

## TRENDS IN THE DEVELOPMENT OF FINANCIAL INNOVATIONS, DEREGULATION AND SELF-OVERSIGHT OF BANKS IN DEVELOPING COUNTRIES; THE EXAMPLE OF THE REPUBLIC OF SERBIA

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**Abstract:** *The trend of development of financial innovations, deregulation and self-supervision of banks in developing countries, the example of the Republic of Serbia can be followed up on already developed attitudes that have evidently dominated the last 30 or so years in the world. Namely, the use of new financial products was largely disastrous for the world economic and financial order. Such an observation from the macro-economic aspect had a bad effect, first of all, on a large number of weak, underdeveloped economies, such as the Republic of Serbia. The influence of the leading dominant country in the world since the mid-1980s, the USA, has had a negative impact on the economic systems of transition countries. This primarily refers to the negative impact of uncontrolled money printing, which in turn had a fundamental impact on the initiation of a chain of speculative transactions in the USA and then on the rest of the world. In addition, in the attempt to regulate the monetary policy in the USA, another big mistake was made, which was reflected in the support of the so-called self-control of banks. This is how the reality emerged in the most powerful economy, which has achieved relatively relaxed legal regulations for the control of hedge funds, in the 90s of the 20th century, which resulted in the sudden enrichment of these funds.*

**Key words:** *development, financial innovation, self-supervision of banks.*

**JEL classification:** *E00, E16, E42, E58.*

### 1. INTRODUCTION

The trend of development of financial innovations should be seen as a constant in relation to the operations of both the banking system and the economy as a whole. Innovative approach within the banking system Innovative processes in banking business should essentially respect foreign direct investments. Foreign direct investments in recent decades essentially influence movements and can influence changes in the essence of both the domestic one and there are also significant influences on movements in the world financial market (Lutovac, 2024; Popović et al., 2015; Popović et al., 2018). In this way, banks are fundamentally faced with major changes both in relation to the positioning of the external environment and within the positioning of the internal environment. Therefore, innovation in finance should take into account the internal and external environmental factors of both banks and companies operating in one economy (Radović et al., 2021; Tomas-Miskin et al., 2022; Vitomir et al., 2020).

This is of great importance, especially in the observation, analysis and evaluation of weak economies, especially those that tend to follow the paths of economic and political integration, which is true for the Republic of Serbia.

The innovativeness of finance should include the observation and appreciation of general competitiveness, as for banks that have to achieve individual and general differentiation in the performance of banking operations and services that operate in business with the economy in relation to the already performed positioning of the competition. Innovation should also include the fact that banks have continuity in their work while retaining the existing and attracting a greater number of new and heterogeneous users and clients [9].

In this way, the observed banks in Serbia should build a system of differentiation based on significant comparative advantages in relation to the offering of banking services to target clients. However, the reality is that different banks in Serbia generally offer similar banking services to users of banking services, both in dealing with individuals and in dealing with the economy. In addition, the essential innovativeness of the banking system, viewed through the operations of banks, has the effect that realistically the vast majority of new banking services are offered on very similar terms on the domestic market, with a note that the offered banking services in relation to the international market often differ significantly in relation to the terms that provide on the domestic market of banking services. Such a realistic observation of banking services is of particular importance for business in the existence of transitional conditions where the real economy operates continuously on the banking market in Republic of Serbia with the general goal of improving banking conditions and becoming as favorable as possible in the longer period of business.

## 2. CONSTANT DEVELOPMENT OF FINANCIAL INNOVATIONS

The constant development of financial innovations of the banking system may have elements of innovation that will include:

- 1) understanding the business decisions of the bank's top management,
- 2) influence on effective decision-making by top management,
- 3) the impact of decisions on the creation of an efficient management team,
- 4) leadership, knowledge and ability of bank management,

- 5) bringing the essence of banking management closer to all interested parties
  - 6) understanding the needs of clients for purchasing banking products
  - 7) application of banking marketing in the promotion of banking services,
  - 8) essential improvement of relations with clients.
- The presentation of the general scheme of the movement of innovative banking is given in the presentation of figure 1.

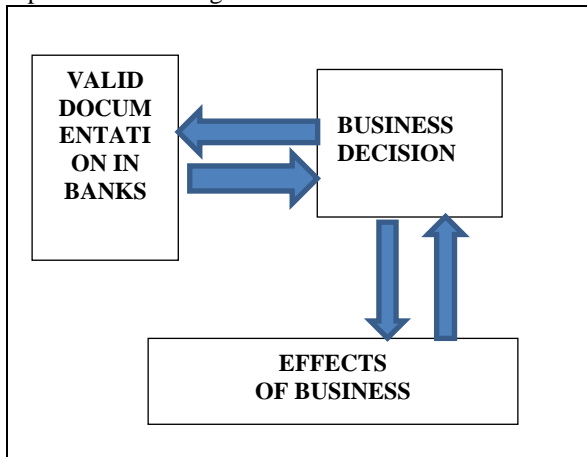


Figure 1. Presentation of the general scheme of innovative banking.

## 3. THE INFLUENCE OF MACROECONOMIC RELATIONS ON THE FUNCTIONING OF THE BANKING SYSTEM IN THE REPUBLIC OF SERBIA

The influence of macroeconomic relations on the functioning of the banking system is gaining importance. This can be seen especially after the last major global crisis. In the following, the authors gave a presentation of the economic effects in observing the functioning of the banking system, a snapshot is given in the presentation of Figure 2.

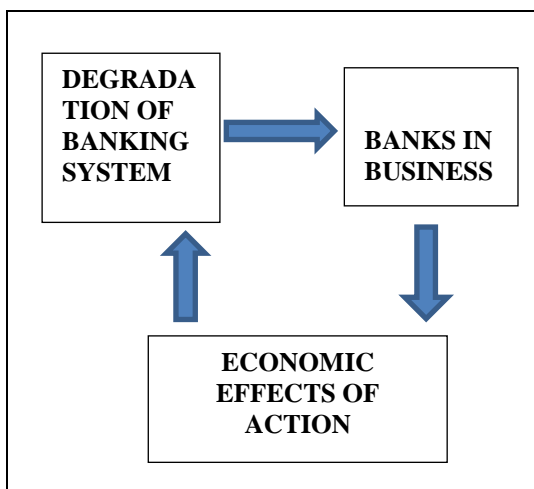


Figure 2. Presentation of the flow of economic effects of the banking system.

#### 4. TRANSFORMATION OF THE BANKING SYSTEM

Transformation of the banking system, which essentially means that it is necessary to create an efficient and safe banking system that will include:

1. increasing the capital strength of banks,
2. improving the efficiency of banking institutions,
3. focusing on banks' liquidity, source structure and placement structure,
4. losing the strict division into investment and commercial banking,
5. strengthening measures to improve the solvency of banks,
6. cleaning the assets and liabilities of banks from unprofitable forms,
7. narrowing of rights based on bank deposit insurance,
8. increased control by central banks,
9. arrangement and cleaning of the banking system from inherited and accumulated losses and dubious, especially in transition economies.

In order for such a detailed observation of the transformation of the banking system to be possible, it is necessary to take into account the following important concepts that can essentially affect the development of the banking system.

The three key concepts that more closely describe modern banking strategy are:

- Asset and liability management of banks operating on a specific market,
- Risk management of bank operations in real time,
- Management of customer relations,

In addition,

- 1) it is necessary to develop good relations with:
  - To the clients of the bank, With other banks, With business entities,
- 2) With state authorities,
- 3) With associations related to the implementation of financial activities of banks.

In the Republic of Serbia, the Law on Banks and the Decision on Bank Risk Management define the following types of risks to which the bank is exposed in its operations:

1. liquidity risk
2. credit risk, including residual risk, risk of reduced value of receivables, risk settlement/delivery, as well as the risk of the other contracted party,
3. interest rate risk,
4. foreign exchange risk and other market risks,

5. concentration risk, which especially includes the risks of the bank's exposure to one person or group of related persons,

6. the bank's investment risk,

7. risk related to the country of origin of the person to whom the bank is exposed (country risk),

8. operational risk, which especially includes legal risk,

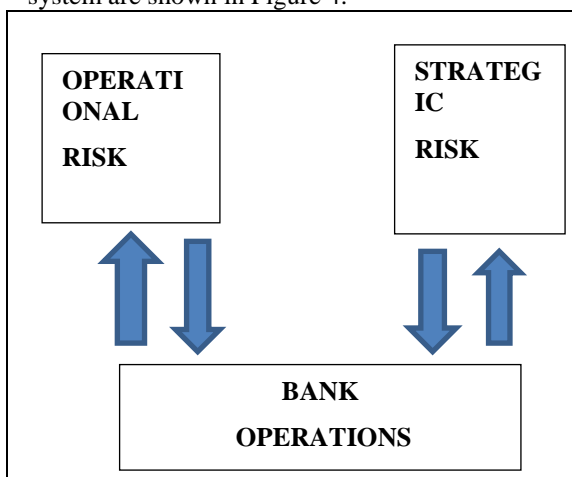
9. compliance risk of the bank's operations, 10. strategic risk,

11. another risk.

In the following, the author presented the possible impact on the operations of banks.

Below is a presentation of banking operational observations in Figure 3.

In addition, the effects of the banking operating system are shown in Figure 4.



*Figure 3. Presentation of strategic and operational risks to bank operations.*



*Figure 4. Presentation of the impact of risk on management decision-making in the functioning of banks.*

Banking services have certain specificities, which could be reduced to the following:

- The subject of the service is money and its various forms (circular money, cash, securities, etc.).
- Due to intangibility, these services are provided in the form of contract elements, so in depending on the type and variations of the elements of the contract, the types of services also develop which are provided for investment and lending contain an element of time (maturity), where the customers of these services are faced with strictly determined, even compulsory deadlines, while the deals themselves are not concluded in one act.

Intangible and expressed in the elements of the contract, the character of banking services is required additional clarifications.

However, this requirement varies by species contract: opening a savings account requires simpler and shorter explanations but for example an investment study. Not only the provider but also the user of services in to this type of contractual relationship, they are referred to a relatively high level of expertise knowledge in the field of economics, especially monetary.

Innovative processes in banking business in relation to possible desired rapid growth refers to monitoring:

- 1) interest rates of commercial banks,
- 2) central bank interest rates, total offers of the banking system,
- 3) a measure to reduce risky placements,
- 4) use of information systems,
- 5) development of hardware that supports banking operations.

The top management in the work of financial and banking entities introduces internal auditing and internal control with the aim of improving general management decisions in their work, that is, their work can improve the security in the operations of the mentioned entities.

In addition, the management in the work of the banking sector aims to form internal control with the aim of increasing:

- 1) overall security of business decisions made.
- 2) overall transparency in work.
- 3) existence of the need for the association of several legal entities.
- 4) total evaluation of all factors that can affect the work of banking organizations.
- 5) overall improvement of operations with available funds.

- 6) overall compliance with all previously adopted policies in the work of the mentioned entities.
- 7) overall evaluation of business risks.
- 8) overall evaluation of already adopted controls.
- 9) supervision and monitoring of all processes in the work of sports organizations.

Therefore, all management decisions made in this way are safer and the management has greater confidence in such business, which is of great importance for the real functioning of the social community through the use of the work of the banking sector.

In addition, the management of banks introduces the essential connection of internal control with other internal control mechanisms through:

- 1) cooperation of the mentioned controls within the existing accounting.
- 2) cooperation with external auditing.
- 3) cooperation with other important entities.
- 4) raising the general level of control in the functioning of the mentioned entities.
- 5) appreciating the existence of differences between work and functioning between banking organizations in relation to the criterion of their size.

## CONCLUSION

In the modern banking system and the management of banks and the banking system, the management of the bank's top management means the appreciation of strategic planning, which requires innovative approaches that are a means of positioning the bank in a certain economy.

Therefore, innovation means that the competitive market environment and the search for the best model for strengthening one's market position in the future period should be seen as a goal that will be achieved primarily within a specific commercial bank.

Another segment to pay attention to is the study of strategic risk. It should include numerous opportunities related to the assessment of the strategic development of a specific commercial bank. The goal of such activities would be to monitor the costs of banks' operations in an innovative way, but which will also be transferred to numerous companies.

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