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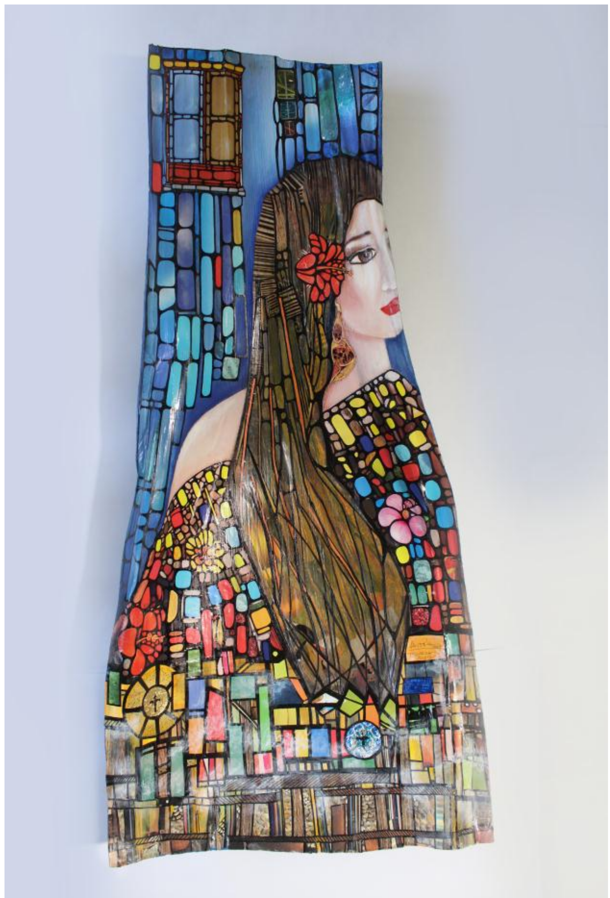

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The features of the Russian banking sector transformation

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Abstract

The purposes of work are to reveal the modern characteristics of the transformation of the banking system, taking into account the function of a financial intermediary in the economy via statistical analysis of proportions. Analytical and theoretical results of the study showed that the structure of the banking sector of the national economy will be determined not so much by the criteria of profitability as by new organizational, managerial and financial technologies. In conclusion, In order to effectively develop banking activities, the main attention should be paid to a large number of systemic advantages of cryptographic blockchain technology.

Keywords: Banking, Financial Intermediaries, Disintermediation, Profitability.

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Las características de la transformación del sector bancario ruso

Resumen

Los objetivos del trabajo son revelar las características modernas de la transformación del sistema bancario, teniendo en cuenta la función de un intermediario financiero en la economía a través del análisis estadístico de proporciones. Los resultados analíticos y teóricos del estudio mostraron que la estructura del sector bancario de la economía nacional estará determinada no tanto por los criterios de rentabilidad como por las nuevas tecnologías organizativas, administrativas y financieras. En conclusión, para desarrollar de manera efectiva las actividades bancarias, se debe prestar mayor atención a un gran número de ventajas sistémicas de la tecnología de cadena de bloques criptográfica.

Palabras clave: banca, intermediarios financieros, desintermediación, rentabilidad.

1. INTRODUCTION

The prospects for the development of the banking system in the context of financial support for the needs of expanded reproduction are primarily associated with the transformation of mediation functions. Despite the fact that in recent years the practice of direct financing – disintermediation has become quite widespread, the vast majority of economic agents continue to carry out their interaction on placement and attraction of funds through financial intermediaries in the face of banking organizations. It is due to the ability of commercial banks to attract and Deposit funds more efficiently at the same time, even though some of this effect will be lost in the form of remuneration to the Bank for providing financial intermediation services. Due to the effect of the scale of operations carried out by modern financial intermediaries, as well as their professionalism in the field of asset and liability management in terms of balancing risks, liquidity and profitability, financial intermediaries are able to perform such vital functions in the economy as the transformation of capital, timing and risks (Bagautdinova et al., 2016).

The traditional theory of financial intermediation is based on the assumption of the possibility of insurance of all types of risk and the invariance of the rate of intertemporal substitution in the economy with perfect information growth and social development. At the same time, experts of the World. However, the real economy in some cases does not meet these provisions. It is especially true of the growth of market capitalization of companies through the permanent attraction of credit resources. As a result, financial intermediaries contribute to the development of a more efficient and dynamic economy, as investment processes mediated by the level of development of the financial sector provide an impact on economic Bank proved not just the relationship between the level of development of the financial system and the rate of economic growth but determined its stable cause-effect form. In General, the diversity of financial intermediaries in the market economy increases the opportunities of various economic agents to the successful placement of temporarily available funds and equally profitable attraction of borrowed funds in the conditions of their deficit, thus ensuring the expansion and modernization of production, stimulating economic growth and social development.

2. RESULTS

In the domestic economy, banking institutions are the largest group of financial intermediaries. The share of banking institutions in the asset structure of critical financial intermediaries' accounts is more than 90% of the total volume. While non-Bank financial institutions account for the remaining 10% of assets. At the same time, the dynamics of the increase in assets of various groups of financial intermediaries in comparison with the dynamics of GDP in the period from 2009 to 2015 was in the range of 70-110%, while in developed countries this figure varied in the range of 180-300%. Banking organizations, in comparison with other representatives of the sphere of financial intermediation, have many features: standardization of conditions for the provision of financial services; low level of information asymmetry; long-term relations with customers; state regulation of activities. Therefore, banking organizations show a reasonably high level of efficiency, acting as a financial intermediary in the economy. It is the banks that form the mass channels of a transformation of savings into investments, thereby having a positive impact on economic growth. At the same time, if a commercial Bank begins to pursue profit, its actions can cause significant damage not only to its direct customers but also to third parties, industry, region, national and world economy (Maksimovik et al., 2000).

The activities of commercial banks involve the production of many significant external effects. Therefore, the efficiency and effectiveness of banking activities depend not only on the money circulation, lending to the economy and the implementation of payment and settlement operations. However, also the reproduction process, macroeconomic and social situation, social stability in General. This dual nature of banks (on the one hand, banks are private commercial organizations, profit-oriented; on the other hand, banks perform public functions, generating substantial external effects) forces these organizations to adjust their financial behavior, taking into account public interests (Babintsev et al., 2018). The essential and substantial characteristics of a modern banking organization mediate its functions, mainly consisting in financial intermediation in order to increase the opportunities of various economic agents to profitable placement of temporarily free money. Moreover, the equally profitable attraction of borrowed money is in conditions of their deficit, thus ensuring the expansion and modernization of production, stimulating economic growth and social development. Acting as a financial intermediary in the economy, it is the banks that form the mass channels of a transformation of savings into investments, thereby having a positive impact on economic growth and social development of society. In particular, the significant impact is on industry investments, regional development, and the use of public funds in investment projects. Therefore, it is advisable to consider some features of the functioning and structure of the banking sector in the Russian economy (Kazarenkova, 2016).

Table 1- Structure of Bank sector liabilities, % of total *

	2003	2008	2013	2017
The funds and profits of banks	15,7	14,0	11,9	10,8
Funds raised from the Bank of Russia	0,1	0,2	5,4	3,4
Bank account	4,3	1,0	0,9	1,0
Loans, deposits and other funds received from resident credit institutions	2,9	3,3	5,1	9,1
Loans, deposits and other funds received from non-resident banks	4,7	10,6	4,5	1,6
Deposits of individuals (residents and non-residents)	24,8	25,7	28,8	30,2
Funds raised from resident organizations	24,4	28,8	26,1	27,1
Funds raised from non-resident organizations	2,0	6,2	5,6	4,9
Bonds, promissory notes and Bank acceptances	10,9	5,5	4,4	1,9
Other liabilities	10,2	4,7	7,3	10,0

The author makes the table by data: Report on the development of the banking sector and banking supervision in 2016. - Moscow: Central Bank of the Russian Federation, 2017. – P. 21 *

In the structure of the liabilities of the banking sector (table 1) in the period from 2003 to 2017, there were some changes. Thus, the leading share of liabilities still belongs to the deposits of individuals and funds raised from organizations (mostly residents). In total, in 2017, they amounted to 62.2%. At the same time, the share of deposits of individuals increased significantly – from 24.8% to 30.2%. At least, shows that citizens' confidence in the banking system is maintained against the background of a large-scale company to clean the banking sector, accompanied by the revocation of licenses from a large number of banking organizations.

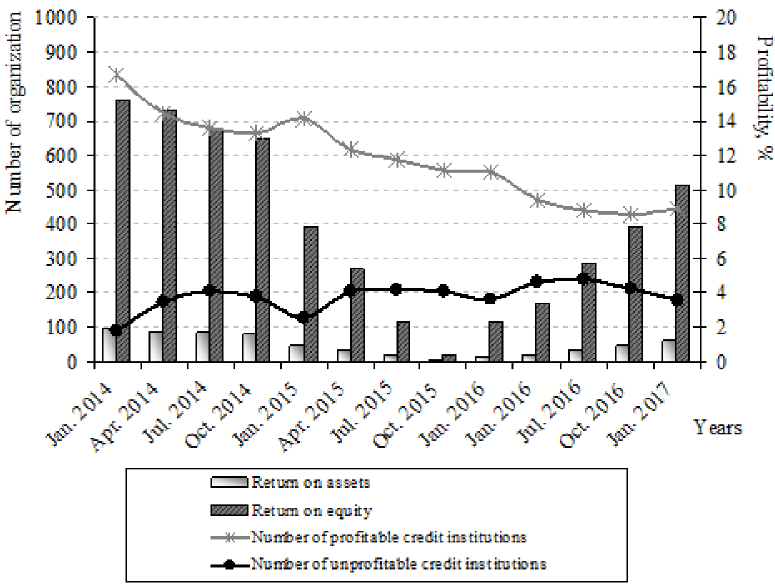

Figure 1. The dynamics of the profitability of the banking sector in the period from 2014 to 2017 (the author makes the diagram by data: Report on the development of the banking sector and banking supervision in 2016. - Moscow: Central Bank of the Russian Federation, 2017. - P. 36.)

Similarly, we can observe an increase in the share of funds raised from organizations – from 24.4% to 27.1% of resident organizations and from 2.0% to 4.9% of non-resident organizations. Against the background of complications in access to foreign funding sources, as well as in General due to the unstable situation in the financial sector, it is possible to observe the reorientation of domestic banks to domestic funding sources. As a result, there was a reduction in the share of liabilities, the source of which were securities – bonds, bills and Bank acceptances – as well as own funds and profits. As a result, the share of such funding sources as Bank accounts, loans, deposits and other funds received from non-resident banks also decreased. And the funds raised from the Bank of Russia and loans, deposits and other funds received from resident credit organizations, which replaced them, increased the share in the structure of liabilities (Galazova, 2013). Changes in the structure of assets and liabilities, together with the changed macroeconomic conditions of business, led to a decrease in return on equity and assets (figure 1). Thus, in the period from January 2014 to January 2017, the return on equity decreased from 15.2% to 10.3%, falling to 0.4% (October 2015). And the return on assets for the same period of time decreased from 1.9% to 1.2%, reaching a minimum of 0.1% in October 2015. And although since the beginning of 2016, the profitability of banking activities has begun to gradually recover, nevertheless, it is not necessary to talk about the achievement of its initial levels. The most significant contribution to the profitability of the banking sector was made by systemically important credit institutions. The improvement of profitability indicators was also noted among state-controlled banks and banks with foreign capital. At the same time, a key factor that led to an increase in return on capital in 2016 was a significant increase in the level of profit margin (Kozlova, 2012). It is also noteworthy that against the background of the overall reduction in the number of banking organizations, the number of profitable organizations decreased – 450-550 banks in 2016 against 650-850 banks in 2014. At the same time, the number of unprofitable banks for the period of time has not changed – 200-250 banks in 2016 against 100-200 banks in 2014. However, the increase in the multiplier of Bank capital did not result in a decrease in capital adequacy levels. So, in 2017, the banking sector, the level of capital adequacy ratio (N1.0) was 13.1%; the level of capital adequacy (N1.2) to 9.2%; the adequacy ratio of core capital (N1.1) is 8.9%.

Table 2 - capital adequacy Levels by groups of credit institutions ranked by assets in 2016, %*

Distribution of credit institutions ranked by assets (descending)	Level of equity (capital) adequacy (H1.0)	Capital adequacy ratio (1.2)	Level of capital adequacy (1.1)
First 5	13,1	9,5	9,4
6 to 20.	12,6	8,0	7,3
21 to 50.	9,5	5,9	5,4
51 to 200.	15,7	11,2	11,0
From 201	23,3	18,3	17,9
In the banking sector	13,1	9,2	8,9
Reference: systemically important credit organizations	13,5	9,7	9,4

* The author makes the table from data: Report on the development of the banking sector and banking supervision in 2016. - Moscow: Central Bank of the Russian Federation, 2017. – P. 63

The level of capital adequacy was even higher for systemically essential credit institutions (table 2). From 1 January 2016, the minimum set values of adequacy are H1.0 – 8%; H1.2 – 6%; H1.1 to 4.5%. The lowest level of capital adequacy was observed among the banks ranged from 21 to 50 most considerable assets: the level of capital adequacy ratio (N1.0) was 9.5%; the level of capital adequacy (N1.2) – 5,9%; the adequacy ratio of core capital (N1.1) is 5.4%. While the highest level of capital adequacy was observed in banks, which held the position 201 places: the level of capital adequacy ratio (N1.0) accounted for 23.3%; the level of capital adequacy (N1.2) to 18.3%; the adequacy ratio of core capital (N1.1) is 17.9%. For the first five banks, with the highest value of assets, the level of capital adequacy was at a similar level, typical for the banking sector as a whole. By the end of 2016, the capital adequacy of the banking sector increased: the level of capital adequacy ratio (N1.0) increased by 0.4 p. p. – C 12.7 to 13.1 percent; the level of capital adequacy (N1.2) – 0.7 percentage points – from 8.2 to 8.9%; the adequacy ratio of core capital (N1.1) – 0.7 percentage points, from 8.5 to 9.2%. Also, the capital stock (the size of the banks' capital over the level required to meet the requirements of capital adequacy ratios) increased from 1.8 to 2.2 trillion. RUB and the deficit grew on the banks, not complying with the requirements on capital adequacy – from 0.58 to 0.63 trillion. RUB (Leonov, 2015). At the same time, all capital adequacy indicators for 2016 increased mainly due to the increase in the financial result and the reduction of credit risk.

Table 3 - distribution of banks by the minimum value of exceeding the value of one of the capital adequacy ratios over the permissible value of the norm in 2016, the number of banks, units*

	2013	2014	2015	2016
Do not comply with the standard	2	3	8	21
From 0 to 1 p. p.	89	46	45	26
From 1 to 2 PP.	116	86	80	39
From 2 to 5 PP.	186	184	139	119
More than 5 PP.	459	458	388	351

* The table is compiled by the author from data: Report on the development of the banking sector and banking supervision in 2016. - Moscow: Central Bank of the Russian Federation, 2017. – P. 64

The distribution of the banks on the minimum value exceeding the value of one of capital adequacy standards on the permissible ratio in 2016 (table 3) shows that most of the institutions in which this excess is more than 5 p. p. – 351 a Bank. Although in 2013 there were 459 banks, a group more than adequacy from 2 to 5 p. p. In 2016 had 119 organizations (186 in 2013). It should be noted that this group of banks accounted for 53.4% of the assets of the Russian banking sector in 2016 (42.4% in 2015).

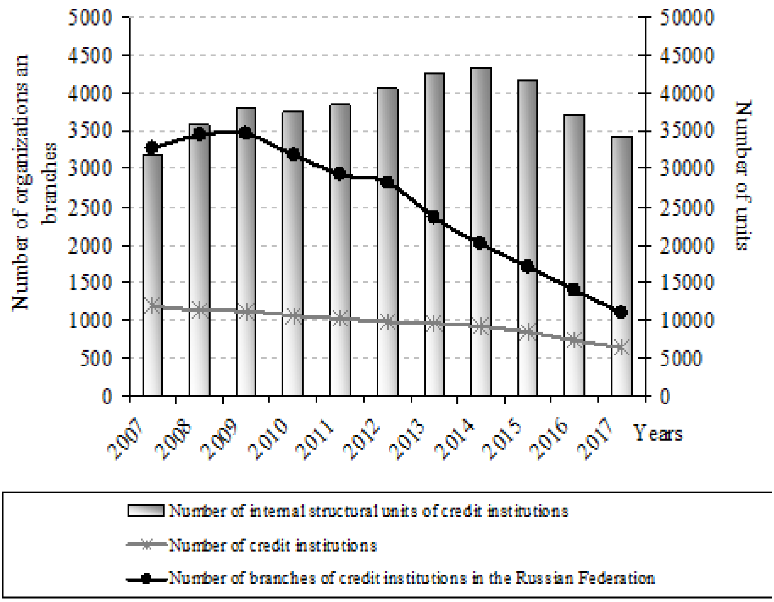

Figure 2. The dynamics of the number of credit institutions and their branches in the period from 2007 to 2017 (the author makes the diagram from data: Report on the development of the banking sector and banking supervision in 2016. - Moscow: Central Bank of the Russian Federation, 2017. – P. 15)

Most significantly for four years decreased the group excess ratio for the 0-1 p. p. (from 89 to 26 banks) so, 1-2 points (from 116 to

39 banks). Moreover, also the number of banks that did not comply with the standards of sufficiency increased from 2 to 21. The change in many indicators in the banking sector is correlated with the noticeable dynamics of changes in the number of credit institutions. Since the total number of credit institutions represented in Russia decreased almost twice between 2007 and 2017 (figure 2). If in 2007 in the country carried out the activities of 1189 credit institutions. Also, by 2017, their number had decreased to 623. The number of branches of these credit institutions has decreased almost threefold – from 3281 to 1098. Moreover, the number of internal structural units of credit institutions has changed insignificantly and even slightly increased – from 31888 to 34200 (with 43376 in 2014) (Tatuev & Bakhturazova, 2014).

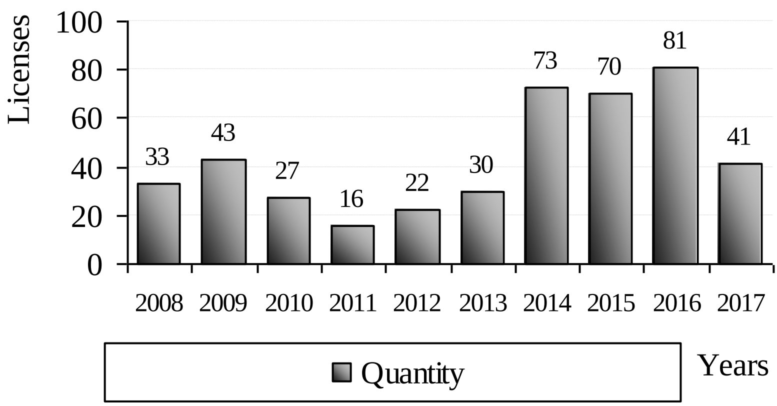

Figure 3 - dynamics of revocation of licenses of commercial banks by the Central Bank of the Russian Federation in the period from 2008 to 2017 (the diagram is calculated and compiled by the author on the basis of data: Stop-100 [Electronic resource] // Gazeta Kommersant. URL: https://www.kommersant.ru/doc/2645323 (date accessed: 10.02.2018))

In many ways, the policy of the Central Bank of the Russian Federation to improve the quality of banking institutions has been the reason for such a significant reduction in the number of credit institutions. Thus, in the period from 2008 to 2017, in total, the Central Bank withdrew more than 400 licenses for banking activities (figure 3). The peak of this process occurred in 2014-2016 when 70-80 licenses were withdrawn per year, while on average for the period for each year there were 20-40 licenses revoked from banks. Among the banks that had their licenses revoked, there were also banks that were in the first hundred regarding assets. For example, table 4 provides information on the five banks with the most significant assets at the time of revocation of their licenses, as well as their place in the overall rating of banking organizations by assets (Rodnina & Koryagina, 2012).

Table 4 - Rating of banks (top 5) by assets and place in the country at the time of revocation of the license, as of the end of 2017*

Name of the Bank	Amount of assets, billion rubles	Place in the ranking
Russia (Moscow)	281,8	45
Bank Ugra (Moscow)	251,4	29
Tatfondbank (Kazan)	210,6	42
Bank Russian credit (Moscow)	140,5	49
The Bank Interkommerts (Moscow)	102,8	67

* The author makes the table from data: Stop-100 [Electronic resource] / / Kommersant Newspaper. URL: https://www.kommersant.ru/doc/2645323 (date accessed: 10.02.2018)

Thus, as of the end of 2017, Vneshprombank became the largest Bank with the revoked license. Its balance sheet listed assets in the amount 281,8 billion rubles. At the time of revocation of license, size of assets, the Bank occupied the 45th place among all Russian banks, Located next to the Bank «Ugra», with assets of 251.4 billion rubles and 29 places in the overall ranking of banks regarding assets at the time of revocation of the license. Then Tatfondbank – 210,6 billion rubles and 42. The Bank «Russian credit» and the Bank «Interkommerts» accounted for 140.5 and 102.8 billion rubles, 49 and 67 places, respectively.

Table 5 - Rating of banks (top 5) by the size of the hole in the balance sheet at the time of revocation of the license, as of the end of 2017*

Name of the Bank	The size of the hole in the balance sheet, billion rubles
Russia (Moscow)	o
Tatfondbank (Kazan)	118,3
Bank Ugra (Moscow)	86,1
The Bank Interkommerts (Moscow)	79,2
Bank Russian credit (Moscow)	75,7

* The author makes the table from data: Stop-100 [Electronic resource] / / Kommersant Newspaper. URL: https://www.kommersant.ru/doc/2645323 (date accessed: 10.02.2018)

The same banks took the first five places in the size of the detected holes in the capital (table 5). Thus, when the assets in 281,8 billion rubles at the time of revocation of the license, a hole in the balance of Russia amounted to RUB RUB 210.1 billion Hole in the balance sheet when the assets of Tatfondbank in 210,6 billion RUB have RUB 118.3 billion. The Bank «Ugra» – 86,1 billion rubles, while the assets of 251.4 billion rubles of Bank «Interkommerts» – 79,2 billion rubles, while the assets 102,8 billion rubles of Bank «the Russian credit» – 75,7 billion rubles, while the assets 140.5 billion

RUB. In General, the process of an absolute reduction in the number of commercial banks in the Russian economy in recent years has been slightly controversial. On the one hand, the policy of the Central Bank of the Russian Federation, which initiated it, is aimed at increasing the stability of the credit sphere, reducing the risks of the unfair behavior of banks and other negative phenomena related to the liberalization of banking activities. On the other hand, the reduction in the number of participants in this sphere is unlikely to increase the interest of the remaining banks in lending to the real sector of the economy, especially regarding financing investment projects of innovative small and medium-sized businesses. Nevertheless, such trends-the decline in the number of banks – can be observed everywhere in the last 2-3 decades - almost every region of the world is experiencing a reduction in the number of classical banks, accompanied by an increase in the branch network and the level of coverage of the territory of countries and the population with banking services. Typically, these processes are developed in two main scenarios:

- In countries with developed economies there is a merger and consolidation of banking institutions, increasing the branch network and market concentration, banks gain greater financial stability, their market share increases, and the diversification of their activities increases;

-In emerging economies, South-East Asia, Latin America, and Central and Eastern Europe, banks are leaving the market as a result of financial crises, bankruptcy, and competition with other financial intermediation institutions (Shanin, 2012).

Nevertheless, in General, it still contributes to the sustainability of the industry and improves the quality of services provided, as the market leaves the weakest organizations. Questions of the optimal structure of the banking sector are among the critical problems of the modern banking theory. From the position of the number of credit institutions in the economy, the range of options varies from public or private monopoly to perfect competition, with an unlimited number of market players. In the vast majority of countries, except for the g-7 and some others with global financial centers, the banking sector is dominated by the oligopoly. For example, in Central and Eastern Europe, the five largest national banking institutions account for more than 50% of the banking market. In some countries, the entire banking sector consists of only 1-2 banking institutions.

3. DISCUSSION

The situation in the Russian banking sector is unique. Regarding the number of credit institutions in the early 2000s, Russia only slightly lagged behind the countries of the leaders. It is despite the fact that there were no obvious institutional prerequisites for this. Thus, in the late Soviet period, there were only five specialized state banks. However, since 1988, when it became possible to create cooperative banks, and until the mid-1990s, when the country faced a series of financial and economic crises, the banking market has experienced a real boom-the number of credit institutions in the country approached 3 thousand. It is mainly possible due to the prevailing conditions at that time: at high-interest rates and a shortage of services, the market can withstand an infinite number of banks. However, in the long run, as the number of overdue banks grows, the number of banks inevitably declines. Moreover, the tendency to increase the concentration of the banking sector is gaining momentum. As a result, the number of credit institutions in the Russian banking sector has significantly decreased. Also, the level of concentration of the banking market approached the maximum indicators typical of many modern countries.

There is a point of view, according to which the direct strengthening of oligopolies and will be linked to further prospects for the development of the banking industry. This kind of trend is due to many factors growing in recent decades: the introduction of Bank info-communication and organizational innovations, the liberalization of credit activities, the development of institutions of direct investment and the strengthening of disintermediation. Besides, for countries with developing economies, an essential factor in the process of privatization of state banks and the opening of the banking sector for international players. Also, the new Basel accords, accompanied by a shift from traditional regulatory methods based on the assessment of Bank balances to risk-based methods based on the assessment of the banks' capital, are making adjustments. So, in general, all these processes put forward requirements to increase the level of capitalization of banks, carried out by mergers and acquisitions against the background of leaving the market of small local players.

In assessing this trend, the opinions of Russian representatives of the banking community were divided into two opposing points of view. Thus, the owners and managers of large banks, including members of various financial and industrial groups, adhere to the position of the need to reduce the number of players and improve the stability of the remaining activities. In contrast, representatives of banking associations protect the interests of the free market and competition represented by small regional banks. For economic theory and banking theory, it is believed that large banks have a higher level of stability and profitability than small banks. The basis of this postulate is the idea of the effectiveness of banking organizations in performing their specific mediation functions in the economy – the processing of information about the risks and the elimination of information asymmetry between economic agents (depositors and borrowers). The scale effect allows to increase the efficiency of these functions: with the increase in the size of the Bank, its relative costs of information processing tend to zero, and its stability and profitability tend to infinity. Because of the more significant the Bank, the lower its investment costs and more excellent opportunities for diversification. Therefore, the larger the Bank, the more effectively it works with information asymmetry and better monitors risks. Accordingly, large banks are more successful in their task - to generate income in the course of attracting depositors' funds and their transfer to borrowers (Rodnina, 2013).

It is followed by one fundamental observation about the optimal structure of the banking market and the number of participants represented in it. Thus, the presence of information asymmetry in itself sets certain obstacles for potential players to enter the banking market. After all, existing banks are already aware of the risks of borrowers, while beginners are in a state of complete uncertainty. To avoid non-compliance with credit obligations and the banking crisis this situation requires the establishment of sufficiently significant barriers to entry into the market of beginners. These barriers can take the form of equity requirements, or various types of regulations, or other restrictions that only large banks can meet (with experience with information asymmetry and safety margins in case of any risks). However, it should be noted that the optimal state for the credit market, which the theory of banking relates to a limited number of banking organizations, is a consequence of microeconomic ideas about the effectiveness of banking: information asymmetry and competition between banks lead to inefficient lending. It imposes some restrictions on their applicability in the real economy. Because the microeconomic assumptions used, do not take into account the possibility of a banking oligopoly or monopoly whose market efficiency is highly questionable.

In this regard, the point of view is of interest, according to which the optimal condition for the credit market is determined not only by the presence of large banks but also small local banks. In their niche, these banks take advantage of local competitive advantages to meet the needs of local market consumers better, while large banks offer a standardized set of services. Due to the individualized approach to customer service, small regional banks, unlike large banks, are more accessible: they are more willing to lend to small and medium-sized businesses. They have less stringent requirements for borrowers; they are well aware of the economic features of their region and open their offices in less developed settlements. Due to this, small local banks ensure satisfaction of the needs including those customers who are unprofitable for large banks.

In our view, the structure of the banking sector of the national economy in the context of the growing process of transformation of socio-economic development from its full digitalization will be determined not so much by the criteria of profitability as by new organizational, management and financial technologies. Currently, the so-called cryptographic blockchain technology is characterized by a large number of system advantages. It is based on well-functioning distributed databases, which eliminates the need for the formation of a system of direct relations between the participants of credit processes. Realizing these advantages, most large financial institutions have started to create their blockchain platforms actively. In the real sector of the economy, the components of the corporate blockchain are being formed. To accelerate the development of the technology of the blockchain and increase of efficiency of functioning of the banking system it is advisable to start the development of an integration platform at the state level. In the latter case, the prospect of combining the advantages of the state and the private sector in a single technological system of financial support for social reproduction opens up (Ulyukayev, 2010).

4. CONCLUSIONS

In order to effectively develop banking activities, the main attention should be paid to a large number of systemic advantages of cryptographic blockchain technology. Its basis is formed by well-functioning distributed database, which eliminates the necessity of forming the system of direct relations between participants of the credit process. To accelerate the development of the technology of the blockchain and increase of efficiency of functioning of the banking system, it is advisable to start the development of an integration platform at the state level.

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