a small number of banks helps to ensure the efficiency of their regulation and convenience of control by the central bank, however, a negative point is the risk of oligopolization and monopolization of the market of banking services and centralization of banking capital and aggregate banking assets in a group of several largest banks of the country. The level of competition in the banking system is extremely important in terms of ensuring its efficiency, implementation of new competitive technologies and customer orientation. It is also important to note that the gradual concentration of capital and assets in a few banks may lead to the risk of a "cascading crisis" in an economically unstable environment.

2. The more the better - this position is based on the need to maintain an acceptable level of competition, which will improve the quality of banking services, preventing the concentration of "market power" in one hand. The negative side of this approach is the inevitable emergence of 'laundry banks', which conduct shadow operations, engage in capital flight, off shoreization of the economy and pose a threat to financial stability.

The orthodox approach to the arrangement of the banking system in the form of one commercial bank with a developed network of branches across the country. This model is typical of countries with a command-administrative economic structure that does not involve competition, where all power in the market of financial services is concentrated in one bank.

According to the author, the number of banks should be as many as the economy needs at a certain stage of its development. The main functions of the banking system in the national economy are the transmission and transformation of financial capital within the framework of inter-sectoral, regional, territorial, sectoral and personal interaction. Accordingly, the task of the regulator is to provide the necessary conditions for credit institutions to fulfill their functions and to prevent centralization in matters of concentration of banking capital and assets in a particular group of banks, which can entail the emergence of systemic risk of instability. The banking system should be clustered and structured in sufficient institutional diversity to have the necessary level of specialization to perform its functions. This means that the total number of credit institutions, their grouping by size and scale of activity, sectoral, functional and customer specialization should be sufficient in terms of their qualitative component and ensuring stable economic growth.

This discussion on determining the optimal number of credit institutions acquires a new character in the context of global digitalization processes (Tavbulatova & Tashtamirov, 2020). Modern trends in the digitization of economic and financial relations require an adequate transformation of the banking sector to meet the changing conditions of public life. Inevitably, the question arises as to how much and how many off-line points of access to banking services should be maintained in the context of general digitalization of the economy and society. The second point is the question of how many banks are needed in such an environment? To what extent do modern processes of quantitative institutional optimization of the Russian banking system and its enlargement in the form of a gradual monopolization of the banking services market in the hands of the largest banks correspond to the pace of digitalization of the country's economy?

Scientific economic literature notes that to date, Russia has not developed a generally accepted business model of a digital bank throughout the banking system with approved regulatory rules and unified standards for the implementation of digital technologies in banking services. The disintegration of these processes is a distinctive feature of the domestic practice of digitalization of banks, when the largest banks of the country build digital business models autonomously, spending enormous resources on it (Moiseev, 2006). There is an emphasis in banking activities on segmentation and individualization in the development of banking products, taking into account the psychological characteristics and patterns of economic behavior of different generations (Dudin et al., 2021). At the same time, the largest banks with state participation or fully owned by the state become the clear leaders in the digital transformation of the banking business.

Most studies of the digitalization of banks and banking activities are reduced to the identification of common features, obstacles and prospects of the entire banking system in these conditions, or focus on individual banks and their business models (Akhmetova & Subtselnaya, 2021; Karpova & Rozhkov, 2021). The question of how the banking sector, which is experiencing institutional reduction in the

context of digitalization of banking activities, continues to perform its main function of providing banking services and capital transfer remains open.

2. Problem Statement

The process of digitalization in the global economic and financial space has impacted different spheres of social life in various countries, including the accessibility of society to basic banking services. The reduction in the number of banking organizations due to digitization raises concerns about how the level of financial accessibility is affected. In recent years, the Russian banking system has undergone institutional reduction, but the effects of this reduction on the digitalization of financial accessibility have not been fully understood.

3. Research Questions

The issue described in this research paper prompts a number of research inquiries: What are the current trends in the accessibility of the population to basic banking settlement and cash transactions in the context of the quantitative reduction of banking organizations in Russia? How has the reduction in the number of credit institutions affected the number and volume of banking transactions in monetary form in Russia? What does the impact of digitalization on banking services reveal about the level of financial accessibility for the Russian population?

4. Purpose of the Study

The purpose of this study is to identify the trends in the accessibility of the Russian population to basic banking settlement and cash transactions in the context of the reduction in the number of banking organizations caused by digitalization. By answering the research questions, the study aims to shed light on the positive trends in the digitalization of banking services that benefit the Russian population. The results of the study will provide insights into the impact of digitalization on banking services and their relationship to the level of financial accessibility for the Russian population.

5. Research Methods

This study aims to test the thesis that the reduction in the number of credit institutions and their structural subdivisions is justified in the context of the universal digitalization of society and the economy. The objective is to determine the degree of accessibility of basic banking services for retail customers using digital tools in the context of the institutional reduction of the banking sector of the Russian economy.

The work includes the use of general scientific methods of research: structural and dynamic analysis, logical generalization and systematization, as well as the method of relative indicators. The object of the study is the indicators of cash settlement services for retail clients of the Russian banking system with the use of digital tools for the execution of operations. The indicators that characterize the processes of digitalization of banking services were the data on the number of accounts with remote

access, the volume and number of transactions performed on the accounts of the banking system through online access channels. The analysis horizon includes the period from 2012 to 2021, which is explained by the availability of statistical information on the official website of the Bank of Russia. Quarterly data were used to compile the dynamics and determine the trends of institutional contraction of the Russian banking system, as well as the level of accessibility of basic banking services to the population in deposit and settlement-payment transactions.

6. Findings

Institutional contraction of the banking system has been taking place for a long time since the mid-1990s. However, this process has significantly accelerated since 2013 under the conditions of the Central Bank of the Russian Federation's announcement of the course on financial recovery of the banking sector.
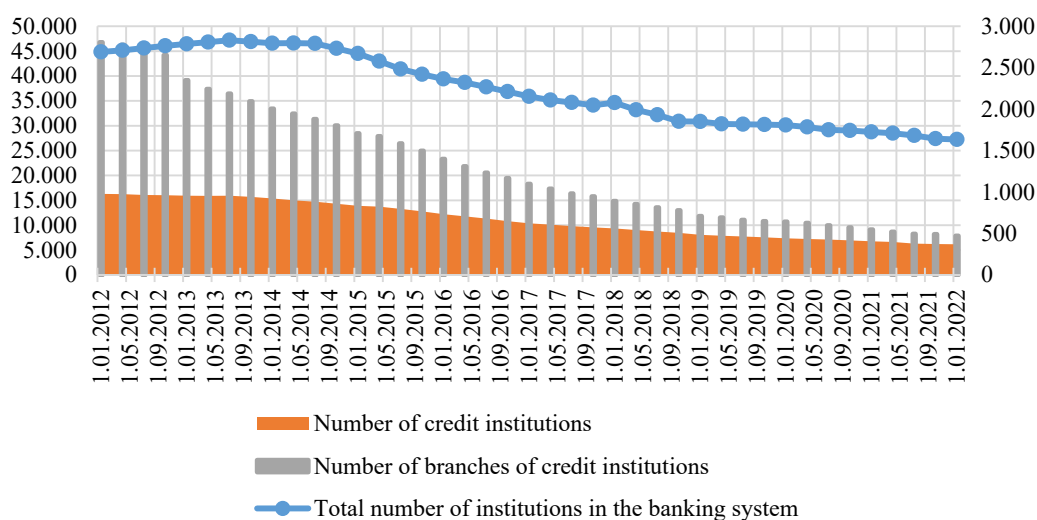

Figure 1. Dynamics of quantitative indicators of the banking system of Russia for the period 2012-2021 (Central Bank of the Russian Federation, 2022a)

As shown in Figure 1, the total number of banking institutions, including Bank of Russia institutions and structural subdivisions of credit institutions, continued to grow until mid-2014, despite the revocation of banking licenses and the closure of bank branch networks. Since the second half of 2014, the entire institutional structure of Russia's banking system has been shrinking due to the onset of the 2014-2015 currency and commodities crisis and the resulting optimization of the number of supplementary and operational offices of credit institutions.

Over the entire period under review, the total number of institutions in the banking system decreased by half, the number of credit institutions themselves by 2.6 times, and the greatest decline was observed in the branch network of credit institutions, where the decline was more than fivefold.

Absolute indicators do not reflect the depth of ongoing processes as regards the provision of the population with banking institutions.
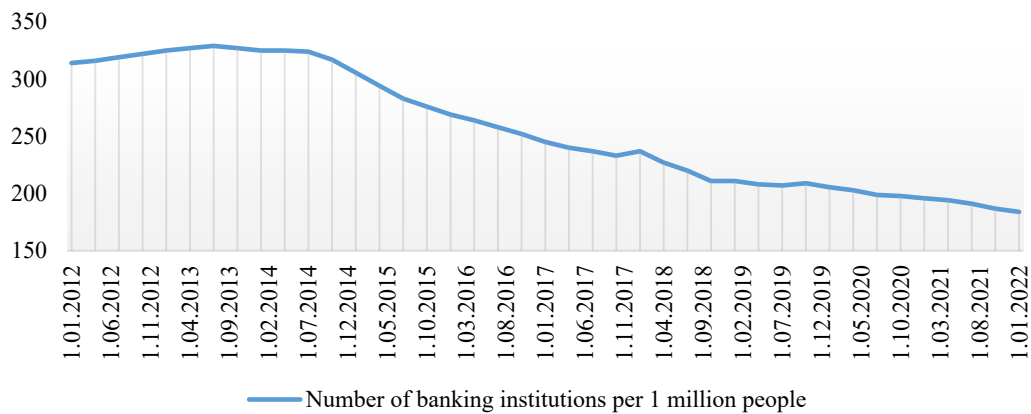
Figure 2. Dynamics of the number of banking organizations of the banking system per 1 million people in Russia for the period 2012-2021 (Central Bank of the Russian Federation, 2022b)

Similarly to the overall reduction of institutional indicators of the Russian banking system, the provision of the country's population with actual points of access to banking institutions is also decreasing (see Figure 2). By the end of 2021, on average, there will be 184 credit institutions for every 1 million people, which is 40% less than in 2012.

These processes of quantitative reduction of banking institutions in the economy in the context of global digitalization of social and economic relations should not affect the availability of banking services in their basic part of opening and maintaining accounts.
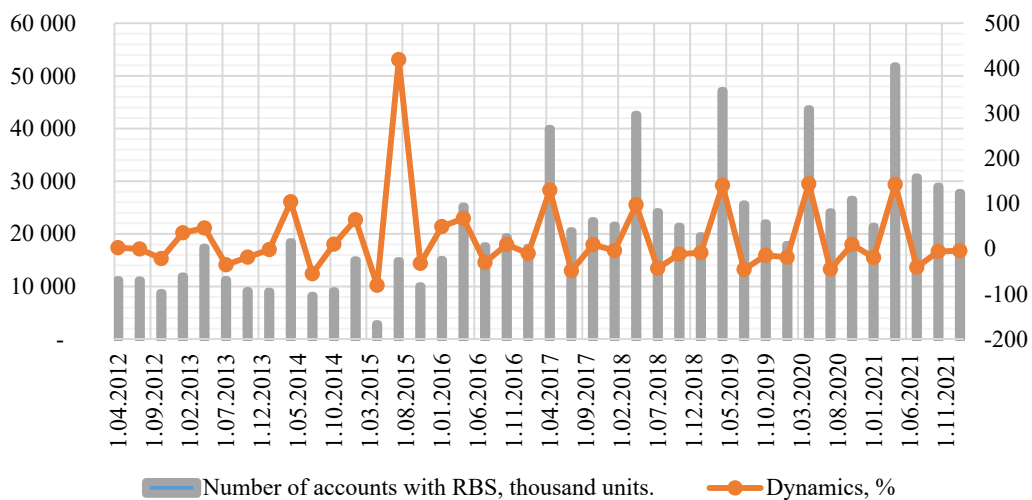

Figure 3. Number of remote access accounts opened by each quarter in credit institutions in Russia (Central Bank of the Russian Federation, 2022b)

Figure 3 shows that despite the reduction in the number of offline financial access points in Russia, the number of accounts with remote banking via the Internet is growing, although not at such a fast pace. A surge in the number of new accounts with RBS occurred during the period of active implementation of the Mir payment system from 2015 for all budget recipients, which determined the

growth of online banking services. At the same time, it should be noted the non-linear movement of the indicators under review by the number of new accounts with remote access.
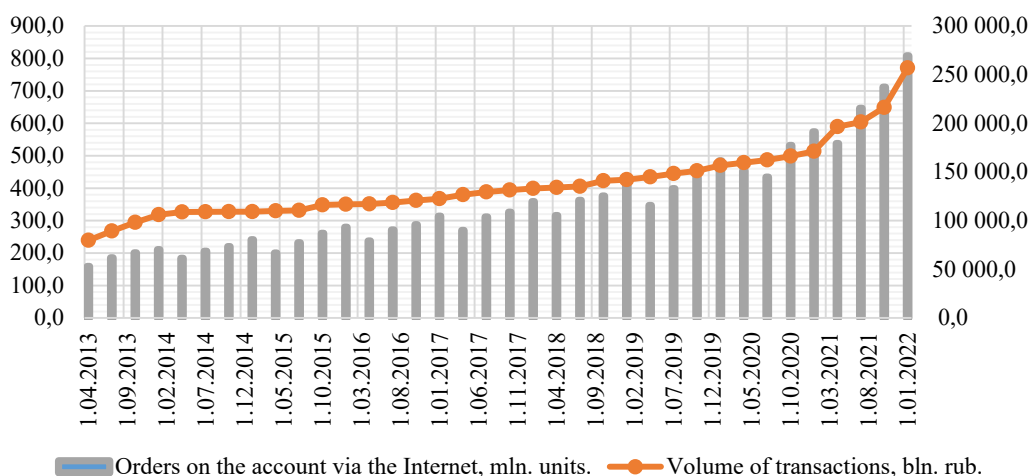

Figure 4. Information on payments, orders for which are made and transmitted electronically by clients of credit institutions and the credit institution itself

By the end of Q4 2021, the volume of banking system account transactions via the Internet exceeded 250 billion rubles, with the number of such transactions exceeding 810 million units (see Figure 4). Over the analyzed period, the number of transactions on the accounts of the banking system increased 3.5 times, while the monetary volume of such transactions grew 1.7 times.

Throughout the 2010s, banks were actively implementing various remote service technologies: mobile banking, chatbots, machine learning and Big Data in the provision of banking services, bank logistics and bank marketing, robo-adviser, etc. The directions of digitalization of banking cover almost all areas of banking, which makes it possible to actively compensate for the institutional, actual absence of banking organizations in certain territories.

7. Conclusion

The conducted study has shown that in modern conditions, the decreasing quantitative indicators of the banking sector of the national economy in the form of actual points of access to basic banking services do not have significant negative consequences in terms of financial accessibility. The processes of digitalization of the banking services market in Russia as a whole make it possible to compensate for the institutional decline of the banking sector of the economy in terms of the provision of the population with a basic set of banking products. On the other hand, such conclusions require clarification in the regional context of the country, because the presence of a high level of spatial economic unevenness and regional polarization affects the determination of the overall level of financial accessibility. The conditions of development of information and communication infrastructure in the regions, their socio-economic indicators may have heterogeneous values in the context of 85 subjects of Russia.

Thus, if we take into account the generalized data on the processes of digitalization of settlement and cash services of the Russian banking system in the context of its quantitative reduction, we can

conclude that current institutional trends do not negatively affect the level of accessibility of bank accounts using digital technology and do not hinder the increase in the number of transactions and money volumes on them.

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