

The Role of Regional Banks in Ensuring Sustainable Development of the Regions of the Russian Federation

Dmitriy Shor^a, Inna Shor^b and Dildarakhon Shelestova^c
Volgograd State University, 100, Prospect Universitetsky, Volgograd, Russia

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Abstract: The socio-economic situation in the regions of the Russian Federation is largely connected with the level of development of regional banks. Regional banks play an important role in ensuring the stable functioning of their region of dislocation as the scale of their activity, their saving and investment activities create the environment for economic growth in the regions and the increasing of the population's standard of living. What is more, regional banks have a social responsibility connected with the development of local education, healthcare, culture and sport. However, despite their high importance, regional banks are experiencing a decline in the quantity and volume of their activities due to high competition pressure from the large federal banks. In this regard there are now questions of the prospects of regional banks' further development, their support instruments and the contribution to their effective functioning. This has set the goal of our research connected with determining the trends, problems and priority guidelines for the development of regional banks in ensuring stability in all regions of the Russian Federation. To achieve this goal, we have applied a set of scientific methods, including observation, expert assessment, generalization, analysis and comparison. As a result, we described the development trends of regional banks from 2013 to 2020, which allowed us to draw conclusions on the transformation of the Russian banking system and the current problems of regional banks. This became the basis of creating measures to strengthen competitive advantages of regional banks and to discover their potential in ensuring stable development of the regions of the Russian Federation.

1 INTRODUCTION

The regional bank sector is a crucial part of regional economy. Its development and investment potential are predetermined mostly by the organized banking structure. The presence of these regional banks within the banking structure creates a highly competitive banking environment (Ianov and Antoniuk, 2017).

On the one hand, effective development of regional banks depends on the affluence of the regions where they function, the local population and business. On the other hand, regional banks greatly influence the stability of regional development, the local population and business. Generally, we can speak of regional banks as specialized lending agencies, as each region has its own way of social and economic development. This specialized nature of regional banks can be seen in the following. Knowing

the different aspects of regions' development, specifically the demands of the local population and business, gives regional banks a competitive advantage against other lending agencies functioning in the region (Belke and others, 2016). Products and services of regional banks are highly personalized and customized for the clients' demands. Regional banks have a wide range of options allowing for an individual approach to almost every client, specifically thanks to cooperative development of banking products and services. It is important to stress that regional banks have a higher interest in crediting small and medium-sized businesses in the region, for example, through regional support programs.

We are inclined to believe that the current global instability due to the COVID-19 pandemic has made the role of regional banks that much more important. Thanks to their immediate correlation with regional

^a <https://orcid.org/0000-0002-4202-0144>

^b <https://orcid.org/0000-0003-4154-1199>

^c <https://orcid.org/0000-0002-0884-8458>

economy, regional banks can have an effective cooperation with the local population and business, who are especially in need of banking products and services.

2 RESEARCH METHODS

A substantial contribution to the research of the particularities of regional banks' functioning was made by several authors, among whom are Avis (2017), Zver'kova (2017), Voronova (2017), Fat'kina (2019), Bibikova (2019) and others. However, this subdiscipline's status analysis shows a lack of one unified way of developing regional banks, aimed at ensuring market economy stability, which does not entirely uncover its potential and, consequently, does not strengthen competitive positions of regional economies.

The methodological framework of our research comprises of the theoretical and practical works of contemporary authors on the functioning of regional banks. During this research we applied the systematic approach, as well as certain scientific methods, including observation, expert assessment, generalization, analysis and comparison.

3 RESULTS

Regional banks make up a cluster of the modern banking system of the Russian Federation. Given the geographic location of the country, they play an important role in making banking product and services more available and keep the banking market competitive. In this regard regional banks put a special emphasis on making higher-quality banking products and services, keeping in mind the interests of their clients. This makes them the force driving the regional economic development forward.

According to data from the Central Bank of the Russian Federation as of July 1, 2010, Russia had 92 regional banks with the basic license, which comprised more than 70% of all banks with the basic license. This accounted for not more than 0.2% of the total assets of the Russian banking system and 0.1% of the credit portfolio and obtained funds from the county's entities and persons. Despite these numbers, regional banks with the basic license have an important social function of ensuring the availability of banking products and services to the local population and business. They have an especially big impact on crediting small and medium-sized

businesses early in their activity, when they do not have any credit record.

3.1 Major Trends in the Development of Regional Banks in the Russian Federation

According to the analysis of the official data of the Central Bank of the Russian Federation, the major trends in development of regional banks of the Russian Federation from 2013 to 2020 are as follows:

- regional banks' deleverage in the banking system assets of the Russian Federation (from 8.8% on May 1, 2013 to 4.4% on May 1, 2020) and decrease in their number due to not only license revocation, but also voluntary liquidation (for the period of January 1, 2013-July 1, 2020, when 198 regional banks were liquidated or had their license revoked; as of July 1, 2020 their number totaled to 162);
- reduction of regional banks' traditional activities (crediting entities and persons, obtaining funds from persons) and loss of their stand in financing actual economy (as of May 1, 2020 their share in retail and corporate lending did not surpass 5%);
- transition from traditional banking to placing free liquidity in low-risk assets with a lower cost-effectiveness – the bonds and deposits of the Central Bank of the Russian Federation (as of May 1, 2020 the deposit to credit ratio was 159% with the mid-market value of 121%);
- escalation of the technological inferiority to major federal banks, which are actively developing IT-technologies and digital customer service; transition to the "survival" tactic.

3.2 The Characteristics of the Transformation of the Banking System in the Russian Federation

Currently the Russian Federation is undergoing the process of integration of the banking system, accompanied by the reduction of the number of regional banks (Donetskova, 2021). On the one hand, this trend leads to concentration strengthening, that is, a lower number of small and medium-sized banks and a higher number of large banks. This, in turn, has a positive influence on the stability of the country's banking system from the perspective of ensuring high profitability and quality of credit portfolios. Moreover, the less banks there are, the easier it will

be for the Central Bank of Russia to control and regulate their activity (Lavrushin, 2016).

On the other hand, this setting of a growing banking system strengthens the power of large federal banks in terms of regulating the market rates. This has a negative impact from the standpoint of potential economic growth. One of the characteristics of regional banks is their immediate proximity to and connection with regional economy, which, as a result, allows them to deal with questions of providing banking products and services faster and more competently. Unlike large federal banks, the regional ones are generally more concentrated on keeping in mind the unique traits of the local clients and having a deeper understanding of their demands (Malakhov and Timerkhanov, 2020). This being said, the current crisis caused by the COVID-19 pandemic has stressed the utmost importance of regional banks and the need to up the effectiveness of their activity through offering a large spectrum of banking products and services based on digital technologies. Considering the growing demands of the subjects of regional economy and the high competition rate within the banking market it becomes apparent that the quality and the spectrum of regional banks' products and services have to grow constantly.

Among the negative consequences of the integration of the banking system of the Russian Federation are the following:

- a higher financial dependency of the regions' economy on the state of the non-regional banks;
- a lower influence of regional banks on the competition, the formation of prices and the effectiveness of transferring savings into credit, which has a negative impact on the regions' economic growth;
- a lower availability of the banking products and services.

However, it is impossible to avoid the further transformation of the banking system of the Russian Federation, which manifests itself in the absorption of regional banks by larger ones, self-liquidating or court-ordered liquidating of regional banks due to bankruptcy or inability to fulfill statutory requirements of the Central Bank of Russia. Additionally, we acknowledge the fact that the processes of merging, absorption and closing of regional banks happen consistently, and want to note that if a bank has a secure position on the market, then it is not its size, but its ability to fully comply with the operating regulations and norms of banking that matter.

4 DISCUSSION

The current issues in banking caused by the COVID-19 pandemic manifest themselves in the following ways:

- the usage of the slow-response business model, mostly caused by the need to adapt to higher risks of doing business;
- the inefficient level of digital activity, which weakens the competitive ability within the banking market;
- the limitations on taking part in realizing governmental programs due to high a banking rating, a low guarantee limit and the difficult procedure of acquiring the guarantee of AO "Korporatsia MSP".

Naturally, ensuring a stable development of the regions demands a set of governmental regulations aimed at improving the competitive environment within the banking market through lifting the discriminatory demands for regional banks. This presupposes the expansion of the scale of crediting of small and medium-sized businesses by regional banks by increasing the AO "Korporatsia MSP" guarantee limit, realizing the Central Bank of Russia's ability to refinance the accredited subsidized soft loans under the 50% guarantee support by the AO "Korporatsia MSP" or without the guarantee support of the AO "Korporatsia MSP", but granting another form of safeguarding (Shor et al., 2020).

Regional banks should be put into a separate category when forming all types of governmental support. Regional and federal banks have a different level of risk, thus the requirements for them must differ and consider the particularities of their work. Moreover, governmental programs must have special limits fitting certain criteria personally for regional banks.

On the whole it seems plausible that the increasing number of regional banks taking part in realizing governmental programs will allow them to demonstrate their full competitive advantages and keep their clientele, which will have a positive impact on the quality and the level of availability of banking products and services.

Further prospects of regional banks' development are highly connected with small banks, which did not find their niche on the market, including in the form of voluntary license revocation, leaving the banking system of The Russian Federation. They are also connected with the remaining banks that operate under the model of servicing a small group of people in the setting of keeping a big portion of liquidity.

5 CONCLUSIONS

The modern environment should lead regional banks to institutionalize the lessons learned through the COVID-19 pandemic. They need to come up with a development strategy that would help them strengthen their stability and competitive ability, speeding up the transformation in the post-pandemic setting. Hyper-personalized banking products and services should become the foundation of the regional bank-client relationship.

Regional banks can acquire the full understanding of clients through the integration of the disconnected architecture of client data and combining it with an analysis based on the digital technologies, specifically AI (Butenko, 2020). It is also important to increase the involvement of regional banks' clients through a balance of digital and human interaction, intellectual use of client data and development of new partner relations with a client-oriented management.

On the whole, digitalization should become the basis of regional banks' operation, transforming traditional ways of sharing information into digital ones though giving feedback faster and making information more secure and available. This is driven by the following advantages of digitalizing the banking system:

- better customer service;
- higher number of regional banks' clientele due to service convenience (e.g., clients have an opportunity to choose offers suitable for them regardless of the location of regional banks; there will be an opportunity to make easy, fast and visually open transactions), which allows them to save time;
- better understanding of the demands of the regional banks' clients and an opportunity to form personalized offers, which helps perfect the means of regional bank-customer communication;
- lower expenses of regional banks and their clients due to the usage of ATMs, electronic transactions, etc.;
- more effective and controlled operations of regional banks;
- more flexibility in terms of making decisions based on digital data;
- lower risk of the human factor as a result of digitalizing.

Regional banks are taking part in the digitalization process, thus forming their public image and showing their clients that they are modern, state of the art organizations. Timely incorporation of the

digitalization instruments lets them create a digital banking ecosystem. Additionally, the digitalization of regional banks is ambiguous by nature. On the one hand, the implementing of digitalization modernizes the regional banks' products and services, making them readily available, as well as creating a higher demand for them, which has a positive impact on the financial performance of regional banks. On the other hand, mass transition to digital operations leads to cyber threats and a lower security level of the operations connected with the active transition to the remote digital format of banking operations.

The COVID-19 pandemic has dramatically shifted the landscape of banking risks. The current situation dictates that regional banks pay closer attention to operational risks, which makes complex monitoring and forming a risk control culture, specifically in the field of cyber-safety, some of the most important tasks for regional banks.

The crisis caused by the COVID-19 pandemic has outlined the following directions for regional banks' development:

- offering the best conditions on banking products and services to clients;
- forming long-term relations with clients without decreasing the quality of banking products and services in times when these is a macroeconomic decline in the regions;
- standardizing procedures, setting exact amounts of time for customer service when accepting a batch of documents, making decisions and registering the purchase of banking products and services;
- diversification of the deposit, credit, investment and other kinds of portfolios;
- activating the digitalization of all activity.

In turn, further strengthening of competitive positions of regional banks with the aim of having a stable development in the regions of the Russian Federation is predetermined by the influence of the following factors:

- formation of a significant capital base, which determines high and stable potential of further growth of credit assets, providing a stable income;
- financial help of the development strategies;
- realization of the scientific development strategy;
- provision of stability and diversification of the resources necessary for realizing long-term economic development programs.

In conclusion, we would like to note that the use of the complex approach by regional banks to understanding these factors will allow them to fully realize their competitive advantages, in particular:

- flexibility and efficiency in making decisions when servicing clients (first and foremost the local population and small and medium-sized businesses) and changing of own business-models;
- meeting the demands on banking products and services in underdeveloped regions where the federal banks do not see any economic reason for opening their branch offices;
- the possibility of creating and offering personalized banking products and services in regard to the characteristics of a particular region, which differ from mass-offers from federal banks;
- forming trusting relations with clients, which presupposes resolving the questions of banking services through personal agreement.

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