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Challenges of banking: modern Russian specificity

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Abstract

The aim of the study is to investigate the challenges of banking as certain Russian specifics, and in the aggregate, requiring system integration and balance in the conditions of active digitalization via the systematic approach and general scientific methods. As a result, new financial relationships, emerging in the context of the widespread development of digital technologies are under the increasing influence of previous state restrictions. This Russian specificity has a significant potential of turning into destructive system factor for banking. In conclusion, the formation of modern ecosystems and technological platforms in Russian formats is mainly carried out by large banks.

Keywords: Banking system, Digitalization, Ecosystems, nationalization.

Desafíos de la banca: especificidad rusa moderna

Resumen

El objetivo del estudio es investigar los desafíos de la banca como ciertos detalles rusos, y en conjunto, que requieren la integración y el equilibrio del sistema en las condiciones de digitalización activa a través del enfoque sistemático y los métodos científicos generales. Como resultado, las nuevas relaciones financieras, que surgen en el contexto del desarrollo generalizado de las tecnologías digitales, están bajo la influencia creciente de las restricciones estatales anteriores. Esta especificidad rusa tiene un potencial significativo de convertirse

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en un factor de sistema destructivo para la banca. En conclusión, la formación de ecosistemas modernos y plataformas tecnológicas en formatos rusos se lleva a cabo principalmente por grandes bancos.

Palabras clave: Sistema bancario, Digitalización, Ecosistemas, Nacionalización.

1. INTRODUCTION

At present, serious transformational changes are taking place in banking. They have as general trends around the world, as certain national specifics. The main system requirement is the maintenance of goals integration and the necessary balance of both these processes in time and space. Otherwise, high risks may form instead of additional features. Therefore, the detailed analysis of the current main trends in banking in our country is required. First of all, it should be noted a fairly steady increase in the number of indicators of the banking sector development after the global financial crisis (BOZIEVA, 2017).

Table 1: Capital and financial performance indicators of the banking sector of the Russian Federation in 2010-2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Equity capital (own funds), trillion rubles	4.6	4.7	5.2	6.1	7.1	7.9	9.0	9.4	9.4	10.2
Total assets, trillion rubles	29.4	33.8	41.6	49.5	57.4	77.7	83.0	80.1	85.2	94.1
Capital adequacy N1.0, %	20.9	18.1	14.7	13.7	13.5	12.5	12.7	13.1	12.1	12.2

Current year profit, billion	205.1	573.4	848	1012	994	589	192	930	790	1345
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rubles										
Return on assets, %	1.9	1.9	2.4	2.3	1.9	0.9	0.3	1.2	1.1	1.5
Return on equity, %	12.5	12.5	17.6	18.2	15.2	7.9	2.3	10.3	8.3	13.8

* The table is based on The Bank of Russia. Annual report for 2009. - M.: The Central Bank of the Russian Federation, 2010. - Pp. 30, 34, 36; The Bank of Russia. Annual report for 2010. - M.: The Central Bank of the Russian Federation, 2011. - Pp. 30, 34; The Bank of Russia. Annual report for 2011. - M.: The Central Bank of the Russian Federation, 2012. - Pp. 30, 35; The Bank of Russia. Annual report for 2012. - M.: The Central Bank of the Russian Federation, 2013. - Pp. 31, 35; The Bank of Russia. Annual report for 2013. - M.: The Central Bank of the Russian Federation, 2014. - Pp. 25, 29; The Bank of Russia. Annual report for 2014. - M.: The Central Bank of the Russian Federation, 2015. - Pp. 22, 24, 26; The Bank of Russia. Annual report for 2015. - M.: The Central Bank of the Russian Federation, 2016. - Pp. 28, 29, 30; The Bank of Russia. Annual report for 2016. - M.: The Central Bank of the Russian Federation, 2017. - P. 285; The Bank of Russia. Annual Report for 2017. - M.: The Central Bank of the Russian Federation, 2018. - P. 318; The Bank of Russia. Annual report for 2018. - M.: The Central Bank of the Russian Federation, 2019. - P. 391. The indicators of capital and total assets had the most consistent dynamics (see Fig. 1).

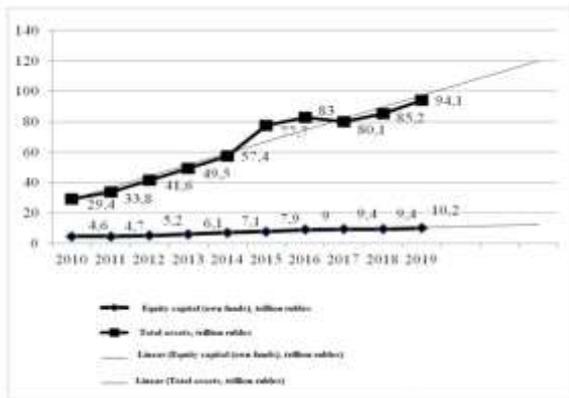


Figure 1: The trends of the indicators of equity capital (own funds) and total assets of Russian banks in 2010-2019 (compiled by the author according to Table 1)

The dynamics of the profit of Russian banks turned out to be more multidirectional in certain years, but in general, it had positive growth over the period under review (see Fig. 2).

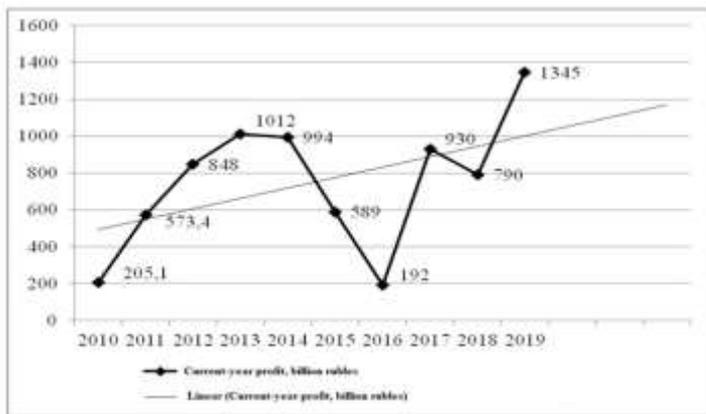


Figure 2: The dynamics of the total profit of Russian banks in 2010-2019 (compiled by the author according to Table 1)

On the whole, the dynamics of return on equity and return on assets of Russian banks were negative (see. Fig. 3). This significantly contradicts the previously noted positive trends. In general, it turns out that the growth of the resource potential of the banking sector is accompanied by a certain decrease in the efficiency of its use. Obviously, this contradiction is one of the most important characteristics of the specifics of the current state of banking in Russia.

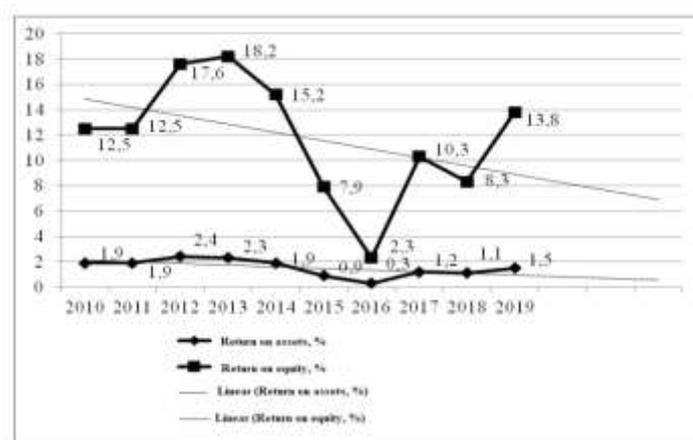


Figure 3: The trends of the indicators of return on equity and return on assets of the Russian banking system in 2010-2019 (compiled by the author according to Table 1)

The most common version of the main trends in the global banking system is the highlighting of the increasing number of banking services, which are provided through the multiple channels, integrated

by the virtue of the distribution of digital platforms. The active digitalization of banking is reflected in its content and in customers' behavior. On the one hand, a new financial space is being created. Here, the activities of digital, telecommunication and technology companies, which are increasingly being introduced and firmly entrenched in the financial services markets, intertwine with traditional banking, which, in turn, is stepping up to the creation of new ecosystems, allowing to control the profits as for all banking chains, as beyond their bounds (MAU, 2010).

Thus, Russian banking currently has a real chance of reaching advanced positions in terms of technological criteria. Almost all major banks of the country have carried out a fairly deep digital transformation in practice. The main arguments are the following: a high percentage of customers, who prefer remote forms and tools for using banking services, which is about 65 % in Russia. These indicators are close to European countries (60-70%) and higher than in North America (55%). In addition, in Russian reality, it is observed widespread use of the most modern mobile and online applications, which are highly functional. For example, the mobile applications, used by the largest Russian banks, have one and a half to two times more transaction service functions, compared to the applications of the largest European banks. McKinsey experts believe that the reason for this is the fact, that Russian banks have mastered market forms of business relatively recently, that is, directly in the digital era, which plays a favorable role in this case. Therefore, our country is one of the world leaders in the so-called digital

banking, and in 2018, it was in the top 5 leading European countries for its development (GEYETS, 2018).

2. METHODOLOGY

The technological comparison of mobile banking applications, used by the largest Russian banks (SIMANOVSKY, MOROZOV & SINYAKOV, 2018), with the analogs, used by the largest players in the global financial market, showed that in practice the Russian banking sector has overcome the characteristic lag behind the systems of developed countries. In this direction, our country shows a particularly high dynamics of development and has sufficient resources to stay among the leaders of credit and financial markets [2]. No matter how often the post-reform state of the Russian economy is criticized, it occupies the leading positions in terms of the digitalization of banking activities.

According to the experts of the Bank of Russia, active digitalization will lead to a number of sharp trends, forming new additional challenges [4]. The general logic of the corresponding challenges is based on the contradictions of the growing potential of banking services and various additional risks. Banking capabilities are directly and increasingly connected with the Internet and mobile communication technologies, which have become not only an integral part of financial and credit relations but also in many areas already determine their main content. In this context, it should be noted that taking into account the new requirements of digital transformation, it is

proposed to consider the essence of financial relations through such functions as the function of state-building, the entrepreneurial function and the social function (GALAZOVA, 2017).

There are many contradictions in the selected areas, however, in our opinion, the main problem lies in the other, systemic plane. First of all, it should be noted, that the increase in competition in the sphere of P2P lending is interpreted in different ways. This type of lending is characterized by technical implementation through the Internet platform, which is a specific organizational form of the market, integrating many borrowers and lenders, who sometimes are the same person (VINNIKOVA, 2015). Moreover, most platforms provide an opportunity to analyze incoming requests, as well as the financial viability and integrity of the entities, participating in transactions.

Regardless of the specialization of lending (commercial, private or universal), the basic P2P mechanism excludes the fundraising of investors for interest payments, and the online platform itself does not act as a party to the transactions. Accordingly, no guarantees are given for the fulfillment of the terms of the contract, and no intermediary debt services are provided. The Internet platform can be legally represented by both an individual entrepreneur and a legal entity, providing intermediary services. This activity does not require compulsory licensing, and its income consists of various commission fees (CHEN, PETROV, TORBEEV, & LIMAREV, 2018).

Thus, the technological mechanism of P2P lending turned out to be more adapted and more available to consumers of services than traditional bank lending. It can be used by any banking or nonfinancial organizations. It is a tool that cannot become a challenge, a threat, or a competitor outside the system. Therefore, the contradictions of competition should be investigated within the banking system, in the system of financial relations (SOLDATENKOVA, 2017). Moreover, in Russian practice, Internet platforms are used in conjunction with many other financing tools - crowdfunding, various hybrid financing, etc. As a result, it is noted that the expanding scope of services of P2P lending exerts increasing pressure on traditional bank lending, and the popularity of these technologies is growing significantly. It is possible that, on this basis, the formation of a nationwide innovation platform can occur, which is based on the potential of the so-called economy of physical persons (SADYRZHANOV, 2018).

Blockchain technology represents the numerous blockchains of distributed ledgers. It is a more universal, accessible and reliable way for making transactions and for storage of information about them. It also allows us to save limited production resources and to increase the reliability of national economic systems. Therefore, the International Monetary Fund, the US Federal Reserve System, the central and national banks of several leading countries of the world, including the Bank of Russia, presented their ideas about the development of this technology (GRUSHIN, 2018).

3. RESULT

The Bank of Russia report notes the breakthrough innovative potential of the considered technology in the spheres of payments, settlements, clearing and in a number of other operations. Along with this, the prospect of a radical change in the banking system of customer service opens up. In addition, it is emphasized that the financial sector, as a whole, focuses on the priorities of closed and hybrid networks, due to the possibility of creation of an effective mechanism for their management, and fairly strict control over the actions of market participants (NURMUKHAMETOV, STEPANOV & NOVIKOVA, 2018).

In addition, the Bank of Russia is the main initiator and organizer of the development of the system Marketplace. It is a unique platform for the provision of financial services and products to individuals on a one-stop basis, using the services of many financial and non-financial organizations and institutions. At the same time, the relevant legislative drafts were developed for the regulation of transactions on the electronic platform of Marketplace (KOMELKOV, 2017).

It should be particularly emphasized that the Bank of Russia, with the participation of the FinTech Association, has also created the so-called Faster Payments System, with the development of all related regulatory acts. As a result, the project is at the beginning of its functioning in the payment system of the Bank of Russia. It has approved tariffs for the system's services. Information and consultation

Banking sector capital as % of GDP	9.2	11.9	10.2	8.7	9.0	9.7	10.0	10.8	10.9	10.2
Asset structure of the banking sector by the clusters of credit organizations. %										
state	41.9	43.7	44.7	46.6	47.2	54.6	55.0	55.8	57.4	58.5
with foreign capital	11.6	10.5	10.9	11.5	11.1	10.5	9.7	8.8	7.7	7.7
large and medium private	42.4	41.5	39.6	35.1	35.7	29.5	29.0	27.6	27.1	17.5
small private	1.9	2.2	2.1	2.0	1.8	1.6	1.0	1.2	1.1	0.6
The structure of existing credit organizations, pcs.										
state	18	19	20	22	23	23	23	20	19	19
with foreign capital	70	72	73	73	73	76	70	79	74	72
large and medium private	382	347	354	347	342	330	310	256	224	204
small private	568	551	494	472	454	425	366	297	232	193
The share of top 5 banks in sector assets, %										
The share of top 5 banks in sector assets, %	46.2	47.9	47.7	50.0	50.3	52.7	53.6	54.1	55.3	55.8

With rather small fluctuations in the ratio of banking sector capital to the gross domestic product, the share of the capital of large and medium private banks significantly decreased, with a significant increase in the share of the capital of state banks (see Fig. 4). An increase in the state's share, as in terms of the size of the owned share, as in the

control of banking activities, contradicts the foundations of modern economic development.

At the same time, the phenomenon of state participation in the economy is an integral characteristic of the modern market, but with the excessive activity or monopoly position, the state becomes a deterrent. In particular, this is especially significant at present, when an endogenously oriented model of development is required. This model ensures the creative behavior of economic agents and the transition to the knowledge-based economy [15].

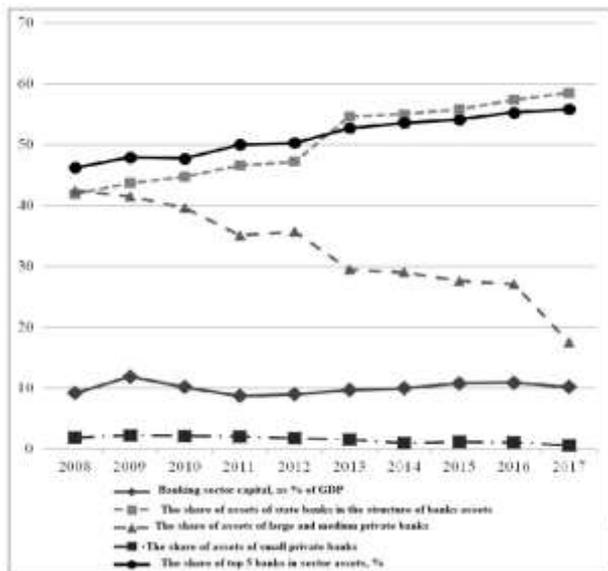


Figure 4: The trends in the structure of banking assets in the Russian Federation in 2008-2017

State participation in banking occurs both directly through the ownership of shares in capital, and through the indirect influence on the decisions, made on the use of limited credit resources. In addition, the potential of the state financial policy is significant. In the scientific literature, it is proposed to distinguish between banks, owned by the state, banks under the control of the state, and banks under the influence of the state. Formally, the state banks are those in which the corresponding share is more than half of the authorized capital. But in general, the banks are multi-level integrated structures with a rather rigid hierarchy, where the parallel or cross participation in capital and in management bodies is practiced. Therefore, even with a small share of participation, the state is actually able to fully manage the credit organizations.

In the current year, according to the official websites of ten leading banks, the state control has already extended to more than 60 percent of the assets of these banks. At the same time, this indicator for the top five banks is more than 65 percent (see Table 3).

Table 3: State participation in the assets of leading Russian banks in 2019 *

		Assets, trillion rubles	State control, trillion rubles	State control, %
1.	Sberbank of Russia	28.4	14.9	52.3
2.	VTB Bank	13.9	12.8	92.2
3.	Gazprombank	6.1	3.9	64

4.	Non-Bank Credit Organization - the central counterparty of the National Clearing Center	4.3	1.6	36.1
5.	Russian Agricultural Bank	3.6	3.6	100.0
	Total top 5:	56.3	36.8	65.4
6.	Alfa-Bank	3.3		-
7.	Credit Bank of Moscow	2.2		-
8.	Otkritie FC Bank	2.1	2.1	99.9
9.	Promsvyazbank	1.7	1.7	100.0
10.	UniCredit Bank	1.5		-
	Total top 10:	67.1	40.6	60.5

4. CONCLUSION

The process of nationalization of banking activity is becoming a systemic negative factor in the context of digitalization. As already noted, the banking sector of Russia overcomes the technological challenges efficiently and adequately. But the technological priorities of the platforms Master chain, Marketplace, Faster Payments System, etc. are formed mainly on a state basis. In addition, it is highly likely that the ecosystems, created by large banks, will be nationalized. In this case, the corresponding influence of the state will move from the sphere of core business to the sphere of decision-making at the next level - banking ecosystems. In the future, this will affect the sphere of non-banking ecosystems, where asset management, healthcare, education, real estate management, the Internet of things, travel services, smart houses and much more will be concentrated.

To what extent the breakthrough position in the development of digital banking technologies will become decisive, and how it will correlate with the other components of banking - this is a question of possible systemic contradictions. Emerging new financial relationships are under the increasing influence of previous government restrictions. And this Russian specificity can become a rather destructive factor for banking in the digital era. Taking into account the systematic impact of the state factor on the development and functioning of the banking sector, the increasing integration of the financial space in a wide variety of new technological platforms and ecosystems, it is appropriate to consider the tendency of nationalization of banking activities as the main and controversial challenge. Therefore, new tools are required, which can exclude the transformation of nationalization into banking and non-banking ecosystems.

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