ABSTRACT
of PhD Thesis
Specialty 6D050600 – Economics
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Innovation Technologies in the Activity of Second-Tier Banks

Relevancy of the subject. The bank of today’s era is a competitive, sound bank with a favorable and attractive product range satisfying demands of the clientele, whether of individuals or corporate clients. Modern banks focus on the optimization of current processes, improvement of existing products and services, systems of risk management, issues of corporate governance and retaining of strong positions during the post-crisis period. As a result, there is a competitive struggle among commercial banks in order to retain each and every client and to attract a new one.

As noted in the address by the President of the Republic of Kazakhstan: “…we are absolutely able to take an active part in large-scale international research and development projects. This will enable us to integrate efforts of our scientists with the foreign research and development community on strategic innovative trends. Our goal is to become a part of the global technological revolution…”

Foreign banks have already established basic innovations based on microelectronics and informatics, which have formed a modern techno-economic paradigm.

At all times there has been a competition among banks, however, changing market of new technologies constantly places new demands on commercial banks, which are forced to develop and adopt new types of devices, products, expand financial operations, meeting the clients’ demand, according to the innovation policy, which is supposed to consider the level of banking risks, and therewith, maximize profits.

The Law of the Republic of Kazakhstan “Concerning state support of private entrepreneurship” is one of the first documents wherein the innovations were concerned, and it was passed on July 19th, 1997. Scientific knowledge and new technologies have been concerned in that document as tools of new production, as well as with a view to improving quality of then current output. Also current duties of local executive bodies were included into the law, in particular, implementation and development of innovative activity centers and other objects. This law was repealed in 2006 due to the fact of adopting another Law of the Republic of Kazakhstan “Concerning private entrepreneurship”. This Law contains some changes in comparison to the previous one and provides for support in terms of financing.

In the address “Nurly Zhol, a way to the future”, President N. Nazarbayev emphasizes: “…to revive the banking sector and buy out “bad” loans, I have ordered additional capitalisation of the Fund of Problem Loans in the amount of 250 billion tenge in 2015.” Additionally, in the Strategic Plan for development of the Republic of Kazakhstan until the year 2020 it is noted: “Further development of the financial system of Kazakhstan shall consider main findings of the current global crisis:
- any borrowings shall be based on strict prudential standards and requirements of transparency, allowing controlling of commercial, financial and currency risks;
- access to the international capital markets requires responsible management of foreign debt level of banking sector and legal entities with public ownership;
- increase of a level of domestic savings is incidental with better trust to the financial system, which must be steadfast, transparent and effectively managed.

State support of financial sector shall be maintained throughout the stage of economic rehabilitation; however, direct state participation will be decreased, gradually giving way to private sector initiative.

Further management within the domestic financial system shall become more overall and comprehensively considering macroeconomic intercourse of the financial sector. During the period of active economic upturn prudential regulations shall be tightened up for the purpose of utilizing accumulated potential in case of recession.

In general, development of financial sector will be directed towards the attraction of financial resources for the forced industrial-innovative development of the country”.

Banks try to build up partnership relations that facilitate business conducted by people, foster retention and accrual of client’s capital funds by upgrading transactions and terms and conditions suitable for the client, which encourage financial and economic activities of an enterprise and cost minimization. So far, classical range of banking services isn’t a way to attract clients as this role is taken by introduction of constant novelties. For the purpose of higher competitive ability on the banking market there is a need for versatility and out of the box services rendered, diversity of current financial operations, basically innovativeness in the business of second-tier banks.

Competitive ability as well as business effectiveness of second-tier banks depends on development, implementation and promotion of innovative products, processes and technologies.

Thus, banking products and services evolve under the influence of both economic and social factors. Therefore, it is important to address the issue of innovative technology in the activity of second-tier banks.

In the modern world scientific and technological progress is an important driver of economic development, which is associated with the concept of innovative process.

In general, innovations in commercial banks are not only technical or technological developments but also new practices on the market, implementation of new products and services, new financial instruments, new devices, employment of new forms of business. Figuratively saying, innovations are incidental to a higher, more convenient technological level as opposed to traditional banking services, which also facilitate economic growth of a bank.

**The Level of the Research Topic’s Scientific Development and Knowledge by Domestic and Foreign Scholars and Experts**

Theoretical background knowledge for the study of innovations and innovative processes has been formed by the works of such scientists as: J. Schumpeter, N. D. Kondratiev, B. Twiss, G. Mensch, Ch. Freeman, Yu.V. Yakovets, V.G. Medynsky,


Despite of existing numerous researches, monographs and publications “innovation” and “novelty introduction” concepts are identified with one another, classification criteria of innovation in banks are not finalized. Considerable attention is paid to innovations in general; banking innovations are distinguished narrowly. There is a lack of clear elaborations on the need of implementing advanced innovative technologies into domestic banking system. The author agrees that banking sphere requires more practical know-how, thorough understanding of internal policy of a commercial bank, and on the basis thereof, utilizing theoretical knowledge, build up domestic banking system, which plays no small part in the country’s economy and is capable of entering international market of banking products and services.

This work pays special attention to the analysis of current innovative products in second-tier banks of Kazakhstan, on the basis thereof specific innovative technologies are proposed that require immediate implementation. System analysis of theoretical aspects of banking innovations and innovative technologies in general has been performed. A need of implementation and further development of innovative technologies in Kazakhstani banks against the background of foreign experience, and of getting the EEU started has been grounded. Rehabilitation prerequisites of financial sector during the post-crisis period in general have been defined, by reference to the RK Regulations adopted and Addresses made by the President of the RK.
Object of the Research is represented by modern technologies in the banking business.

Subject of the Research is the mechanism of innovative technologies functioning, their role in enhancement of banking competitive ability and quality of clients servicing at present stage.

Objective of the Research involves complex analysis of innovations, innovative technologies in foreign banks and generating specific findings and suggestions for implementation of particular innovative technologies in commercial banks of Kazakhstan.

In accordance with the above mentioned objective the following tasks have been set:

– to address the evolution of development of theoretical views of researches in the sphere of innovations, for the purpose of disclosing the subject-matter and classification of innovations;
– to define relevance of banking innovations in the development of commercial banks and their classification;
– to consider foreign experience of innovative technologies and processes implementation and development in second-tier banks and therewith, analyze the activity of foreign innovative centers and laboratories, in order to determine expediency of implementation thereof in Kazakhstan;
– to analyze present-day condition of second-tier banks in Kazakhstan, as to determine possibility of creation and development of new technologies;
– to analyze current state of innovative products, processes and technologies, as well as to consider the need to suspend implementation of cash e-tellers in second-tier banks of Kazakhstan;
– to research fraudulent practices with ATMs as a main threat in the system of card products of second-tier banks;
– to substantiate the possibility and need of new products and services implementation in commercial banks of Kazakhstan to increase competitive ability;
– to define problems of innovative technologies development in second-tier banks of Kazakhstan during the post-crisis period;
– to identify peculiarities of implementation of new innovative technologies in the banking sector under EEU functioning.

Academic Novelty of main provisions of this thesis consists of the following:

1. based on the study and critical generalization of academic views on present-day development of banking sector, author’s definitions of concepts “innovation” and “novelty” have been given;
2. additionally author’s classification of banking innovations has been defined;
3. general feature of banking innovations has been identified; author’s interpretation of the banking innovations concept has been suggested;
4. it has been proposed to consider founding of domestic innovative centers and laboratories to develop banking products and devices;
5. a range of products and services facilitating bank’s development and improvement of existing transactions on the basis of systematization of products and
services offered by commercial banks of Kazakhstan has been proposed;

6. prematureness of transition by commercial banks of the RK to the employment of cash e-tellers has been grounded;

7. peculiarities of new innovative technologies implementation in banking sector under EEU functioning have been identified.

**Methodological Basis** of the research comprises academic works of various schools, as well as works of foreign and domestic scientists-economists on questions of innovation theory and practice of innovative processes and technologies in banks not only in Kazakhstan but also abroad.

Reports of the World Bank, data from the informational review of the UN materials, materials of international economic forums, statistics of the RK National Bank, Governmental programs, Laws of the RK, Decree of the President, Addresses by the President to the people of Kazakhstan, materials from the sites of domestic and foreign banks, data of the Ministry of Healthcare and Social Development, official data of the world innovative laboratories, as well as theoretical and analytical materials published in Kazakhstani and foreign publications have been used for this thesis.

Research framework includes methods of theoretical research (system approach, combination of historical and logical), general-logical methods of cognition (analysis, synthesis and generalization), methods of economic analysis (observation, measurement, correlation, and comparison), qualitative and quantitative study of the researched innovations and innovative processes.

**Practical Relevance.** Thesis research has been carried out within the framework of scientific research works of the institute of world economy and international relations at “Turan” university, in particular:

1. Kazakhstan model of social-economic development of the state in accordance with the “Kazakhstan - 2050” Strategy (state registration No. 0114PK00381, implementation terms 2014 - 2017).


This direction has been implemented within the framework of the state order on budget program 055 “Scientific and (or) scientific and technological activities”, program 101 “Grant financing of scientific research” with priority:

5.1. Fundamental and applied research in the sphere of economics, social sciences and humanities.

5.1.2. Research in the sphere of implementation of social and economic policy of a state in the current context.

Findings obtained throughout this thesis research can be applied at implementing of the Concept of financial sector development of the Republic of Kazakhstan until the year of 2030.

Apart from that, they can be applied at delivering lecture courses on banking, international banking, world economy, innovative management, economy of Kazakhstan, as well as by commercial banks when developing their Innovative strategy.

The main provisions of this thesis have been published in 20 author’s works, of
total volume of 7,76 p.s., of which 6 are in the publications recommended by the Committee for the Control of Education and Science of the Ministry of Education and Science of the Republic of Kazakhstan; 1 was published in the international scientific edition, which has a non-zero impact factor according to the data base of Thomson Reuters (ISI Web of Knowledge, Thomson Reuters) or which is included into the data base of Scopus company; 13 are in form of theses and reports at research and practice conferences and international research and practice conferences including foreign ones.

**Structure and Size of the Work.** Thesis consists of introduction, three chapters, conclusion, and list of references. Total size of the work comprises 157 pages of typescript text, including 18 charts, 8 figures, 165 literature sources, and 3 appendixes.