



Transformation of the Banking System as a Way to Minimize Information Asymmetry

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Abstract. The banking market is not an exception among other markets that are subjects to cases of inefficient operation of the market mechanism. In this regard, this article is focused on addressing the issues of prevention and finding ways to deal with failures in the banking segment, most of which are related to the digitalization process. The system approach was the methodological research tool that allowed studying the problem of combating imperfections in the functioning of the banking market in a comprehensive manner, affecting not only individual problems of modernizing the banking system due to the introduction of individual IT technologies in the business processes of these structures, but also the transformation of the banking system in an ever-increasing competition with information investment platforms. The article examines the genesis of market fiasco, which made it possible to identify not only the factors contributing to the reproduction of failures, but also to see the tools with which these failures can be eliminated; The analysis of theoretical approaches to the classification of market failures was carried out, which made it possible to identify the most characteristic fiasco; A number of recommendations have been proposed for eliminating and minimizing the socioeconomic consequences of failures of the Russian banking market, taking into account the process of transformation of the banking system in modern conditions. The materials of the article are of practical value for the banking business community, offering a number of tools to improve the competitiveness of this financial segment.

Keywords: Banking system · Market failures · Information asymmetry · Transformation of the banking system · Fiasco of the banking market · Digitalization

1 Introduction

It is necessary to understand that the transformation of the banking system is a dynamic, multifactorial and multilateral process which is interrelated with the processes of other systems. Therefore, the products of the transformation of the banking system can and should be used to combat the information failures of the banking market [1, 8].

The purpose of the study is to assess the possibilities for leveling or minimizing the negative social and economic consequences of failures of the banking market in the context of the process of transformation of the banking system of Russia. To achieve

the goal, the study analyzed theoretical approaches to the study of market fiasco and their typologization, on the basis of which the failures most characteristic of the Russian banking market were identified and a number of tools were proposed to combat them. The analysis of the imperfections in the functioning of the banking market in Russia was carried out taking into account the ongoing transformation of the financial sector, largely due to the transition to a new informational level of economic development.

The economic literature suggests various classifications of market failures [2]. The most standard classification divides failures into three types, depending on the nature of the underlying failure phenomenon: lack of information asymmetry; imperfect competition; externalities (external effects) [3, 10]. We also add that for our study it was important to study the typology of “external effects”, in particular, the technological external effect, the monetary external effect, the network effect and the overflow effect were considered by the example of the banking market [10]. A detailed analysis of various types of market failures and the factors determining their education made it possible to see the most characteristic fiasco of the banking market for the Russian economy and suggest some ways to eliminate them.

2 Methodology

In the theoretical part of the genesis of market fiasco and their classification study, we have widely used not only formal logic tools, in particular, analysis and synthesis, induction and deduction, but also the causal method, evolutionary and genetic methods. Measures to eliminate the failures characteristic of the Russian banking market are presented taking into account the use of tools of the systems approach, which makes it possible to approach the study of the problem of combating imperfections in the functioning of the banking market in an integrated way, affecting not only individual issues of modernization of the banking sector, but the transformation of the banking system as a whole.

3 Results

The first block of problems, which is the source of failures of the banking market, is associated with the necessity of owning and using objective and complete information. Let us give two examples of the asymmetry of information when making transactions in the markets of bank sales, and also consider in detail the problem of the “principal-agent” that is relevant to supervisory measures.

The asymmetry of information in the banking market for transactions of various nature (credit, investment, trust, etc.) has a bilateral nature: distorted or incomplete information can be provided by both a bank representative and a client. Asymmetry is expressed in its uneven distribution between the parties to the transaction [1, 14]. To protect themselves, banks use various methods of checking the client (scoring tests, studying credit histories, checking by the security service, underwriting, etc.). These measures in most cases help to optimize the risk of banking organizations. But the risks

of the client are often expressed in ignorance of the specifics of banking operations, the bankruptcy of a commercial bank, hidden fees, poor-quality and unfair contracts. In the matter of security for the client, there are some difficulties regarding the detection of information asymmetry on the part of banking organizations. The level of completeness of information is different for ordinary citizen, specialist in the banking industry, small and large enterprises. Often, a potential client has to receive information additionally, with the help of specialists, rating agencies, specialized websites, discussion on forums, etc.

It is necessary to involve the state, in order to increase the effectiveness of the fight against information failures in the banking segment, or, in other words, solving the “bank-client” problem. To ensure the security and stability of the banking market, the state adopts laws, regulations, decrees, etc. Examples of such actions by the state are the creation of a deposit insurance system, the licensing of banking detail, and the conduct of supervisory measures.

The digital transformation of the banking system is also able to offset some of the market failures. At the present, the banking organizations’ tools for obtaining “fast” and high-quality customer information are expanding, in turn, the accessibility of banking information for customers is also increasing, and potential users of banking services are able to obtain objective information about the banking market with a significantly smaller amount of transaction costs [6]. During the implementation of these measures the reverse side of the “clean market” should be taken into account, which may adversely affect competition and the development of the banking segment of the economy.

In the course of supervisory measures within the banking system of Russia, the problem of partial insolvency of the regional divisions of the Bank of Russia was revealed in terms of evaluating the activities of the territorial branches of commercial banks under their jurisdiction. At the end of 2018, a reform of centralized banking supervision began to be implemented, which is designed to solve the problem of the “principal-agent.” The Central Bank of the Russian Federation acts as a principal, and its territorial divisions play the role of an agent. Agents (territorial divisions) endowed with supervisory functions and could purposefully transmit incorrect information about the results of supervisory measures to the principal (Central Bank of the Russian Federation), in particular, this was revealed after bankruptcy and large-scale inspections of commercial banks. These incidents indicate the desire of organizational units to justify their effectiveness and the necessity to have a sufficient number of commercial banks under their jurisdiction, therefore they turned a blind eye to their precarious financial situation, and this also indicates that their duties were being carried out illegally and dishonestly. In turn, the problem of the “principal-agent” prevented the implementation of effective measures for the widespread development of the country’s banking system [4]. As we can see, this failure of the banking market was partially smoothed over by upgrading the functionality of the Russian banking system.

The second reason for the market failures is marked by imperfect competition, and, in our opinion, its causes are simple and understandable. First of all, larger banks can easily absorb smaller regional banks that do not stand up to competition. In such a situation, one can observe either a merger or a voluntary takeover, or another option - the yielding bank goes bankrupt, its private reorganization takes place by a large bank.

The number of alternative banks for clients decreases, the regional banking market becomes monopolized or disappears altogether.

Secondly, the reason that adversely affects the competition of the banking market is the existence of collusion between bank managers regarding the policies pursued by banks, which in practice means a sharply decreasing number of players in the market. Examples of collusion can be the pre-divided market and its segments, the target audience, the quota sales of various types of banking services. The so-called market failure in the form of an external monetary effect has a very negative effect on the domestic banking market [7]. Larger and more influential banks in their pricing policies are putting pressure on small regional commercial banks, since their cash flow and the wide range of banking services provided, the accumulated customer base can reduce the cost of services provided [11].

Thirdly, there is an “objective” bankruptcy of commercial banks, both under the influence of external factors, a targeted reduction in the number of banks during competition, and under the influence of internal causes. It is not a secret to anyone that the presence of insolvent organizations is characteristic of the banking market. Another point is the proportion of failed banks in the market and how sensitive their bankruptcy is for the economy as a whole.

Fourthly, a large-scale audit of the activities of commercial banks in Russia has led to the understanding that even large enough banks are at risk and, therefore, it is necessary to take measures to keep the country’s banking market from failing.

The reorganization of the banking segment is one of the most frequently used tools in the fight against the failures of the banking market in Russia, facilitating its purification from insolvent and unscrupulous players, as well as the recovery of key participants in the banking market.

As practice has shown, at this stage new measures were required in the field of antitrust policy and regulation of competition in the market. The first changes in the banking system affected the procedure for licensing the activities of banking organizations. The application of new requirements for banking organizations allowed us to divide commercial banks into two categories: with a basic and universal license, thereby limiting the possible risks of customers and the banks themselves.

It is worth noting that by solving the problem of the failure of the banking market, expressed through the problems of imperfect competition, by licensing commercial banks and their activities, the state thereby creates a legal monopoly [5].

And we must understand that any monopoly, one way or another, leads to inevitable negative consequences. Competition in the banking market suffers because of the decline in the number of banking organizations. There is one more negative point that you should pay attention to. In modern conditions, access to the banking services market by “new banks” is quite problematic. This controversial situation leads to reflections not only about failures in the banking market, but also about the fiasco of the state itself due to the “effect of special interests”.

Let us consider in more detail the mechanism for the recovery of commercial banks proposed by the Central Bank of the Russian Federation for the country’s banking system.

The establishment of the Banking Sector Consolidation Fund is a tool to prevent the bankruptcy of large banking organizations. The creation of the fund has become

possible for several reasons, including the growing threat of a financial crisis and an increase in the number of bank structures in bankruptcy, as well as a sanctions ban on domestic commercial banks from resorting to international lending. The sanctions mainly included large banks whose assets are largely owned by the Central Bank of the Russian Federation: PJSC Bank Otkritie Financial Corporation, PJSC Binbank, Promsvzbank PJSC, etc. The country's banking system, by proposing an effective way to rehabilitate the banking market in the form of the Fund for the Consolidation of the Banking Sector, simultaneously increased the level of risk of ineffective returns from the measures implemented. The concentration of a significant number of banking assets in the hands of the Bank of Russia and the state, which later, according to experts, will only grow, makes the Russian banking market less flexible and increasingly dependent on government decisions and actions.

The Russian banking market is under the influence of technological and network external effects. Their feature is duality, they simultaneously act as both causes and consequences of market failures, and they can also be considered as tools while minimizing the risk of failure. The negative impact of the technological external effect is manifested in the reduction in the number of participants in financial transactions. So, smart contracts, digital platforms and applications allow us to exclude a bank as an intermediary from a number of financial operations. Consequently, the income of banks, especially those based on commission operations, currency transfers, cross-border payments, etc., decreases, in the context of individual banking services, competition with representatives of the non-banking sector increases, increasing bank expenses lead to an increase in the cost of banking products. A reasonable solution is the intensive use of digital technologies in banking, which will definitely affect both the functionality of the bank and its organizational structure. The process of digitalization of the Russian banking segment has been launched. In modern conditions on the Russian banking market, the blockchain technology and Big Data have attracted great interest. Many large banks offer pilot versions of blockchain solutions on the Masterchain platform. These solutions include the messaging system (Central Bank of the Russian Federation), the exchange of powers of attorney and factoring (PJSC Sberbank of Russia), the exchange of digital letters of credit (Alfa Bank JSC), the distributed register of digital bank guarantees (PJSC VTB), the service on accounting fraudsters (Bank Otkritie FC), fast exchange of payments (Payment system "QiWi"). In our opinion, the digital transformation of the banking system is an effective measure to prevent failures of the banking market.

Do not forget that one of the features of the banking market is its close relationship with other economic segments. Given that mutual relations are bilateral in nature, the effect of the flow of capital cannot be ignored. For the banking market, this phenomenon is widespread and requires more careful study in order to strengthen its regulation and control as a set of measures to prevent the occurrence of market failures. It is well known that changes in the foreign exchange market will certainly lead to changes in indicators on the banking market, this situation is aggravated by economic and political events, which at a certain stage of development of the Russian banking system required the creation of a national payment system.

4 Discussion

As it can be seen from the examples in this study, the prevention of the occurrence and elimination of failures of the Russian banking market comes down mainly to three mechanisms that find application in modern realities: the first is strengthening government regulation in the banking services market; the second is an objective transformation of the banking system in the conditions of transition to a new stage of development – the information economy; the third is the growth of control over the banking segment by buyers of financial services [13]. Launching these mechanisms as tools to effectively combat market imperfections and their negative consequences requires much more attention to studying issues such as what interests the central bank of the Russian Federation should be guided in when pursuing its policy, how objective the economic interests and needs of the banking system are, how they relate to state interests.

It should be understood that the dynamic development of the economy, as well as other spheres of society, is accompanied by the constant emergence of market failures, the occurrence of which is determined by various reasons. The most universal and effective way of fighting the fiasco is to strengthen the role of the institution of state regulation of this segment while taking into account the objective factors of the transformation of the banking system in the context of the development of the digitalization process of the economy [9, 12].

Changing the functionality of banks in modern conditions, their search for a new profile of activity will contribute to successfully combating failures in the banking market. The process of banking transformation must be diversified, and the instruments of influence on the market mechanism of the banking system must have a wide range of applications. The main criteria for effective work to eliminate market failures in the banking segment should be long-term forecasting of processes at both micro and macro levels, quick response to external economic challenges, intensive use of modern digital solutions as tools for preventing the occurrence of failures and leveling negative manifestations in the banking market.

5 Conclusion

The study examined a detailed classification of market failures. In order to successfully achieve the goal, the most frequent fiasco of the Russian banking market was studied. Having identified and identified the main reasons leading to the insolvency of the market mechanism for the functioning of the economy, we selected those that are more relevant for Russia, that is, they are the causes of the fiasco in the domestic banking market. We also note that some phenomena and processes, initially classified as “causes of failures” and rated as negative, became less explicit when studied in detail, some could be interpreted as factors of growth and development of the banking market.

Digital transformation of the banking system of the country, undoubtedly, can act as conditions for the implementation of measures to prevent and eliminate the failures of the banking market. The work analyzed and assessed the changes observed in the domestic banking segment, including the centralization of banking supervision, the use

of digital technologies, two-level licensing, reorganization with the help of FCBS, the creation of the NPS MIR, etc. But it should be understood that all these measures, transforming the banking system of Russia, are not perfect; they can both contribute to its development and, at a certain stage, become an inhibiting factor. Applying any measures, it is necessary to withstand the “golden mean”, which will help to establish the effective work of the market mechanism, without prejudice of the interests of some market participants in favor of others.

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