

THE MODEL OF UNIVERSAL BANKING SUPERMARKET IN UKRAINE

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Abstract:

The article deals with the author's conceptual approach to the multiple scientific concepts of both traditional and universal banking service moreover it shows the level of transformation of the latter to the model of the finance supermarket – the top of the modern retail banking, a structure that was formed due to globalization of the finance-credit industry.

The article analyses the category of “finance supermarket” and brings out a common idea considering the main features of the mentioned organization model of banking service. The main features include:

1. *Complex banking service satisfying the customers` needs;*
2. *The Bundling of banking and financial products (services);*
3. *Product line extension, standardization and large scale character of sale;*
4. *Remote banking.*

Bundling of the products (services) introduced in this model allows the maximal integration of the finance services, operations and products including banking, consulting, insurance, investment services at the same office.

Analysis of the scientific literature shows that the organization structure of the servicing in a Ukrainian universal bank mostly associates the model of a finance supermarket. However, current restrictions of the Ukrainian legal system and the existence of the certain transition level, caused by gradual application of the innovations of both financial and technological origin (evolutionary-innovative development) are not taken into account. Looking from this angle, the author describes a transition model – from a universal bank to a financial supermarket, a universal banking supermarket. The model`s distinctive feature is the application of the improved technological service, that induced the transformation of modern banking operations, services and products in Ukraine from simplest to complex.

Key words: retail banking, customer, remote banking, universal bank, financial supermarket, universal banking supermarket

JEL classification: G21

1. INTRODUCTION

The specifics of the evolutionary-innovative development of retail banking in Ukraine tend to lower the impact of the pricing policy (banking tariffs increase or decrease) due to hostile competitive environment. Suitability of the product line to the today`s customers` needs along with the improved quality of service combined with the bonus features provided as co-branding products together with car retailers, travel, insurance and real estate agencies etc. should be considered as the most influential in attracting the customer.

Practice shows that there is a range of fundamental transformations, which influenced the development of retail banking resulting in two main approaches – traditional and universal. The author`s comparison characteristics of the modern traditional banking and universal banking applied to retail banking service is presented in the table (table no. 1) (Gorditsa, 2012, p. 281-282) [7]:

Table no. 1. Comparison characteristics of the traditional and universal banks

Criteria	Traditional banking	Universal banking
1	2	3
Client - Household	Personal approach	Complex approach (both personal and mass): mass banking, family banking, private banking, VIP banking
Products	Products are not often grouped according to the needs of certain client groups (based on income, age etc.), although they have standardized features	Bundling of the standardized products for mass banking, private banking, family banking, personal and exclusive offers for private banking, VIP banking

1	2	3
Information	Mass character of both applicable and non-applicable information	Mass banking, family banking, private banking – specified information delivered by innovative technologies like remote banking; VIP banking – similar approach with additional private consultations
Contact with manager	Limited by working hours	Mass banking, private banking, family banking - limited by working hours; VIP banking – unlimited
Cost	Standard conditions, occasionally for private banking – personal approach	Mass banking – standard conditions, private banking, family banking - standard conditions with an personal approach; VIP banking – solely personal approach
Location	Customer servicing depends on the location of the bank	Customer servicing Service is not affected by the bank`s location

For the purpose of the further research of the specifics of the universal bank model in Ukraine, the following points should be considered.

2. ANALYSIS OF SCIENTIFIC INTERPRETATION OF THE CATEGORY “FINANCE SUPERMARKET”

Recent studies show that the organization structure of the servicing in a Ukrainian universal bank is often associated with a finance supermarket model. But, recent publications lack a sole opinion on systematization of the organization of a retail banking in the form of finance supermarket, as authors share variegated views on the matter (table no. 2):

Table no. 2. Scientific interpretations of an economic category “finance supermarket”

Author	Scientific interpretation
1	2
(Goloshchapova, 2006)	Finance supermarket should be interpreted as a organization form of complex retail banking, efficiently satisfying the clients` needs in finance service provided directly by bank or other financial institutions for whom the bank acts as a partner [5].
(Dyeyeva, 2012, p. 7)	Finance supermarket is the highest rate of integration policy and business operations, characterized by an ability of cooperative use of clients databases, provision of universal finance service and fully integrated products [8].
(Zhyhadlo, 2012, p. 44-45)	A classic finance supermarket is a structure providing a wide range of banking, insurance and investment services to a customer under one trademark at the same place [9].
(Zvarykina, 2010, p.14)	Universal bank as a finance supermarket offers a bundle of banking services as a substantially designed innovative banking product ready for sale, whose qualitative and quantitative features are reflected in an agreement between bank and customer, promotional, methodological and other documents [10].
(Kanaev, 2008, p.28)	Finance supermarket is a modern business model, founded on conglomeration, representing a complex organizational process. Activity of a finance supermarket consists of standardization and service efficiency, namely the highest level of service automation and commoditization of banking products and services. That is why a finance supermarket may be organized as one of the structures of a conglomeration or a brokerage firm, trading other organizations` products. A product line extension is accomplished through other organizations` products oriented on mass customer [11].
(Meshcheryakov, 2010, p.23)	Finance supermarket is a organization form of complex service, providing fully satisfying the customer needs in financial services [13].
(Prikaznyuk, 2008, p. 30-32)	Finance supermarket is indeed a nearly full cooperation of a bank and an insurance company inside the same holding, characterized by merger including property [15].

1	2
(Sviridov, 2009, p. 39-40)	Finance supermarket as an integrated finance group emerged under cooperation of banks with other organizations, development of networks branch and remote banking, specializing on complex service. Finance supermarkets may be viewed as integrated centers of risk-management. Finance supermarket is a model of a customer-oriented, representing a unified access channel from customer to finance services [16].
(Stakhnyuk, 2011, p.10)	Finance supermarkets are major global banks, organizing making of complex products [17].
(Sukhushina, 2004)	Business model of a finance supermarket is based on a banking institution. Whose development, from one side is supposed to be headed towards financial instruments line extension, and from the other towards activation of retail banking, where a big potential of 'not working' cash savings that may be used as investment may be found. Business model of a finance supermarket is the most acceptable development plan for small and middle banks, their essential capitalization growth and preservation of a competitive position in today's financial market [18].

Analysis of scientific interpretations of the category “finance supermarket” (table 1) points out that the organization structure of a finance supermarket is usually considered in general, where the bank acts like a universal financial institution that provides certain services line in order to fully satisfy the customer need in financial service (Zhyhadlo, I. V. (2012); Zvarykina, O.B. (2010), Meshcheryakov, G.U. (2010) [9] - [10] - [13]. However, scientists like Goloshchapova, Y.V. (2006), Dyeyeva, N.E. (2012), Kanaev, A. V. (2008), Prikaznyuk, N. (2008) consider finance supermarket as a organization form of retail banking achieved through integration with other organizations [5] - [8] - [11] – [15]. Viewed from this angle, Sviridov, O.U. (2009) besides integration, highlights the importance of development of networks branch and remote banking [16]. On the other hand Sukhushina, G.V. (2004) insists that business model of a finance supermarket is more convenient for small and middle banks [18], and on the contrary Stakhnyuk, A.V. (2011) states the same for major global banks [17]. It is relevant to note that Goncharuk, A.S. (2012, p. 20) defines the organization form of retail banking through establishing the so called “banking centers”, whose activity is oriented towards providing both banking and financial services, and also towards consulting for customer, promotion of government programs in the sphere of mortgage crediting and agriculture development (private farming etc.) [6].

Thus, analysis of different interpretations of the category “finance supermarket” shows that there is a consensus concerning the main features of such organization of banking service:

1. Complex banking service satisfying the customers` needs;
2. Bundling of the products (services), moreover the complex products (services) contains both banking and financial products (services);
3. Product line extension, standardization and large scale character of sale;
4. Remote banking.

Exactly the bundling of the products (services) introduced in this model is characterized by combination of the maximal product line of financial services, operations and products, including banking, consulting, insurance and investment services at the same office in order to simplify the procedure of the banking service. On the other hand, the approach of identifying a universal bank with a model of a finance supermarket does not take into account current restrictions of Ukrainian legal system and the existence of the certain transition level, caused by gradual application of the innovations of both financial and technological origin based on evolutionary-innovative development of the financial&credit industry. Let us examine this approach in detail.

3. DEVELOPMENT MODEL UNIVERSAL BANKING SUPERMARKET (BY EXAMPLE RETAIL BANKING)

Law experts agree that “banking activity should be considered as a systematic business activity implemented by making banking transaction deals and operations” (Bezklubyy, 2006, p. 14) [1]. Business activity divides to a licensed activity, which is regulated by the Law of Ukraine “On banks and banking activity” [19], precisely “provision of financial services to household and legal entities by finding and placing bankroll along with performing banking operations of cash payment, securities, currency and other banking operations in order to make profit” (Bezklubyy, *Bankivs'ki pravochyny: tsyvil'no-pravovi problemy: monohrafiya*, 2005, p.39) [2] and non-licensed, which means that provision of financial and other services to household and legal entities without performing any banking operations. That is what divides, in certain way, banking and financial activities, while the former is a constituent of the latter.

In this case, financial, technological and organizational integration takes place, which leads to growth of various innovative potential in retail banking. Thus, the legal approach, along with recent practice prove, that besides the approach presented in table 1, retail banking by the system of a universal bank may be presented in the following sequence:

1. Solely banking services, products and operations that accord to licensed banking activity as well as other financial services additionally that accompany or supplement their;
2. New technologies in banking (personal, family and mass banking) along with implantation of remote banking).

That is why bank as a sole management center must provide various functions like strategy choice, planning mechanism design, methodology, education along with analytics and control in retail banking. According to Goncharuk, A.S. (2012) «...development of modern retail banking happens by vertical and horizontal universalization. In first case – in retail business banks offer traditional deposit-credit, cash payment and transfer services for retail customer. In second case – untraditional for banking practice financial services like insurance, retirement saving, retail investment, etc. are offered to retail customer» (Goncharuk, 2012, p.29) [6]. In that sense it is relevant to cite a well-known model of a “universal banking” introduced by Doerig H.U., that covers traditional banking business, investment banking, retail banking, insurance business, trusting as a logical extension of M. Porter's focus strategy. Porter emphasizes market niche strategy, Doerig shows that strong sides of a bank are the base for focusing, however, both strategies are based on the principle of concentration on the key benefits. According to Doerig, retail business is one of the basics of so-called focusing, based on universal financial services and personal customer. Researchers Bochkarev, S. V. and Pochykovskaya E.A. (2009) who study the problem, prove that universalization strategy inside a particular economy sector of a finance-credit industry, retail sector in our case, is horizontal, and vertical is a universalization strategy characterized by consolidation of different industries. Let us point out that they are also categorized separately according to the format of connections between the financial&credit industry and non-financial industries into homogeneous or internal and heterogeneous or external (Bochkarev and Pochykovskaya, 2009) [4]. Thus, the universal bank model represents a combined universalization strategy based on the solidarity of both horizontal and vertical strategies. Due to the fact that the cited authors propose to define the connection between the financial industry as a heterogeneous and that inside a particular of financial&credit industry as a homogeneous, we distinguish two kinds of diversification, consolidation and integration: internal homogeneous and external heterogeneous. Moreover, we suggest distinguishing two kinds of universalization strategy – horizontal and vertical. Horizontal inquires a universalization strategy focused on consolidation of homogeneous industry, vertical strategy is focused on different industry. Thus, figuring out a bank strategy focused on universalization must be foremost based on homogeneous diversification, internal segmentation, i.e., division of the whole sector into segments and subsegments.

Regarding the heterogeneous strategy, Kanaev, A. V. (2008) supposes that complex external (heterogeneous) processes of bank universalization “occur inside the bancassurance and

assurfinance models of financial conglomerates fusing banks and insurance companies” (Kanaev, 2008, p.28) [11]. In opposition to the statement, where the fusion is given the form of a financial conglomerate, authors like Bochkarev, S. V. and Pochykovskaya E.A. (2009) do not consider those connections to be conglomerate, basing on their classification of diversification, consolidation and integration forms (Bochkarev and Pochykovskaya, 2009) [4].

Therefore, those groups only have the form of a regular universal bank. So, in the first case (bancassurance), organization can be described in the following way: a financial conglomerate is headed by a bank basing on implementation of cross-selling, i.e., insurance products are sold through the branches of the bank. In the second case (assurfinance), organization is headed by an insurance company and realizes banking products. But the Ukrainian practice only proves the existence of the first universalization model (Kremen', 2009, p.8) [12]. Furthermore, the type of universal banking group covering banking, investment and insurance business (allfinanz) is superior (for now) in development and suits in the organization form a financial conglomerate. From this angle a complex financial service of households concept, introduced by Sukhushina, G.V. (2004), concluding that universalization and diversification of banking activity are based on organizational and technological integration of financial institutions and on bundling of financial products, appears to be rational [18].

This position is not possible without cooperation of joint development programs of products and services. In this case banks become financial, information and communication centers, accumulating not only capital, but information resources as well and providing development of cooperative specialized programs to every partner through various marketing tools of co-branding. In addition, Dyeyev's N.E. opinion, considering a finance supermarket as “a highest form of integration of policy and business-operations. This approach is based on the ability of cooperative use of client databases, provision of universal financial services and fully integrated products” is also relevant (Dyeyeva, 2012, p. 7) [8].

In any case financial institutions, banks and insurance companies etc. are only mediators, providing the product to the customer in order to satisfy his particular needs and make certain profit. Purpose of that cooperation is firstly – increase of capitalization level of financial institutions, secondly – risk distribution, thirdly – product line extension and finally – reduction of promotional and marketing costs due to development of co-branding. Thus, product line of a finance supermarket under the auspices of co-branding can service retail customer in following aspects:

- a) Basic banking products, services, operations: cash payment and transfer without servicing a bank account, with servicing the bank account or [credit card](#) account, including money transfers and currency exchange, safing (safing deposit boxes), credit and deposit programs;
- b) Basic insurance services that accompany basic banking products: life-assurance for drivers, insurance of realty, insurance of third party liability;
- c) Investment services: personal trust management, management of retirement savings, etc.;
- d) Consulting services: legal and tax services, etc.

However, practice reveals that modern complex banking products and services based on bundling mechanism, already containing various payments of retail customer assemble the so-called “payment-service” with remote banking, which refers to the next level of modern universalization, like we mentioned before, that makes the bank a certain technological center. It's important to note that there is a certain equivocality in interpretation of complex and structured banking services and products. For instance, Pantêlêeva, N.M. (2011) defines a payment system – a deposit-credit card as a structured product [14].

In our opinion, the cited definition is not correct as both of the products are of the same industry – the banking industry and it is no more than a complex of operations, that is based on a system of mutual trust, while hybrid or structured (different structures) products are related to a combination of a licensed and non-licensed (partnered) banking activity. The so-called investment deposit may be referred to as a structured product. It received recognition in the countries with

developed economies and gives an opportunity to make profit in the form of annual interest on the deposit account and from investing to stock market instruments (stocks and bonds).

The only thing that combines the approach of creating a complex and structured product is the principle of product bundling, which reduces the cost of offer. The importance of utilization of such complex product like a payment card and a system of multichannel E-banking (remote banking), allocates the following feature of implementation of the concept of a finance supermarket, as the highest level of organization implying that complex retail banking obtains the characteristics of informational-financial service defined in information economy as “an innovation model of provision banking services based on informational-network customer service” (Bodnar, 2012, p. 3) [3]. Thus, the transition model from a universal bank to a financial supermarket becomes a universal banking supermarket, whose main feature is improved technological service (Figure no. 1).

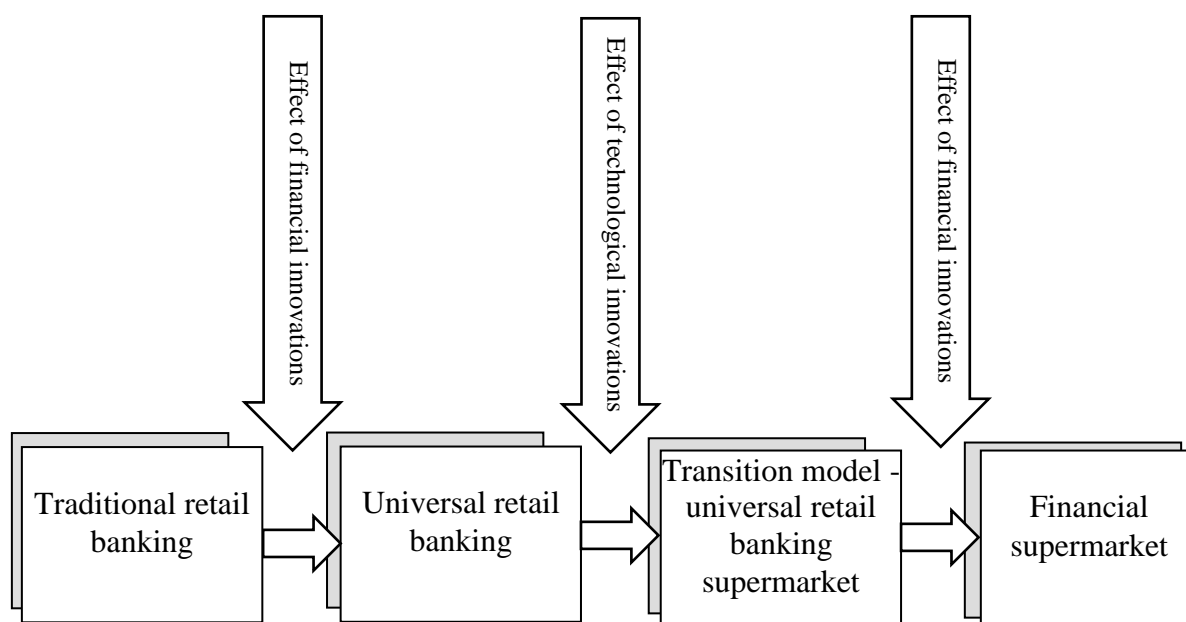


Figure no. 1. Development model of retail banking in Ukraine (designed by author)

4. CONCLUSIONS

The research revealed that service mechanism based on organization system of a modern Ukrainian universal bank is usually associated with a model of finance supermarket, without considering restrictions of Ukrainian legal system and existence of a certain transition level resulted by gradual application of innovations of financial and technological origin. Looking from this angle, the author described a transition model – from a universal bank to a financial supermarket, a universal banking supermarket, whose distinctive feature is the application of the improved technological service.

So, the modern models of remote banking (E-banking and its logical extension – Internet-Banking) introduce the opportunities for bank's competitive advantages, resulting in development of modern payment system. As a result, the product policy acquires new opportunities considering improvement of traditional banking products, operations and services and implementation of new financial services (investment, insurance, brokerage, trusting, etc.), that may accompany the banking products or come as separate offers. Thus, infiltration of information technologies over the past 30-40 years into industries of modern business and consequently over the last few years in

Ukraine defines the need of implantation of the most recent technologies in order to improve banking service.

Even today, aforementioned technologies induced the transformation of modern banking operations, services and products in Ukraine from simplest to complex, giving us the right to state that a ordinary universal bank in certain degree level of a universal banking supermarket due to implementation of innovative technological processes and in perspective should achieve the level of a finance supermarket – a structure formed as a result of globalization in sphere of financial&credit industry combining a maximal spectrum of financial services, operations and products (banking, consulting, insurance, investment) in order to simplify the procedure of banking service and save the time of customer` and managers.

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