



Priority areas of digitalization in Russia

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Abstract

The development of the digital economy is one of the elements of the post-industrial society and represents a new format for the development of economic relations. In recent years, the digital economy has expanded beyond the commercial realm of buying and selling goods online. This concept has been successfully implemented in the virtual processes of companies, as well as in the internal work of the Russian government. Thanks to the transformation of the economy, non-cash payments and alternative transaction channels are developing in the field of payments and transfers. In the future, financial institutions may face the loss of their intermediary role and control over customer transactions, the disappearance of bank cards, and the development of alternative channels for international transactions.

Keywords: P2P platforms, venture market, integrated and optimized payments, high risks, innovative investments, trading, high profits, venture funds, high costs, advisors-platforms startup, classification of venture projects

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INTRODUCTION

The digital economy is a new stage in the development of a society that uses electronic networks and means to sell financial services. The transformation of the economy is global in nature and is being intensively introduced into our lives. Many companies use different technologies to carry out and simplify their operations. The development of the digital economy in Russia is carried out in the context of the implementation of the information society in the Russian Federation for 2017-2030 and is aimed at the development and implementation of modern technologies in all spheres of the country's economy. According to this program, the virtual Russian economy should be fully integrated with this area of the unified energy system. It is difficult to overestimate the importance of state support in the development of the digital economy, because this will accelerate the growth rate of the country as a whole.

Digitalization is directly related to venture capital funds in Russia. In the modern world, the venture business plays an important role. The increased attention to projects in the field of digitalization leads to high profits, while the costs are significant, but the revenues are large, there are similarities with venture projects. In addition, projects for the digitalization of Russia are already obviously promising, so the demand for them is also great. Every investor wants to invest in

efficient and profitable digital development, which is the object of venture capital investment (Sergievskaya, Pokrovskaya & Vorontsova, 2018)

PROBLEM STATEMENT

Directions of digitalization in Russia are a number of innovative business projects characterized by the introduction of financial and information technologies, an increased degree of novelty, risk and potential profitability (Kosareva et al., 2019). Let's highlight the priority areas of Russian digitalization.

1. Investments in projects aimed at creating new or meeting existing needs in the field of business models in the field of payments and transfers.

2. Implementation in cybersecurity projects, as this is the main problem in the future.

3. Creation of a unified information system, including product, technological, managerial, organizational, production and social innovations (Ezangina & Smykova, 2017).

Global investments in digital business transformation are constantly increasing. According to IDC Future Scape estimates, \$ 1.18 trillion was allocated for these purposes in 2019, which showed an increase of 17.9%

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compared to 2018. According to IDC's forecast, spending on digital transformation will grow by more than 50% of all ICT investments by 2023, up from 36% in 2020, with the largest growth in data mining and analytics.

About one-third of companies say technologies such as cloud computing, social media, mobile technologies and applications, document digitization and workflow automation are already widely used in their core business operations at leading Russian companies. Most other companies also use them, but only to a limited extent. Roughly two-thirds of companies use big data analytics and analytics, and their popularity is driven by companies using information to increase their competitive advantage. Just under half are using the Internet of Things (IoT) and ubiquitous software adoption.

RESEARCH QUESTIONS

Scientists note that investments in digital projects require significant resources (Kalenov, Kukushkin & Kamanina, 2019) and, first of all, you need to remember about the changes taking place at the macro level. The current technological order presupposes the predominance of the "fourth" information sector of the economy. It opens up possibilities for optimizing the entire production, increasing its science intensity and manufacturability.

Let's highlight the modern conditions of digitalization in Russia:

1. World-class competition.

The government stimulates innovation and digitalization of the economy through various forms of financing, the creation of technoparks and economic zones, as well as, independently acting as a business partner to introduce advanced ideas and technologies into society. Thus, the state participates in widespread digitalization, and, as a result, the high demand for digital solutions opens up additional business opportunities in this industry.

2. A crisis exacerbated by the COVID-19 pandemic.

It is impossible not to take into account this factor, which is reflected in the structure of the economies of all countries. The crisis contributed to the overall digitalization of business and its going online. The owner of the Internet company LiveInternet, the founder and owner of the news aggregator MediaMetrics, Herman Klimenko, prefers to consider the current situation as an exceptional opportunity for entrepreneurs to compete even with the "monsters" of business.

3. Modification by competitors of their business models. 76% of companies consider their overall attitude towards technology and digital transformation to be average or above average. The vast majority of companies in different sectors are on the path to digital transformation. Unless you embrace the digital age and

all that it has to offer, you run the risk of falling far behind the competition and becoming obsolete in the long run.

4. "Digital leaders". About 70% of companies consider their leaders' practical understanding of new digital technologies to be high or above average. If you feel that your understanding of digital methodologies and technologies in the digital age is insufficient, then now is the time to upgrade your skills.

5. Increasing share of online. 39% of modern marketers (Mottaeva & Chernukhina, 2018) plan to increase their digital budget without increasing overall marketing spending, essentially redistributing their revenues to digital channels. The number of modern digital channels, platforms and touchpoints available for modern business is growing, investing in such outlets can achieve sustainable business success.

6. Increasing demand for the Internet of Things.

61% of businesses say the Internet of Things (IoT) plays a key role in their digital business strategies, with manufacturing and high tech leading the way in all other sectors. By investing in the power of the Internet of Things and its business benefits now, in addition to many other emerging digital technologies, you can accelerate your commercial success exponentially.

Fig. 1 shows the sectoral focus of digitalization in Russia.

RESULTS AND DISCUSSION

The mechanism for investing in digital areas is venture capital funds - this is a type of investment fund aimed primarily at working with innovative digital projects and startups. The financial strength of the fund is created by its investors. The largest of them usually provide about 20% of working capital and decide on the distribution of investment flows (Chernukhina & Ermolovskaya, 2020). Numerous contributors who do not have voting rights due to their relatively small contributions receive proportionate dividends.

When choosing a project, organizations that are part of a venture capital fund prefer areas that are highly likely to be recognized by the market and begin to generate income. The capital used by venture capital funds is made up of investments by state organizations, individuals, banks, pension and other funds, and investment companies.

It is worth highlighting the main areas of activity of venture funds.

Digitalization has several features:

- Consumer behavior has undergone significant change since the expansion and development of digital technologies. In view of this, companies are forced to adapt their business to new preferences and demands of consumers, to increase the uniqueness of the sales proposal and its personalization.

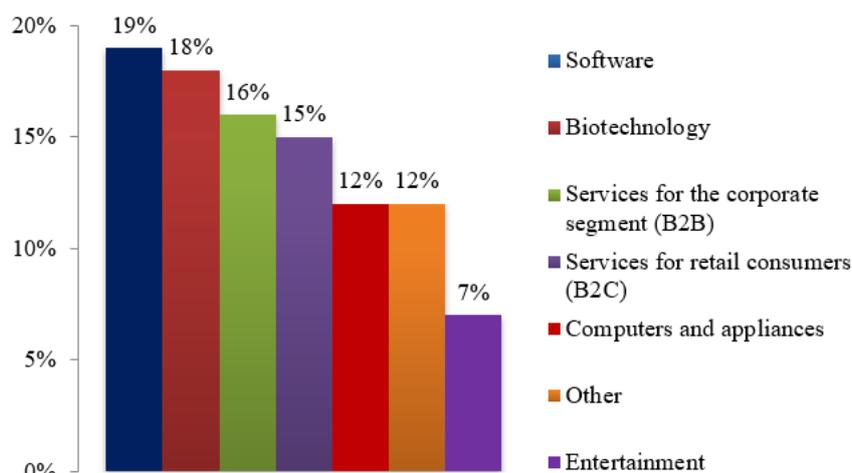


Fig. 1. Shares of coverage of industries for digitalization in 2019

Source: CB Insights

- Visualization of the process. 80% of today's information consumption is based on online media (Chernukhina, 2019). The print media, while still relevant, is a less powerful force than it once was. Today's demand is for visual content that is inherently digital, and engaging media-driven marketing materials are needed to connect with the target audience. Digital channels are the best way to deliver such messages.

"In the digital age, analog approaches to promotion and internal communication rarely deliver the results needed to be successful. 61% of smartphone users admit that they regularly sleep with their smartphone under the pillow or next to the bed. By investing in mobile offerings, from apps to mobile-optimized landing pages to social media content, you can accelerate your business in the digital age.

Wide audience reach: In the 20th century, there are more digital users in the under 30 age bracket than ever before. In order to continue to attract this new generation of consumers with digital minds, it is necessary to constantly invest in digital transformation (Akhmetshina, Pokrovskaya & Semernin, 2018).

The main criteria for attractiveness in digital technologies include income growth and cost minimization. 56% of CEOs believe digital advancements have already driven higher revenues. Since this is the primary goal of growing and accelerating a business, this is an obvious case for investing in digital transformation. By 2020, 47% of all revenues will depend on digital technologies (Borisova et al., 2020). No doubt digital technology will become even more sophisticated in the near future.

Let's move on to analyzing the current state of digital investments.

JSC "Smartfin" is a leading Russian company in the field of mobile acquiring, that is, a cashless payment system in which money for goods or services is

transferred using a bank card. This company develops services 2can and ibox. 2can is a system that allows you to use your smartphone as a payment terminal that reads bank cards, and all data is transmitted in encrypted form. This technology is popular both in small businesses and large companies (delivery services, insurance companies, etc.). It should also be noted that Sberbank and Yandex have created a joint e-commerce platform based on the aggregator of goods and services Yandex.Market. The total cost of this project is 60 billion rubles. (Kapranova et al., 2019).

Insurance is also transforming with the help of the digital economy and acquiring the following development directions: integration of insurance services in different industries, multifunctional insurance, cyber insurance, P2P insurance, "connected" insurance (through the use of sensors and the Internet of Things). The industry seeks to create more comprehensive service packages, including a focus on consulting and commercial insurance.

Direct insurance is in demand in Russia. This is a simplified form of insurance in which the company interacts directly with the client, without an insurance agent. Direct insurance policies are sold via the Internet and by phone, and to conclude a contract, an employee of the company himself comes to the client with the necessary documentation. As a rule, these policies are significantly lower in cost and save time. Companies providing direct insurance in Russia are Renaissance Insurance, KIT Finance Insurance and Intouch.

Lending is manifested in the development of its alternative options and virtual channels of communication with clients. Today lending consists of P2P lending, banking as a platform, virtual banking, and integrated lending. At the same time, it becomes more difficult to assess the creditworthiness of customers, as their credit history can be shared across multiple platforms. Therefore, in the near future, financial institutions providing these services should develop an

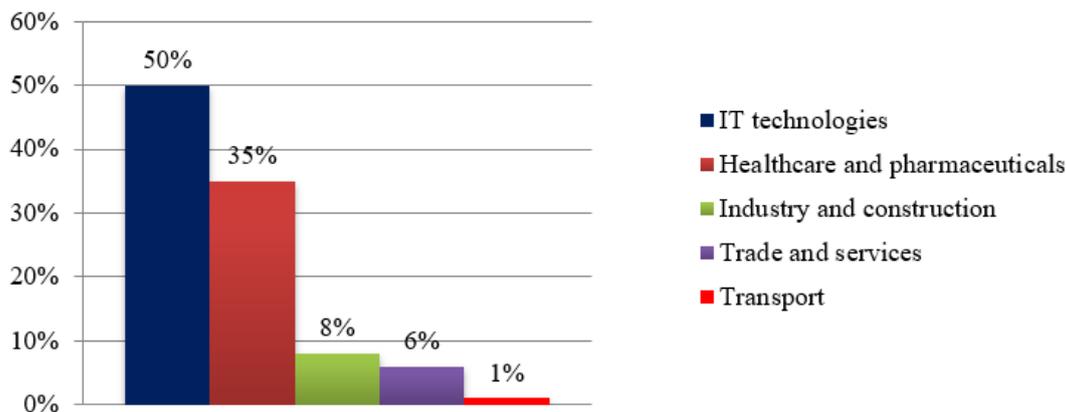


Fig. 2. Investments of venture funds in 2019
Source: CB Insights

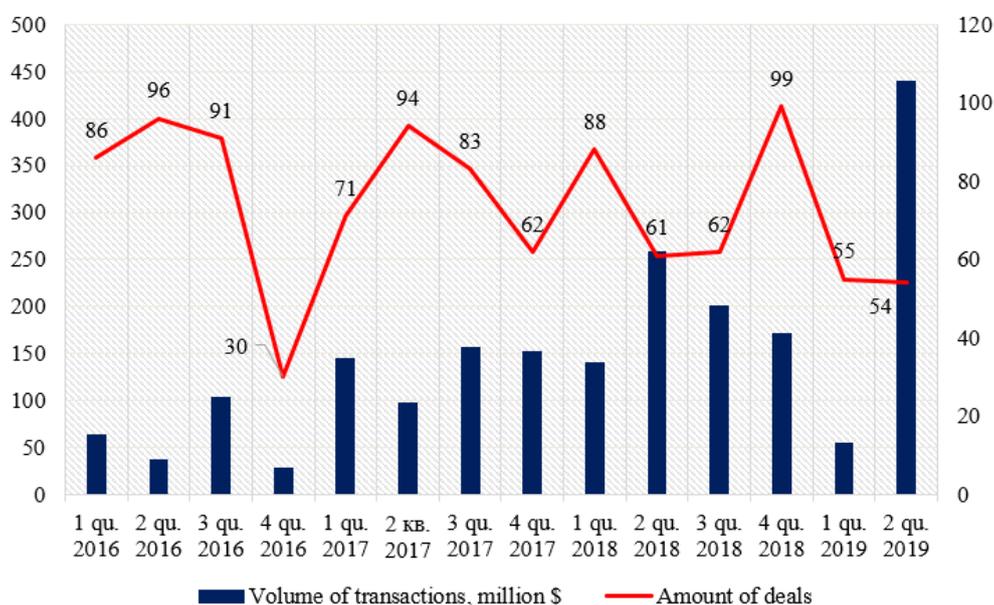


Fig. 3. Dynamics of venture deals in Russia in 2016 - 2019
Source: CB Insights

appropriate scheme for assessing the client’s financial capabilities. Lending is driven by technologies such as virtual banking, open APIs, and distributed ledger technologies.

Today, P2P lending and virtual banking are developing in the Russian Federation. P2P lending is a financial transaction in which money is borrowed without the participation of banks, and the lender is an individual. Online exchanges provide registration, where a person chooses himself as a borrower or lender, after which he is provided with appropriate services. Thus, the online exchange acts as an intermediary in transactions and checks the reliability and solvency of borrowers by analyzing their credit history and forming a trust rating. The most popular Russian online exchanges are City of Money, BezBank, CredBury and others. Virtual banks are financial institutions that perform transactions using the virtual space. On the bank’s website, you only need

to register, after which an agreement is sent with electronic signatures and a seal, and debit and credit cards are sent by registered mail. You can contact employees and bank management through the call-center. However, it should be remembered that virtual banks do not provide mortgage loans and consumer loans. In Russia, Rocket-Bank and Tinkoff have successfully established themselves as virtual banks.

Investments are an integral part of the modern economy, so their management is also becoming digital. The services of traditional institutions are oriented not towards processes, but towards consulting. The digital transformation of investments includes such areas as: robo-advising, crowdfunding, social and algorithmic trading, advising platforms for exchanging experiences. In the Russian Federation, only crowdfunding is used.

Fig. 3 is a chart that clearly shows the state of the digital venture capital market from 2016 to 2019.

CONCLUSIONS AND RECOMMENDATIONS

The Internet and digitalization are the main stimulators of the development of financial technologies in Russia. At the beginning of its formation, the financial technology market was represented by such consumer products as payment acceptance and electronic money. Now there are a number of different services on the market: P2P lending, Internet banking, crowdfunding platforms, etc. (Maslennikov, Fedotova & Sorokin, 2017). The emergence of new financial innovations and financial technologies contributes to a change in the consumption structure, a reduction in costs for specific functionality (processing of customer bases, etc.), and an increase in the efficiency and quality of business processes.

In the current realities, it is becoming more and more obvious for business that modern financial technologies and digitalization are not only an integral part of the activities of economic entities, but are also one of the most important driving mechanisms for their development. In 2017, the volume of the domestic financial technology and innovation market amounted to 48 billion rubles, in 2018 - 54 billion rubles. Over the past two years, the domestic financial technology market has shown significant growth. This can be seen both in terms of the amount of attracted capital and the number of transactions carried out. Financial innovation and financial technology are conquering not only the banking sector, but also the sphere of risk management, trade and insurance automation.

The largest representatives of the digital market are MoneyMan Group of Companies, MFK EZaem, MFK

“CarMoney”. According to experts, it is financial companies that have been the leaders in the use of financial technologies for the last year. Undoubtedly, the growth of the digital market is associated with the extensive spread of the mobile Internet network among the residents of the state, the active work of banks in promoting financial products and services. Nevertheless, at the moment, the development of financial technologies in the domestic market cannot be considered uniform: innovative Russian digital projects can rely mainly on representatives of cities with a million population or clusters in which work is being purposefully carried out to develop technological infrastructure and the population gets used to using it. As, for example, in the “city of cashless payments” in the Republic of Tatarstan, etc.

Among the most well-known areas of financial technologies, it should be noted: lending, money transfers, payments, scoring.

The peculiarity of the domestic digital technologies market is that the Russian Federation is one of the world's leading suppliers of professional IT personnel. This fact has a significant twofold impact on the development of the market. On the one hand, the availability of highly qualified specialists stimulates the growth of the Russian market. On the other hand, emigration with the aim of more profitable employment is typical for domestic personnel.

Another characteristic feature of the Russian market of financial innovations and financial technologies is the lack of organizational and legal regulation of various areas of fintech (collective investment, P2P lending, etc.) on the development of the market.

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