

Current Problems in Functioning of Russian Federation Banking Institutions during the Pandemic Period and Ways of their Solution

Elena A. Posnaya^a, Natalya V. Alesina^b and Artyom O. Shevtsov

Institute of Finance, Economics and Management, Sevastopol State University, Sevastopol, Russian Federation

Keywords: Bank, Online Service, Digitalization, Innovation, Pandemic, Financial System.

Abstract: The situation associated with the Coronavirus pandemic has accelerated the digitalization process, and all areas, including banking, must support the new trend and reorganize in a short time. The banking sector will face the problems of under-profit, as the business sector is being rebuilt, there is no adequate demand, therefore, loans may not be paid on time or, even worse, not returned to bank institutions. Parallel to this, there is a need to move almost entirely to a digital customer service environment. This is the primary condition for functioning in the modern business space. Currently, due to the existing global problem, the Coronavirus pandemic, banking institutions of the Russian Federation need to reorganize to a new format of work, which in the future is likely to dominate the format that was present in the work of banking institutions earlier. We are talking about the global digitalization of the banking system. There will be a need to train employees in new digital technologies, and citizens will need to implement and improve existing financial literacy courses. In connection with these circumstances, many problems arise, the solutions to which must be identified and implemented. The presented study focuses on the problems of the functioning of banking institutions during a pandemic and determines the vector of their solution.

1 INTRODUCTION

The country's economy is currently closely related to the state of the epidemiological situation not only in the country, but also in the world. The pandemic has forced a balance between measures to protect human health, overcome recession and maintain financial stability in the face of global instability.

In the financial sector, the course has been taken towards the digitalization of the economy. Online banking services are gaining in popularity and development. Online purchases, remote loans and online deposits, without which we can no longer imagine our life. To pay bills or open a bank account, you only need to have a phone or a device with Internet access. The pandemic has accelerated the digitalization process and all areas, including banking, must support the new trend and reorganize in a short time.

The banking sector is one of the most volatile. At the moment, the safety margin for the capital of banking institutions is at a sufficient level, and there

is a surplus in terms of liquidity. A significant number of problems affected the banking sector, starting in March 2020, that is, from the period of the beginning of the pandemic.

The monetary system of the Russian Federation is built in such a way that the national currency, the ruble, depends on the foreign currency, the dollar. This dependence negatively affects the monetary system within the country, and the period of the pandemic exacerbated this once again.

2 MATERIALS AND METHODS

The Russia banking system is faced with systemic problems. The banking sector is going through a serious crisis and is undergoing a period of growth of distressed assets, like the entire national economy. At present, both the Russian economy and the banking system, as one of the connecting links of the national economic system, are in need of rapid adaptation to changing conditions (Aleksandrova, 2020).

^a <https://orcid.org/0000-0002-7716-9117>

^b <https://orcid.org/0000-0001-5822-9877>

After the onset of the Coronavirus crisis and the transfer of employees to remote work, individuals and legal entities began to actively withdraw their funds from bank accounts, close deposits, the purchase of securities and investment of funds decreased. Compared to 2019, the indicators for consumer loans issued in 2020 decreased by 1.5 million rubles (Sofiychuk and Odinkova, 2020). In the spring of 2020, the number of issued credit cards also decreased, due to the instability of the situation during the pandemic. Falling income, uncertainty ahead of tomorrow had a negative impact on the banking system. Small and medium-sized businesses, unable to withstand the financial burden, asked banks for deferred payments, paid only interest or took "credit holidays". All this led to a sharp decrease in deposit rates, which led to a decrease in clients of banking institutions.

After the active phase of the pandemic in the banking sector, there is a problem of an outflow of funds, which may turn into a problem of maintaining marginality. Banks that increase their loan portfolios are forced to offer depositors more favorable conditions, which, given low interest rates on loans, negatively affects profitability.

So in the new conditions, success in the competition depends on whether the bank is able to constantly expand the range of services provided, reduce their cost, improve the quality of banking services to customers (Selifonov and Chistyakova, 2019).

Due to the pandemic, the digitalization of the banking system has accelerated significantly, since it was necessary to ensure the operation of institutions remotely. Banks in the conditions of telecommuting have come to the online lending system. Another service is also gaining popularity: it is the opening of accounts for new customers online. These remote operations are based on close cooperation with the state and the use of digital portals such as Public Services and a unified biometric system. Programs for the delivery of credit and debit cards to the customer are accelerating and expanding, and the demand for this service is also growing due to personal security measures (Khokhlov et al., 2020).

3 RESULTS

In connection with the developing digital system in banking institutions, it became necessary to supplement and change the provisions in the regulatory framework that relate to the regulation of the banking institutions activities. The Bank of

Russia, together with the ministries and departments of the Russian Federation, carried out work and analysis on the implementation of the legal framework using non-cash payments and the implementation of the process of functioning of the financial system in a remote format.

With the transition to online banking services, the bank financial security has become especially important. The creation of a financial security system, ensuring the protection of financial resources, information and property of the bank is one of the urgent problems of protecting the bank's activities from external and internal threats. Financial security is a consequence of information, managerial, organizational and technical, which are aimed at effectively ensuring a stable and sustainable regime of bank management, taking into account the interests, as well as the safety of financial and material values.

Due to the pandemic and the popularization of online activities, the Internet fraud activity has increased. Criminals have stepped up in the online banking industries. The number of fraudulent transactions recorded by banks is growing in proportion to the increase in the number of client transactions serviced, but the amount of damage remains at about the same level as before. Attempts to hack online banks are less and less likely to lead to serious consequences, since modern security systems are able to prevent damage to both banks and the customer base. "Otkritie Bank" uses a fraud monitoring system to protect customers, "VTB Bank" is introducing voice anti-fraud. This system will allow you to recognize fraudulent calls to customers and to the bank. A system of operations performed notification, informing the population about the rules for the safe use of banking services is widely used (Posnaya et al., 2017, 2018, 2019, 2020).

After the past year, which was recognized as the year of the pandemic, experts assumed that many banks in the Russian Federation would default. Banking institutions have massive profitability problems. Thus, 9% of banking institutions in Russia are at increased risk. Since the pandemic is not over yet, banks need to create reserves to deal with the problem of volatility of deposits. The number of banking institutions whose licenses have been revoked by the regulator is increasing. Currently, the health index of the banking sector is 91%. This index corresponds to the share of banks that will remain financially sound over the next year. 9% of existing market participants or 33 credit institutions can default. Their list has not been disclosed, but the calculation base of the index includes 366 banking

institutions. The pandemic also directed the banking sector to address new challenges, scaling remote technologies, rethinking the previous work format and product range.

These circumstances will help banking institutions to rapidly digitalize their services and expand investments in fin-tech products. Managers of banking institutions have already made certain conclusions, based on observations in self-isolation, on the positive and negative aspects of remote work. Based on the findings, plans were outlined to revise the traditional mode of operation of the branches and their very format in the future. A trend may be the introduction of a paid service for high-quality banking services, that is, consumers of banking services will get used to the fact that services, like any service, must be paid for, and there will be much less free services. During the transition to a new format of work, banking institutions lost part of their profits, since they faced absolutely the same problems as the entire business world. Banking institutions had to transfer tens of thousands of employees to a remote mode on a large scale, scale up remote banking services for clients, and at the same time manage emerging risks. According to representatives of the largest banks, certain financial costs were required to "reconfigure" the banking system to operate in the new regime. Therefore, the increase in the volume of transactions in the new format should contribute to making profits at a faster pace than in previous periods. Also, banking institutions had to bear unforeseen expenses to ensure the protection of the health of both customers and employees. Banks have purchased and are purchasing medical masks, gloves and other personal protective equipment, disinfectants, protective glasses for service windows, strengthened software and strengthened IT capabilities. Along with a decrease in customer flow in bank branches, the load on contact centres (hotline phones, chat bots and mobile applications) has increased.

Even before the start of the pandemic, most of the players in the banking market included in the development strategy the procedure for improving digital infrastructures and digital services, as well as various IT services. The digitalization trend entered an active phase about five years ago, so the situation with the virus did not completely shock the daily business life of the banking sector, experts say. For example, by this time already nine out of ten service operations are performed by clients of the leading banking institution in Russia, Sberbank, in the digital environment. At the same time, bankers began to expand the functionality of mobile applications,

adding a list of new, more relevant products that were previously only offline, and, most importantly, information on support measures during the quarantine period and subsequent lockdowns.

The problems associated with the functioning of banking institutions during the pandemic were resolved almost instantly. For example, banking institutions added the option "take a credit vacation" (State Program for the Support of Borrowers) to mobile applications and chat bots, introduced remote account closure and resolving the issue of funds erroneous transfer. A new trend was the expansion of the mobile applications functionality and their transformation from a set of productive proposals into a full-fledged digital office. So, the Sberbank of the Russian Federation indicates that one of the most important services that customers used during the crisis was the online activation of debit cards through a mobile application. Also, the Russian Federation Central Bank gave permission in certain cases to remotely open accounts for new customers without visiting a branch of a banking institution for identification. In connection with the emergence of this situation, members of the banking community have repeatedly applied to the Central Bank with a proposal to revise the identification procedure.

According to the expert opinion, the banks of the Russian Federation entered the pandemic crisis more prepared than the crisis of 2008 and 2014. Accumulated capital and liquidity reserves played an important role. This is the assessment given by the Central Bank of the Russian Federation (Moroz and Nityago, 2013).

To address emerging issues, the Central Bank of the Russian Federation has a developed strategy and pursues a certain policy.

The key rate plays a major role in setting interest rates on bank loans and has a significant impact on inflation and the cost of funding banks. In view of this, the change in the size of the key rate is largely due to market instability and increased volatility, which is the most important statistical financial indicator that characterizes price changes (Manuylenko et al., 2018, 2020).

Thanks to the increase in the key rate, the Central Bank of Russia manages to significantly limit inflation and devaluation risks, to contain the depreciation of the national currency, thereby maintaining financial stability in the state. Thus, by raising the key rate, the Bank of Russia is pursuing the following goals:

- limiting the speculations of banks that have a negative impact on the exchange rate of the national currency. With a low key rate and a rapid weakening

of the ruble, banks begin to take funds from the Central Bank of the Russian Federation, convert them into foreign currency, thereby making money; in the case of a high key rate, these operations become unprofitable for financial institutions;

- the policy of "appreciation" of funds as a result of growth in interest on loans to businesses. Entrepreneurs with a high key rate turn to commercial banks for money less often, as a result of which the flow of funds to the economy decreases, which leads to their rise in price, but not to depreciation.

At the same time, the consequence of the rate increase is the slowdown in economic growth, since entrepreneurs are deprived of the opportunity to take out "cheap" loans, and therefore are forced to curtail production and reduce the number of jobs.

The key rate undoubtedly affects the rates on bank deposits and loans, but their rates do not change linearly. If we consider the cost of deposits, it should be noted that the change in the key rate to a greater extent affects the level of rates on medium-term deposits. The increased rate is attractive for depositors, and in this case, banks are able to increase the volume of deposit portfolios. But there is a downside to this process, an increase in excess liquidity, which manifests itself individually in each specific bank, therefore, the upward trend in deposit rates following the key rate of the Bank of Russia is ambiguous in different banks. It should be noted that the growth of interest rates on loans with an increase in the key rate, as a rule, outstrips the growth of rates on deposits. Since the beginning of 2021, there has been an increase in the loan rate by an average of 1.5-2 percentage points, which indicates forced measures in terms of its increase and a balanced, effective policy of the Central Bank.

4 DISCUSSION

At the time of the start of the pandemic, the Central Bank estimated the capital stock of banks at 5 trillion rubles. At present, representatives of the banking sector prefer to speak with caution even about the near future, since the situation with the incidence of Covid19 is not declining. The demand for lending to individuals is gradually returning to pre-crisis values. The abrupt and large-scale transfer of bank employees to a remote mode of operation led to the fact that bankers began to think about organizing a hybrid mode of work, evaluating the pros and cons of working in this mode. Banks are considering options for giving up some jobs and switching to Outstaff mode (re-registering staff outside the official state),

coworking or working in an office three to four times a week. This is how the office of the future will function, based on digitalization. Even those banking institutions that were previously rather skeptical about investments in digital are now changing their development program. This circumstance will entail optimization and reduction of the branch network, cost reduction programs, changes in business processes and the transfer of part of the staff to remote work. It is an unconditional fact that those credit organizations, whose clients could apply for services without visiting the bank, won the competition. This trend and this effect of the pandemic on the sector are positive for clients who will have access to the services of different banks, regardless of their residence region.

5 CONCLUSIONS

Thus, the Covid19 pandemic has identified a number of problems, but it has been proven by theory and practice that their competent solution will lead to an increase in the services efficiency, an increase in profits, and a high-quality resources distribution. The pandemic, together with the macroeconomic landscape, intensifies the financial institutions competition for clients and shifts the focus towards transactional income. Over the next several years, the concept of paying for high-quality banking services will strengthen on the market. The segmentation of the customer base will begin to develop, and differentiated tariffs will be introduced more actively. Consumers will gradually become accustomed to the fact that banking services, like any service, must be paid for, and free services will become less and less.

REFERENCES

- Aleksandrova, T.A., 2020. Problems, indicators and indicators of the banking system of Russia at the present stage of development. *Scientific journal of young scientists*, 4(21): 82-91.
- Sofiychuk, V.A., Odinkova, Yu.A., 2020. Banking risk management: lending to corporate clients during a pandemic. *International Journal of Humanities and Natural Sciences*, 7-1(46): 165-168.
- Selifonov, S.I. Chistyakova, M.K., 2019. Competitiveness and sustainability of a commercial bank as a factor in the priority direction of development. *Scientific research in the agricultural sector of the economy: issues and achievements: materials of the All-Russian youth scientific conference*. Oryol: Publishing house Oryol State Agrarian University, pages 352-359.

- Khokhlov, V.V., Chaikina, E.V., Posnaya, E.A., 2020. Economic and mathematical model of the dependence of the rate of cryptocurrency on exploratory factors. *Financial research*, 4(69): 118-130.
- Posnaya, E.A., Dobrolezha, E.V., Vorobyova, I.G., Chubarova, G.P., 2018. The Economic Capital Model in Bank's Capital Assessment. Chapter 12 in Simon Grima, Eleftherios Thalassinou (ed.) Contemporary Issues in Business and Financial Management in Eastern Europe (Contemporary Studies in Economic and Financial Analysis, Volume 100), *Emerald Publishing Limited*, pages 111-119.
- Posnaya, E.A., Kaznova, M.I., Shapiro, I.E., Vorobyova, I.G., 2018. Theory and Practice of Capital Estimation Methods: An Application in Bank Management. *European Research Studies Journal*, 21(SI2): 497-505.
- Posnaya, E.A., Semeshina, N., Vorobyova, I., Mohnitskaya, D., 2017. Selective Method of a Bank Capital Assessment in Russian Federation and Other Country in the Context of Globalization. *Proceedings of the 17th International Scientific Conference on Globalization and its Socio-Economic Consequences*, Rajecke Teplice, Slovakia, (Part 4), pages 2089-2095.
- Moroz, O.N., Nityago, I.V., 2013. Finance and credit: study guide in 4 parts. Part 4. *Credit and banking system*. Novosibirsk. SGGA.
- Posnaya, E.A., Ditsulenko, O.I., 2020. The role of bank capital in the lending process. *Topical issues of accounting and management in the information economy*, 2: 236-240.
- Posnaya, E.A., Semenyuta, O. G., Dobrolezha, E. V., Smolander, M., 2019. Modern Features for Capital Portfolio Monitoring. *International Journal of Economics and Business Administration*, 7(S1): 53-60.
- Manuylenko, V.V., 2018. Modification of Universal Toolset for Evaluation of Financial Sustainability of Corporations in their Strategic Planning. *Journal of Applied Economic Sciences*. 13-2 (56): 454 – 464.
- Melnikova, Y.V., Posnaya, E.A., Bukach, B.A., Shokhnekh, A.V., Tarasenko, S.V., 2020. Defining Key Determinants of the Strategic Economic Security of the Agro-Industrial Complex in Terms of Stabilizing Political Course. *E3S Web of Conferences*.
- Posnaya, E.A., Tarasenko, S.V., Bukach, B.A., Shokhnekh, A.V., 2019. The Significance of Bank Financial Security in Capital Management. Proceedings of the "New Silk Road: Business Cooperation and Prospective of Economic Development". *Economics, Business and Management Research*, Atlantis Press, 131: 977-979.
- Manuylenko, V.V., Ryzin, D.A., Gryzunova, N.V., Bigday, O.B., Mandrytsa, O.V., 2020. Toolset for financial risk strategic assessment in corporations based on stochastic modeling. *Amozonia Investiga*, 9(28): 451 – 464.