

## Banking System's Sustainability of Russia: Transformation of National Banking Market

*Olga Getovna Semenyuta, Eugenia Aleksandrovna Danchenko and Nikita Olegovich Panchenko*

Rostov State University of Economics,  
Bolshaya Sadovaya, 69, 344002, Rostov-on-Don, Russian Federation

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**Abstract:** The article is dedicated to analyze of economic essence of “banking system’s sustainability”. Authors accomplish classification of factors from which the quality of banking products and services on the banking market is detached because of its enormous influencing on the sustainable condition of banking sector. International and the Russian experience of the development of banking market have been processed. Propositions of improvement of national market of banking services that strengthen creation of sustainable banking system have been promoted.

**Key words:** Bank • Sustainability of banking system • Factors of sustainability • Banking services • Problems of the development of the Russian banking services’ market

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### INTRODUCTION

Sustainable development of national economy is accompanied by the growth of financial operation and as a consequence by the growth of signification of national banking sector. Banking system being one of the main parts of market economy has an influence on a society as a whole. [1-7] It provides mechanism of inter-industry and interregional relocation of capital and appears to be a key element of unit-registering mechanism and payment facility stipulating signification of a country’s banking system in socio-economic development of the state.

**The Main Part:** The last global financial crisis showed how the lack of appropriate control over the banking market could negatively reverberate on sustainability of banking system and economy. Therefore the main tasks of this article are to implement analysis of Russian market of banking products and services in terms of maintenance of sustainable banking sector and to detach directions of development of the above mentioned market.

Different factors have an influence on realization of banking functions. It should be stressed that quality of banking products and services on the banking market appears to be a risk’s factor which determines efficiency of banking system’s performance as an element of financial intermediary’s system that is capable to

maintain the sustainable development of economy [5]. This assumption based on functional basis of banking. That is to say realization of banking functions by banks takes place through provision of banking products and services. Banking system will lose sustainable state if it is not able to implement its functions and as a result effectively provide necessary banking products and services to clients.

In a theory of banking bank services are aggregate actions of a bank to satisfy wants of customers. [10] Numerous numbers of banks compete with each other to draw new clients and to save a stable client base in a banking system. Hence bank competition affects on a sustainability of banking system as positively as negatively.

Positive influence appears in the following manner. Competitive struggle between banks allows enhancing effectiveness and stability of banking sector because banks start reducing operational expenditures and as much as possible to satisfy the needs of their customers [1]. Negative influence appears as a reducing of banking system’s sustainability. For example, competitive struggle for borrowers brings a pressure on banking profit as it lowers because banks start financing clients which are not fully solvent. The result is high risks concentrated in a banking system.[2] The last global financial crisis elicited such negative tendency.

Formation of modern European debt crisis became a reality because of parallel accumulation of complex factors such as: globalization of financial markets; credit accessibility during the period of time from 2002 to 2008 bringing a large amount of credits with a high level of risk; balance of payments crisis of main problem countries in Europe; bubbles in real estate markets; huge budget disbalances; socialization of private debts.

Take a detailed look at a main reason of the last crisis—accessibility of credits during the period of time from the economic growth of 2000<sup>th</sup> to the world financial crisis of 2008. The crisis revealed that growing competitive environment without appropriate regulation could reduce sustainability of banking system. During the period of economic growth and low interest rates most of banks of Europe were showing low effectiveness.

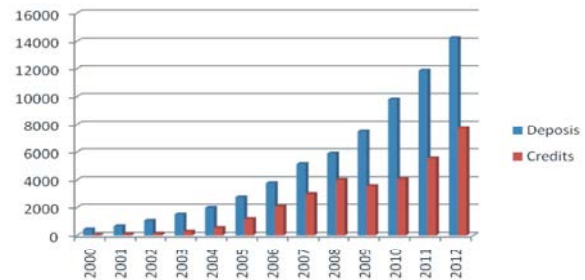
If we compare return on assets of Euro zone and Russia we can punctuate that Russian banks make more profit than their colleagues in EU. Banks of Russia have a double size of the percentage of return of assets than Spanish banks, Italian banks and French banks. Return on capital of Russian banks is also higher.

It should be stressed that high level of the abovementioned criteria in Russia may be explained by the fact that Russia is an emerging country and this is a peculiarity of such countries. In develop Europe high paces of economic growth could be supported by the lowering of interest rates. Soft monetary policy of European central bank stimulated increasing of bank competition as banks reduced interest rates and optimized their business process.

High level of competition were characterized by the lack of appropriate estimation of creditworthiness of potential borrowers and brought a huge amount of uncovered credit money especially in Greece, Spain and Cyprus. The tendency of predominance of the scope of financing over the scope of produced goods and services were forming during the last 7 years.

In Cyprus credit to GDP grew in 1.75 times during the period of time from 2004 to 2011, from 224.2% to 330.13% respectively. In Spain and Greece the growth of credit to GDP were 1.64% and 1.6 % respectively. Such kind of facts point out that allocation of temporarily surplus funds led to the bankruptcy of economic entities instead of leading to the economic development. Chain reaction generated huge losses in financial sectors of different countries especially in banking.

Drawing attention to the abovementioned factor we indicate on a main role of banking market in a formation of sustainable banking system, specifically in



Picture 1: Dynamic of retail deposits and credits in Russia from 2000 - 2012, bln. RUR [4]

Russia where the modern capitalist banking system is still shaping. Analyzing Russian banking sector and paths of its sustainable formation we should study the credit level on a possible appearance of crisis events similar to the European.

Take a detailed look at a banking system of Russia by using dynamic of retail deposits and credits reflected at a picture 1. In the beginning of 2000<sup>th</sup> Russians were not interested in banking services because of the influence of the crisis of 1998. That's why relationships of Russian citizens with banks were limited just only by deposits. According to analysts of "Renaissance credit" the Russian market of deposits exceeded the credit market by 10 times in the beginning of 2000<sup>th</sup>. However during the last 12 years such difference was erasing. As a result by 2013 deposit to credit ratio had decreased to 1.8. [3].

Analysts of "Renaissance credit" suggest that despite increasing pace of financing the retail deposit portfolio is about to be higher than retail credit portfolio for minimum 5 or 7 years. By the end of 2012 retail credit portfolio had been at 14,251 bln. RUR, the retail deposits—7,737 bln. RUR [5]. It should be noticed that much of accumulated temporarily surplus funds are short term. Hence the long term development could not effectively based on such basis.

Building innovative mechanisms of banking service delivery in order to minimize risks is a priority for the development of banking system. However to construct such innovative mechanisms in Russia a new relationship between clients and banks should be implemented. There are still sustainable banking systems in the world banking practice despite the last financial crisis. These sustainable banking systems have developed banking markets with big number of various specific products and services.

One of the clear-cut examples of sustainable development of banking system can be the experience of the UK. The most number of British banks prefer to

Table 1: Problems of the development and formation of sustainable banking system of Russia and ways of its overcoming. (Compiled by authors.)

Problems of modern banking system	Solutions
Problems of the development of deposit services	
Problems of drawing of long-term deposits.	- creation of a bank's positive reputation; - mitigation of limitation of ration which poses deposit to capital ratio in a part of long-term deposits.
Problem of minimization of long-term deposits' withdrawal.	- banks may offer deposits on terms established by the clients in another words clients decide the deposit's term.
Problems of the development of credit services	
Problems of the wrong estimation of the client's creditworthiness.	- estimation of the creditworthiness of a client should be based on a duly documented income.
Bank's tendency to decrease the list of documents needed to grant loans.	- a base list of documents which affords to estimate financial condition of a client should be elaborated.
The deficit of business plans with good financial perspectives.	- cooperation with universities for the development of socio-economic projects.
Financial illiteracy of population.	- realization of projects aimed at raise of citizens' financial literacy.
Problems of the development of innovation services particularly for remote regions of Russia	
The absence of Russian remote regions to the access in the Internet.	- investments in the development of communication systems.
Network resources of banks is always under the threat of illicit access.	- creation of modern means to protect banking information.

abdicate potential dangerous assets including derivatives and mortgages. This fact could be explained by the reason that in the last financial crisis financial institutions showed negative financial results due to high risky operations in derivative markets.

Modifying banking services British banks seek to minimize their risks using procedures of interaction with clients by principle of division risks with clients. For one, Islamic bank of Britain offers a plan of real estate acquisition called "purchase-rent". This plan bases on a joint possession and rent: bank and client cooperatively buy real property. Then client monthly repays his debt as a rent. With every one repayment made by client his share in a possession of real estate grows until the debt will not fully redeemed and he will become an owner [8].

Many analysts reflect interests of the UK bankers in a development of alternative type of banking services with the saving of traditional ones. In its turn this fact affords to attract new clients. [9] It should be stressed that in many countries tendency of using a special type of banking services evolves. This one based on a partnership between bank and client. [10] Bank and client make an arrangement of simultaneous financing of investment project. Profit/loss is divided according to share of partnership [6].

## CONCLUSION

In common main priorities of the evolvement of banking markets lie in offering such products and services that will allow to divide risks between clients and banks, to ensure a deal with material assets, to satisfy financial

needs of clients, to make business operation more transparent, to stimulate joint growth of banks and clients, to develop economy as a whole, to develop the principle of clients' confidence in financial intermediaries.

In the context of the above we can form main problems of the Russian banking system's development and solution of them (see Table 1).

## CONCLUSIONS

In the end it should be noticed that solution of the abovementioned problems of Russian banking system lies in a utilization of the British experience of banking sector's evolvement. As a result the national banking market will become developed and the sustainability of banking system of Russia will grow.

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