SCTCMG 2021
International Scientific Conference «Social and Cultural Transformations in the Context of Modern Globalism»

INVESTMENT PREFERENCES OF A PRIVATE INVESTOR IN DIGITALIZATION OF THE FINANCIAL MARKET

Bela Aptyevna Demilkhanova (a)*
*Corresponding author

(a) Chechen State University, 32A, Sheripov str., Grozny, Russia, mail@chesu.ru

Abstract

One of the key trends in the development of the modern securities market is activity of private investors, whose financial resources are the most important factor determining the trends of its modern development. Based on the identified non-systemic risks inherent in the financial market and having a direct impact on private investors, the article assesses the degree of changes in the confidence of private investors in securities transactions through a comparative analysis of the banking services market and the primary securities market in the context of increasing the manufacturability of services provided. By identifying the correlation between the activity and property income of private investors in the Chechen Republic, it was established that property income is mainly formed through the banking services market using digital channels and individual investment accounts. In the context of reorientation of private investors from investments in government and other securities to investments in equity securities carried out through brokerage accounts, investment income using digital investment channels continues to be formed through operations in the banking services market. This means that there is no pronounced influence of the decreasing riskiness of financial transactions caused by the use of digital technologies on the activity of private investors in the regional securities market. In generating income for a private investor, preference is given to the banking services market using individual investment accounts. Nevertheless, the growth of investments in equity securities and, accordingly, income from them indicates the emerging trend of increasing confidence in the market of shares.

Keywords: Digital technologies, property income, private investor, correlation coefficient

1. Introduction

Digital technologies "intertwine" activities of all participants in the financial market, turning them into a single financial mechanism in which integrated services are provided by both banking and non-banking institutions. Consumers of these financial services are private investors, whose number has sharply increased in recent years. According to the official data of the Bank of Russia, about four million individuals prefer operations with securities, and there is an outflow of private investors from the banking sector to the stock market. In 2019, the stock market was replenished by almost two million private investors. In addition, the behavior of a private investor in the stock market determines the strategy of corporate clients of the exchange market, which, in turn, affects the stability of the financial market as a whole (Mitrofanov, 2016; Zvonova, 2017).

2. Problem Statement

The development parameters of the modern securities market depend on the use of free funds by private investors, the most important financial resource in the stock market: the dynamics of development of its segments, the average market profitability, the volume of transactions with securities, etc. Applications of savings of private investors are largely determined by the degree of riskiness of operations in the financial market.

Based on the study of features and varieties of portfolio investments (Kudrin, 2016; Podgornaya, 2015; Reshetnikova, 2019; Solomentsev, 2019; Sokolovsky & Tselikhina, 2018) and systematization of the risks inherent in securities transactions, it was found that the most typical portfolio investments are risks systemic and non-systemic risks. At the same time, the non-systemic risks highlighted in a separate group include risks caused by issuers, exchange markets and their intermediaries. It is this group of risks that directly affects the activity of a private investor.

Studies show that digital technologies reduce the risk of operations in the financial market, including the risk of portfolio investments, which are considered as an effective tool for ensuring the return on financial investments. At the same time, the investment preferences (and their changes) of a private investor have been little studied in the context of an increase in the technological effectiveness of services provided by financial institutions. It is necessary to study the impact of decreasing riskiness of financial transactions caused by the use of digital technologies on the activity of a private investor in the regional banking services market and the securities market. It seems that the study of this issue is important, since the development of regional financial markets should deepen the processes of securitization of the securities market - one of the pronounced trends in its development in recent years.

3. Research Questions

Digital technologies are used in accordance with the requirements and under the leadership of the Bank of Russia. With its participation, the legislation on electronic interaction of financial market participants is developed: federal laws, roadmaps of measures, etc. As a result, the following results have been achieved (Table 01):

- information interaction between the Bank of Russia and financial market participants (credit and non-credit institutions) through a single personal information exchange accoint;
- a unified system of interdepartmental electronic interaction;
- remote lending;
- mechanisms for managing bank accounts of corporate clients in an electronic form;

Table 1. Directions of creating conditions for the implementation and use of digital technologies in the financial market

Directions	Technical conditions	Features / results
Remote lending	Remote identification of the client	Providing storage and processing of biometric data (3250 points in 61 banks in all regions of the Russian Federation) Solomentsev 2019); improving financial literacy, reducing costs in the financial market
Implementation of innovative products, services and technologies into the financial market through the regulatory sandbox	Approval of the procedure for the regulatory "sandbox" by the Bank of Russia Creation of the Expert Council of Financial Market Participants; Creation of the Interdepartmental Expert Council	Identification of risks; creation of legal and technological conditions for the implementation of financial services and technologies
Fast payment system (FPS)	o Amendments to the regulations of the Bank of Russia; o Approval of tariffs for FPS services;	payments in real time between individuals
Creation of the marketplace system	Ensuring transactions using the electronic platform with a legislative basis	Provision of services from other financial institutions through a "single window"

Note: compiled by the author

Many studies conducted by Russian and foreign scientists deal with digital technologies in the banking sector. The main conclusions that can be drawn are as follows:

1) activities of banking institutions are becoming more predictable (Lakew, 2020);

2) Internet banking simplifies the procedure for entering the market (Baabdullaha, 2019; Gorbunova, 2020; Kornilova, 2019; Soloviev, 2014; Yiuab et al., 2007);

3) blockchain technologies overcome financial isolation (Schuetz & Venkatesh, 2020);

4) digital technologies have a significant impact on investment decisions by consumers of banking services (Pousttchi & Dehnert, 2018), the quality of relations between a client and a financial service provider (Lang & Colgate, 2003); structure and competition in financial services industries (Claessens et al., 2002).

4. Purpose of the Study

Based on the fact that one of the advantages of digital technologies is reduction of risky of transactions with financial instruments (portfolio investments), which can be expressed in the form of preferences for transactions with securities over bank deposits, it is necessary to assess the degree of

changes in confidence of a private investor in transactions with securities through a comparative analysis of activities in the banking services market and the primary securities market of the region in the context of increasing manufacturability of services provided.

5. Research Methods

Due to the development of digital channels, the emergence of services, mobile platforms that allow working with individual investment accounts, the stock market is replenished with a huge number of new private investors.

In 2019, in the North Caucasian Federal District among the leaders were Stavropol Region (38395 units) and the Republic of Dagestan (13,440 units) (Table 02).

Table 2. Dynamics of open individual investment accounts in the North Caucasus Federal District for 2015–2019

	2015	2016	2017	2018	2019
Stavropol region	41112	25124	35 085	14262	38395
The Republic of Dagestan	15037	7666	11 992	3369	13440
The Republic of North Ossetia-Alania	7725	4372	6 367	2217	7114
The Kabardino-Balkar Republic	7595	4320	6 334	2126	6953
The Chechen Republic	3944	1917	322	706	3598
The Karachay-Cherkess Republic	3942	2123	3 159	1144	3542
The Republic of Ingushetia	1196	581	952	222	1062

Note: compiled by the author on the basis of: Moscow Interbank Currency Exchange [Electronic resource]. URL: https://www.moex.com/n25254/?nt=106

Continuing the study of factors affecting the volume of "savings of the population in deposits, securities and cash" (Demilkhanova, 2020) in the Chechen Republic, in order to identify the impact of digitalization of the financial market on savings of the population, a comparative assessment of the relationship between the change in the investment activity of a private investor, expressed in the change in the number of opened IIA, and their property income from property was carried out.

As a result of increased costs of information and communication technologies (ICT) in the North Caucasus Federal District, the share of organizations using the Internet for banking and financial transactions is growing in all regions except for Stavropol Region. In general, in the North Caucasus Federal District, this share was 54.9 % in 2019. In the Chechen Republic, this share increased from 36.2 to 39.8 %. In addition, the Chechen Republic is characterized by lower values of relative indicators for organizations using digital technologies (electronic data exchange, automatic identification technologies, cloud technologies, etc.).

An analysis of the results of the use of digital technologies showed their predominant influence in the banking services market. As for the development of the primary securities market, the results indicate an increase in the interest of individual investors in investing in equity securities: in 2019, there was a reorientation of the population of the Chechen Republic (as well as most of the regions of the North Caucasus Federal District), participating in investment processes, from investments in government securities to investments in equity securities. The reason for the decreasing share of interest income from government securities is the expanded range of financial services provided to the population. This is due

to an increase in the share of organizations that used the Internet for banking and financial transactions, as well as the total number of accounts with remote access 1.8 times: from 417.3 thousands to 771,5 thousands.

6. Findings

The correlation between the effective and factor indicators (Table 03) confirm the results of the analysis. IIA by are used mainly for bank deposits.

Table 3. Effective indicators of property income in the Chechen Republic for 2015–2018

	Factor indicator	Effective indicators of income, million rubles		
	Number of open IA, units	Dividends, million rubles	Deposit interest	Payment of interest on government and other securities
2016	3944	5,0	737,0	16,0
2017	1917	5,0	566,0	32,0
2018	322	11,0	535,0	113,0
2019	706	59,0	507,0	43,0

Note: compiled by the author based on the research results

The correlation coefficient between the change in the number of IIAs and the volume of deposit income is 0.96, which indicates the pronounced relationship between these indicators (Table 04). The presence of feedbacks between the dynamics of IIA and the volume of equity and debt securities income indicate that private investors are characterized by low investment activity in the secondary securities market. Investment in securities is carried out through brokerage accounts.

Table 4. Paired correlation coefficients between the number of IIA and property income in the Chechen Republic

Factor indicator	Correlation coefficient		Results
Number of open IA, units	–0,50 *reverse noticeable*	Bank deposit income	Dividends
	0,96 *pronounced*		Deposit interests
	-0,77 *reverse pronounced*		Interest son government and other securities

Note: compiled by the author based on the research results

7. Conclusion

Thus, an assessment of the degree of changes in confidence in securities transactions carried out by means of a comparative analysis of activities in the banking services market and the primary securities market of the region in the context of increasing technological effectiveness of the services provided showed that in the context of reorientation of private investors from investment in government securities to investment in equity securities carried out through brokerage accounts, investment income channels continues to be derived through operations in the banking services market.

References

Baabdullaha, A., Abdallah, A., & Nripendra, A. (2019). Consumer use of mobile banking (M-Banking) in Saudi Arabia: Towards an integrated model. *International Journal of Information Management, 44*, 38–52.

Claessens, S., Glaessner, T., & Klingebiel, D. (2002). Electronic Finance: Reshaping the Financial Landscape Around the World. *Journal of Financial Services Research, 22*, 29–61.

Demilkhanova, B. A. (2020). Personal finance as a primary link in the financial system of the region and factors of their formation. *Economics and Management: scientific and practical journal, 3*(153), 125–126.

Gorbunova, M. V. (2020). Review of the problems of implementation of distributed ledger technology. *Information and control systems, 2*, 10–19.

Kornilova, E. V. (2019). Blockchain technology and the possibilities of its use in the financial sector. *Finance and credit, 25*(4), 789–803.

Kudrin, A. M. (2016). Formation of the investment strategy of a private investor in the stock market. *International Scientific Review, 12*, 50–55.

Lakew, B., & Azadi, X. (2020). Financial inclusion in Ethiopia: is it on the right track? *International Journal of Financial Studies, 28*. https://doi.org/10.3390/ijfs8020028

Lang, B., & Colgate, M. (2003). Relationship quality, on-line banking and the information technology gap. *International Journal of Bank Marketing, 21*(1), 29–37.

Mitrofanov, V. I. (2016). The role of private investors in the development of the Russian stock market. *Modern trends in economics and management: a new look, 38*, 22–27.

Podgornaya, Yu. B. (2015). Models of making investment decisions by Russian private investors. *Basic research, 9-2*, 366–369.

Pousttchi, K., & Dehnert, M. (2018). Exploring the digitalization impact on consumer decision-making in retail banking. *Electronic Markets, 28*, 265–286.

Reshetnikova, L. G., & Burkova, T. V. (2019). Investment profile of a private investor in the Russian stock market. *Economics and Entrepreneurship, 2*, 769–773.

Schuetz, S., & Venkatesh, V. (2020). Blockchain, adoption, and financial inclusion in India: Research opportunities. *International Journal of Information Management, 52*.

Sokolovsky, M. V., & Tselikhina, I. V. (2018). Risk management of private investors in the securities market using online trading systems. *Russian entrepreneurship, 19*(12), 4133–4142.

Solomentsev, A. S. (2019). Short-term strategies for portfolio investment by private investors in the Russian stock market. *Economics and Entrepreneurship, 1*, 1097–1100.

Soloviev, D. (2014). Digitalization of the securities market infrastructure. *Stocks and bods market, 4*, 21–23.

Yiuab, C., Grantc, K., & Edgarc, D. (2007). Factors affecting the adoption of Internet Banking in Hong Kong-implications for the banking sector. *International Journal of Information Management, 27*(5), 336–351.

Zvonova, E. A. (2017). Features of the accumulation of household savings on the Russian stock market. *Economy. Taxes. Law, 2*, 40–48.