

DEVELOPMENT OF INTERNET BANKING ON BANKING SERVICES MARKET

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ABSTRACT

This article considers banking sector development, which is connected with the improvement of doing banking business through the use of Internet technology. The problem of introducing and developing modern banking technologies in the Russian Federation is very topical. The paper points to a number of advantages when introducing banking computerized systems and the most common ways of on-line payments and client identification in Russia. The structure of accounts with remote access that are opened by individuals and legal entities with Russian credit organizations are analyzed. Some measures to develop Internet technologies markets are proposed. A new method is Internet banking or telebanking, which allows expanding bank's customer base, to reduce business expenses and provide structure innovatization of economic development of the real and financial sectors of the Russian economy. Modernization will become a key expenditure item for the banks in the future. There are also considers improving the legal framework, development of the insurance system, implementation of an integrated approach to risk management, institutional changes in the activities of credit institutions, improving the financial literacy of the population and increasing citizens' skills in managing personal finances.

Key Words: *Internet Banking, Banking Services, Online Payments, the Banking Computerized Systems, Credit Organization*

INTRODUCTION

Under current economic conditions, banks are forced to look for new ways to provide their services; it is primarily connected with the transformation of banking activity due to the introduction of modern information technologies. A new method is Internet banking or telebanking which allows not only to expand bank's customer base, to reduce business expenses, but also, in general, to provide structure innovatization of economic development of the real and financial sectors of the Russian economy. Provision of banking services requires large consumption of material resources. At the same time, focus on profit forces banks to seek to reduce the costs of providing services. This reflects the basic problem of slowing the introduction of the Internet technologies.

With the rapid development of the Internet technologies, credit institution customer is able to enjoy a significant number of banking services using only the web browser. To gain access to your personal account, you only need to have a personal computer and a mobile phone connected to the Internet. Thus, the global network has allowed eliminating barriers between bank and client. Credit institutions with a broad range of customers can reduce the maintenance

cost of their branch network, thereby reducing the cost of their services. Using telebanking via the Internet leads to increased costs of technology, but they pay off due to economies of scale.

THEORY

The question of introduction and development of modern banking technologies in the Russian Federation is relevant; this is indicated in the Statement of the Government of the Russian Federation and the Central Bank of April 5, 2011 № 1472p-P13, 01-001 / 1280 "On the banking sector development strategy of the Russian Federation for the period up to 2015." According to the statement, the current banking activities are impossible without the introduction of advanced information technologies to improve the quality of the credit institution services and expand their list. The introduction of information technology in banking can increase the efficiency of the bank's activities.

Implementation of bank computerized systems provides credit organization with several advantages:

1. The economic benefits due to reducing the cost of customer service - when using telebanking, costs are significantly lower than when providing services in bank branches and affiliates. Here, the bank requires significant investment to introduce computerized systems, but they pay off quickly within a given period, it triggers the economies of scale: the more customers are, the lower are costs;
2. More efficient servicing of bank customers, this is due to the fact that any single bank branch cannot handle tens of thousands of customers in a short period of time, while using innovative banking technologies, this becomes possible;
3. Solving the problem of bank network development to ensure the availability of banking services to customers of credit institution;
4. New geographical segments which allow the credit institution to expand its customer base;
5. Increasing the speed and quality of services provided;
6. Reduction of the bank's operational risk due to the increased accuracy of the bank operations done;
7. A bank has an opportunity to create fundamentally new banking products and services, which result in improving competitiveness of the bank.

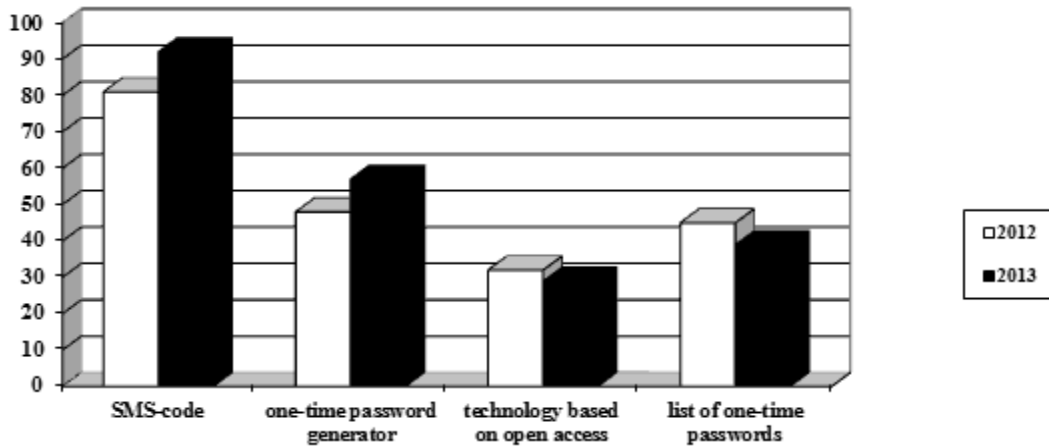
RESULTS

According to a survey conducted by the National Agency for Financial Studies, the highest priority factor in the use of Internet banking is security. According to surveys, about 25% of the Russian Internet users are not sure about the reliability of banking online systems.

Modernization will become a key expenditure item for the banks in the future. Half of the banks surveyed expect growth in spending on modernization in the next two years. For example, banks of France and Germany planned to increase spending on cyber security by 61% in 2014, and banks in Britain are showing increased interest in the transition to digital banking.

SMS-code is still the most common way of bank users' authentication over the last few years (Fig. 2). The banks, seeking to ensure the safety of telebanking operation started a massive shift to the technology of two-factor protection, while using it the customer enters the necessary data: login and password and one-time SMS-code.

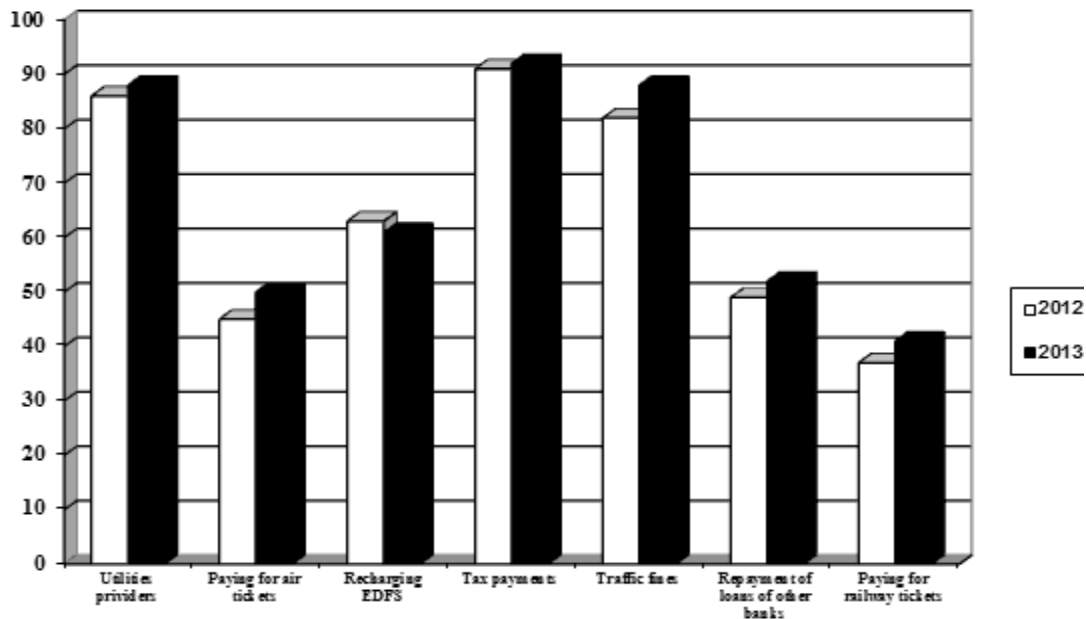
Figure 1
THE MOST COMMON WAYS OF IDENTIFYING THE CLIENT



When selecting different telebanking technologies, a credit institution should examine its attendant risks in detail, which may pose a potential threat to the bank's activities, as well as to evaluate management of the technology and to ensure control over its use. Also, it should be noted that the use of Internet banking increases anonymity of services, which entails a significant increase in traditional banking risks.

Despite many risks associated with banking activities on the Internet, year after year, an increasing number of payments are conducted online. Currently, 46% of Russian city residents use Internet banking services regularly (Fig. 2). In the US, 61% of the adult population uses online banking.

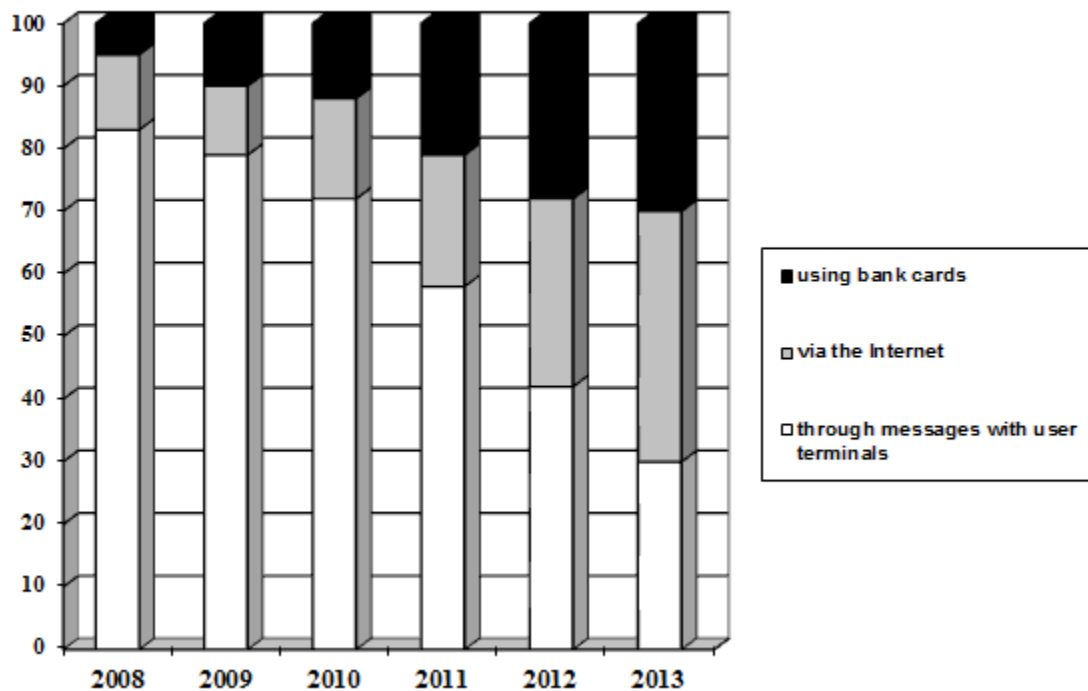
Figure 2
THE MOST COMMON TYPES OF ONLINE PAYMENTS IN RUSSIA



According to data published on the official website of the Central Bank for 2013, we can draw conclusions about the positive development dynamics of modern technologies in the banking market.

The number of accounts with remote access opened with credit institutions from 2011 to 2013 increased by half (from 59,042.7 thousand units to 102,872.9 thousand units) (Fig. 3). Also, it should be noted that this trend is typical for individuals to a greater extent than for businesses. In turn, the number of accounts with access via the Internet has more than doubled. This trend can be explained by the computerization of banking operations and by an increase in the number of Internet banking users.

Figure 3
STRUCTURE OF THE ACCOUNTS OPENED BY INDIVIDUALS WITH CREDIT INSTITUTIONS IN RUSSIA

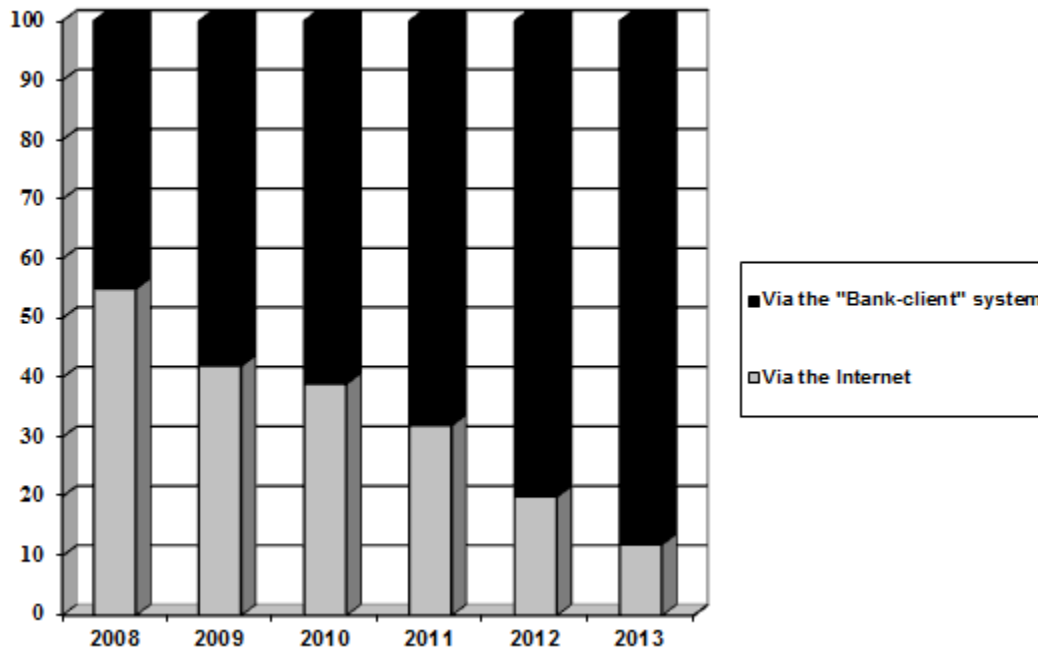


For several years from 2008 to 2010, the number of accounts opened by individuals over the Internet has been constant. At the same time, this figure is increasing annually and in 2013 it amounted to about 40% of all accounts opened. If the trend continues, by 2015 more than 50% of accounts will be opened via the Internet. This fact indicates a growing need for services provided by banking computerized systems.

The structure of bank accounts opened by legal entities looks a little different (Fig. 4).

Currently an increasing number of clients among legal entities use the services of the bank with the help of the Internet instead of the "Client-Bank" system. This dynamics proves that users prefer the thin client system which is much more convenient to use. If the dynamics is maintained in the coming years, the "Bank-Client" system will soon leave the market of banking services, as bank computerized systems are developing very rapidly and allow credit institutions to provide services of higher quality than using outdated "Bank-client" system.

Figure 4
THE STRUCTURE OF THE ACCOUNTS WITH REMOTE ACCESS OPENED TO LEGAL ENTITIES -
NON-CREDIT INSTITUTIONS IN CREDIT INSTITUTIONS IN RUSSIA



It should also be noted that much of the calculations carried out in 2013 was transferred via the Internet (total number of payments - 2 221.2 mln.units, including 754.8 mln.units via the Internet). For example, over the past year the Russian market of Internet banking rose to 590 billion rubles. In the long term, in 2017 the market of Internet banking may amount to 1.6-1.8 trillion. rub. Thus, the Internet banking in Russia is developing, at the same time the pace of its development should be activated.

CONCLUSIONS

The measures to develop Internet technologies market may include:

1. improving the legal framework:
 - the introduction of standards for reliable information exchange in electronic banking services;
 - regulation of the rights, responsibilities and legitimate interests of all parties that use electronic banking technologies.
2. development of the insurance system:
 - insurance of information risks by banks
3. implementation of an integrated approach to risk management:
 - reevaluation of traditional control methods and development of new ones over banking risks and their management with the new sources and components of banking information contours.
4. institutional changes in the activities of credit institutions:
 - to activate the channels of public information systems about electronic banking;
 - to train the staff and customers of a bank to ensure the confidentiality and security of the system.
5. to improve the financial literacy of the population;

6. to increase citizens' skills in managing personal finances.

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