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STRUCTURAL TRANSFORMATION OF THE BANKING SYSTEM

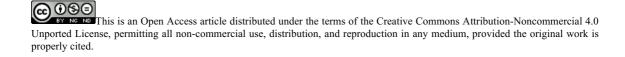E. S. Nedorezova (a)*, K. N. Ermolaev (b)
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Abstract

The banking system is an integral part of the economy of any country and it is in very close relationship with other economic sectors. It is very closely related to both the financial and production cycle. The state of the banking system has a tremendous impact on the development of the entire real sector of the economy. Today, the banking system is the main source of financing for the real sector of the economy, lending to small and medium-sized businesses. Entrepreneurship forms the basis for the development of modern economic society and the middle class of the population. The current changes in financial markets require a rethinking of the role of credit institutions in the global and Russian economies. In the context of global economic instability and crisis, the world banking system is undergoing its restructuring. If we consider functions of the banking system, then its stability and effectiveness depend on its institutional structure. In the national economy, the banking system acts as an institution of accumulation, mobilization and distribution of financial capital among all participants in the business. In implementing the monetary mechanism, it performs certain functions. The banking system should be a stable dynamic infrastructure, since the comprehensive provision of financial services to clients depends on the features of its structure at a certain stage of development. The study analyzes the current stage of the institutional transformation of the banking sector based on actual data from official and alternative statistical sources.

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1. Introduction

The banking system to a large extent determines the level of the country's economic development, while influencing the rate of economic growth through investments in various sectors of the economy (Ajupov, Ahmadullina, Belyaev, & Sizova, 2019; Zveryakov, Kovalenko, Sheludko, & Sharah, 2019). We will conduct a study of the current transformation in the banking system of Russia in the context of digitalization. Currently, 473 credit organizations (COs) operate in the Russian Federation. Banks that have the right to carry out banking operations account for 91% or 430 organizations. Operations to attract deposits of the population can be carried out by 392 COs, operations in foreign currency – 465 COs and operations with precious metals – 207 COs. There are 698 branches of credit organizations in the Russian Federation, including 89 branches of Sberbank. On June 1, 2017, Federal law of May 1, 2017 N 92-FZ "On amending certain legislative acts of the Russian Federation" entered into force, which divided Russian banks according to the list of permissible operations into banks with a universal license and banks with a basic license and new requirements for the minimum authorized capital of credit organizations. Universal banks and banks with a basic license are determined in accordance with the amendments to the Federal Law of December 2, 1990 No. 395-1 "On banks and banking activities".

2. Problem Statement

Many scientists and specialists devoted their research to various scientific, theoretical and practical development aspects of the banking system (Vovchenko, Andreeva, Kokhanova, & Dzhemaev, 2018). When researching the banking system, scientists and practitioners obtained results with a high degree of significance, but the institutional structure of the banking system of Russia remains poorly understood and requires additional research.

3. Research Questions

The research questions involve solving several problems. At the initial stage of the research, it is required to study the situation according to which the Central Bank has established mandatory standards for banks with a basic license, their numerical values and calculation methods, as stated in the regulator's instructions. (Tarkhanova, Chizhevskaya, & Baburina, 2018; Ershova & Tarasenko, 2018) This document establishes five mandatory ratios: equity ratio (H1.0) - the minimum acceptable numerical value is set at 8%, core capital adequacy ratio (N1.2) - 6%, current liquidity ratio (N3) – 50 %; the standard maximum risk for one borrower or a group of related borrowers (N6) is set at 20% and the maximum risk for a person (group of persons) associated with a bank with a basic license (N25) is set at 20%. The minimum amount of capital to receive a universal license (according to new requirements) is set at 1 billion rubles, for a basic license - 300 million rubles. In the final part of the study, it is necessary to find out the positive and negative trends of the ongoing transformation.

4. Purpose of the Study

According to the Central Bank, as of December 30, 2018, 149 (Central Bank of Russia Federation, 2018) banks received a basic license. At the same time, three banks with a universal license changed their status to a non-bank credit organization (Zveryakov et al., 2019). Thus, the transition period ended, during which banks with capital of less than 1 billion rubles should either raise it above this level or obtain a basic license (with a capital of at least 300 million rubles) or be transformed into a non-bank credit organization. Starting from January 1 of this year, credit organizations in the Russian Federation are divided into systemically important banks, banks with a universal and basic license (the so-called three-tier banking system). For banks with a basic license, regulation is simplified - they must comply with only five standards. It is assumed that the target client segment for banks with a basic license will be small and medium-sized businesses, the population. The formation of a business model of banks with a basic license is aimed at ensuring the availability of banking services in regions, which should help revitalize the growth of regional economies.

5. Research Methods

The methodological basis of the study was classical tools of formal logic: analysis, synthesis, induction, deduction, abstraction, comparison. Among the widely used methods, we can distinguish mathematical, statistical and graphical methods used to determine the development trend and dynamics of the volumes of the Russian banking sector (Sweeney, 2019; Zveryakov, Kovalenko, Sheludko, & Sharah, 2019). They made it possible to ensure the complexity of scientific research and the reliability of conclusions.

6. Findings

We use the rating of RIA experts "Rating of banks in terms of equity as of January 1, 2019", (RIARating, 2019) which presents 477 banks and non-bank credit organizations of Russia. The indicators of 477 banks are analyzed in the presented rating. All banks are characterized by the observance of all indicators that allowed them to obtain one or another status: the amount of capital, standard H1.0 at least 8% and standard H1.2 at least 6% (Table 01).

Table 01. Distribution of banks by the amount of equity (capital) as of 01.01.2019

	Units
Total number of banks	477
Banks with a capital of 1 billion rubles	274
Banks with a capital of less than 1 billion rubles and more than 300 million rubles	156
Banks with a capital of less than 300 million rubles	47

Source: authors based on (RIARating, 2019).

So, according to "Rating of banks in terms of equity as of January 1, 2019", (RIARating, 2019) capital adequacy is not a problem for most banks. In 2018, capital grew at 314 credit organizations or at

65.8% of banks represented in the rating. At the same time, the largest banks in the country in terms of capital were characterized by higher growth rates than the rest banks in 2018. Thus, TOP-25 banks increased the total capital by 14.7%, and the first hundred leaders of the banking industry showed an increase in equity by 12.6%, against the reduction in capital of all other banks outside TOP-100.

Against the background of uneven growth of capital among different size groups in the banking sector, there was an increase in the concentration of capital of the largest banks (Sweeney, 2019; Tarkhanova, Chizhevskaya, & Baburina, 2018). In particular, the banks from TOP-25 in the current rating control 83.3% of the total capital against 80.8% as of January 1, 2018. The share of TOP-50 banks in the capital increased to 90% in 2018 (88.1% as of January 1, 2018).

The absolute leader in increasing equity in 2018 was Sberbank, whose equity grew by 566 billion rubles. A significant increase in capital among the leader of the banking sector in Central and Eastern Europe is associated with high profits. VTB Bank also showed good results in 2018 (+522 billion rubles). At the same time, the growth of VTB Bank's capital is more related to the merger of VTB24 Bank to it, and to a lesser extent with profit. The increase in capital of both Sberbank and VTB Bank did not affect their position in the rating, they still occupy the 1st and 2nd places, respectively. It is worth noting that the total growth of the two leaders of the banking sector exceeded the total capital growth, so the rest of banks taken together worked in negative.

The capital adequacy ratio increased to 12.3% in 2018 against 12.1% a year earlier. Moreover, an increase in the standard relative to the previous year was observed in 242 credit organizations, or 50.7% of the total. Thus, a significant portion of banks were able to improve their sufficiency ratios. According to the findings of the study, the number of banks with a low standard of sufficiency remained virtually unchanged at the end of 2018. So, on January 1, 2019, only 2 banks had an equity ratio of less than 9% out of the banks with positive capital represented in the rating, compared to three banks a year earlier. In 2018, EXPRESS-VOLGA and Finance Business Bank were characterized by a low standard value (H1.0), with the standard - 8.8% and 3%, respectively. At the same time, both banks undergo a financial recovery procedure, and requirements for compliance with the standards do not apply to them. Four banks were also characterized by a low value of the capital adequacy ratio (H1.2 within 6-6.5%) in 2018: Finance Business Bank, Tavrichesky Bank, PERESVET Bank and MinBank, they are also all undergoing recovering.

The current level of median sufficiency of equity and fixed capital (25.7% and 18.2%, respectively) in the banking sector with a very large margin meets the requirements of the regulator, so capital adequacy is currently not an obstacle to the growth of most banks. According to RIA Rating experts, (RIARating, 2019) the projected profit for 2019 can be quite high, and even against the backdrop of growth in dividends from state banks, this will significantly increase capital. Most likely, the capital growth rate will be above 10% in 2019, and in addition to profit, the source of growth will be the recapitalization of some banks being recovering (Pantielieva, Zaporozhets, Nagaichuk, & Bartosh, 2019). The average and median standards will remain approximately at the current level. According to analysts, in 2019 a situation of faster growth of capital is likely both due to profit and replenishment of capital of large banks being recovering. Moreover, amid an increase in credit activity growth, capital adequacy may begin to decline. However, despite these positive trends, the transformation is not over yet.

7.   Conclusion

The most common and effective business model, both in Russia and around the world, is a universal business model in which none of the business areas (retail, corporate, investment) is predominant. Thus, it turns out that today the Bank of Russia seeks to increase the number of banks with a universal business model. In this regard, in 2020 it is expected to accelerate the pace of revocation of licenses. All this indicates the incomplete transformation of the banking sector. Currently, a significant share of banks with a non-viable and risk-taking business model remains in the banking sector. That is, such banks do not provide operational efficiency and capital generation that would compensate for current losses from risks. The unsatisfactory financial situation reflected in the health index of the banking sector can be aggravated so much that the regulator will have clear grounds for withdrawing these players from the market. Thus, we can conclude that in the context of digitalization, the institutional transformation of the banking sector, primarily related to banking credit organizations, will continue until the Bank of Russia arranges the number of banks with an effective business model.

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