

Modern Paradigm of Commercial Bank Funding: Socio-Economic Aspects

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Abstract-The subject of this research is the study of resources attracted by banks as the main source of funding for developing fundraising. The author has developed a methodological approach to the study of the theoretical and practical foundations of attracted resources as part of the bank's resource base. Special attention is paid to conventional sources of funding that influence the structure of bank deposits, debt instruments and interbank loans.

Bank resource base formed by household deposits what certainly emphasizes the significance of the source in terms of socio-economic aspects. The amounts and terms of savings directly demonstrate the quality of life in the country and the level of confidence in the banking system.

Mobilizing temporarily free funds is one of the main functions of commercial banks. A special feature of the bank is operating primarily on the basis of attracted resources. Free funds accumulated by banks form the basis for active transactions; therefore, their volume and nature depend on the structure of attracted resources. Hence, an effective policy of attracting resources is the most important condition for its successful functioning.

The instability of the country's economy, the volatility of the national currency, the tensions between countries, the weakening of the banking sector, coupled with high competition, undoubtedly have an impact on banking.

Objective: to study the conceptual and practical aspects of a commercial bank's funding policy.

The methodological foundations for this study are general, statistical and special research methods. The use of these methods allowed us to understand the issues being analyzed in more depth, to identify the specific structure of the bank's attracted resources as a basic source of funding.

Main results: 1. The role of funding in the bank's activities has been determined. 2. The structure of banking resources and its main components have been considered. 3. Different conceptual approaches to the classification of attracted resources have been studied. 4. The relationship between the individual elements of the attracted resource base of the bank has been studied. 5. The modern preconditions for changes in the field of bank funding at the present stage have been identified.

Key findings of the study: 1. The theoretical issues of the formation of bank resources have been considered. The resource base is the subject of debate among researchers. Different points of view on the classification of attracted

resources have been identified. 2. The analysis of the individual components of attracted funds was carried out; the specifics of organizing and using each type of sources of attracted resources were identified. 3. The specific features and issues of the policy for forming and managing attracted funds of a commercial bank in the economic conditions of Russia have been defined. Two problematic aspects were identified: firstly, the policy for managing attracted resources should be aimed at maintaining and improving the bank's liquidity indicators; secondly, the efforts of the bank should also be aimed at a constant expansion of the attracted resource base in order to increase opportunities for active transactions associated with the bank's growth.

Keywords-*funding, deposit transactions, attracted funds*

I. INTRODUCTION. SETTING OBJECTIVES.

The analysis of the financial activities of any bank will include analysing the elements of funding. Funding in this case is understood as attracted resources of the bank used to ensure its main activity.

A commercial bank is directly dependent on the effectiveness of the resource base management policy: the attracted funds determine the potential of the bank, affect the liquidity and financial stability. In addition, there is a strong impact on the competitiveness, stability and profitability of a commercial bank.

Thus, the attracted resource base is an indicator of the stability and reliability of a commercial bank, its development, and quality of customer service. Therefore, at present, the process of forming bank liabilities, streamlining their structure and management quality is of particular importance.

The term "attracted resources" generates a lot of discussion among modern economists. Some economists consider deposit funds to be the only type of attracted resources [14]. However, in the author's opinion, a more accurate interpretation of the concept should be broader: attracted resources of a bank are funds received from bank customers for a certain or an unspecified period that are to

be returned, that is, funds raised through passive transactions [13].

As mentioned above, in the total complex of banking resources, attracted funds account for a large part. On average, in the banks of Russia the share of attracted resources is 70-90% [11], while in foreign banks attracted resources form 85-90% of liabilities. Of course, their structure depends on the specifics of the bank's policies and the nature of its active operations.

Most often, attracted resources are classified according to the method of acquisition: deposit and non-deposit. In addition to this classification of attracted resources, there are many classifications that help to divide the resources into groups, while allowing them to be structured for further effective management.

The most important issue in the formation of the attracted resource base is determining the cost of sources of attraction. Therefore, if we consider the attracted funds according to their cost, we can distinguish between cheap and expensive funds [10].

It is also important to distinguish between the funds raised depending on the degree of liquidity, that is, the degree of convertibility into cash, since this feature is fundamental in determining the volume and type of a commercial bank's active transactions. In this case, the potential requirement of the bank client's to immediately obtain their funds back is considered.

Long-term, medium-term, short-term attracted resources. The period for which funds from bank customers are mobilized is also one of the classification criteria [8]. Also, the possibility of reducing the liquidity of a commercial bank is leveled due to the absence of the risk of funds withdrawal by the client at an "inappropriate" moment.

The main objective of managing the attracted resource base of the bank is achieving consistency between the qualitative and quantitative parameters of the attracted resources and the volume and nature of active operations.

II. THEORY AND METHODS.

Theoretical and conceptual aspects of funding have been covered by many experts; worth highlighting are studies by economists such as E. Gill, Derig H.W., Dolan E.J., Keynes J.M., Reed E., Rosenberg J., Rose P., Sinki J., Harris L., and others.

The fundamental works of such economists as Babicheva Y.A., Balabanov I.T., Beloglazova G.N., Bogomolov S.M., Buzdalin A.V., Gevorkyan A.A., Drobozina L.A., Kupriyanova L.M., Lavrushin O.I., Maramygin M.S., Olkhova R.G., Pomorina M.A., Stikhilyas I.V., Tumanova T.G., Teryayeva A.S. and others, focus on the issues of banking resources and attracted resources in particular in modern economic conditions in Russia.

Whereas the issues of the banks' resource base, including attracted funds, have been studied in sufficient depth, funding issues require research and systematization of interpretations in both Russian and foreign research literature, in practical documents of the Bank of Russia as the main body of banking supervision, and the Basel Committee as an international institution regulating these issues: the most common features and patterns of elements of banking resources development require identifying and systemizing, as well as a bank's activity in the area of forming liabilities, including in the deposit transactions market, interbank lending, forming debt instruments [6].

Classification of attracted resources:

1) by the method of acquisition: deposit and non-deposit. Thus, the deposit funds are formed by a combination of various types of deposits. Non-deposit resources are formed by attracted interbank loans and issued securities. As a rule, the overwhelming majority of Russian banks operate large amounts of funds attracted through deposits, with securities and interbank loans barely accounting for 10%. Therefore, deposit resources are usually considered as a separate group [13].

2) by the cost of sources: cheap and expensive. In this classification cheap resources are unlimited term deposits. As for more expensive resources, time deposits and interbank loans belong to this category. The differentiation of the attracted resource base of the bank on the basis of its cost is undoubtedly necessary, since when conducting the activity account should be taken not only of the amount of attracted funds, but also of how much is spent on their accumulation [10].

3) according to the degree of liquidity: highly liquid and low-liquid. Thus, funds in unlimited term (demand) accounts and short-term deposits will be more liquid. The low liquidity part of the raised funds is formed by securities [2].

4) by the period of customer funds mobilization: long-term, medium-term, and short-term attracted resources. For the most part, it is more preferable for banks to choose medium and long-term instruments for attracting resources, since the period during which the organization can use the funds is specified [8]. Also, the possibility of reducing the liquidity of a commercial bank is leveled due to the absence of the risk of funds withdrawal by the client at an "inappropriate" moment.

5) by economic content: deposit, credit and investment.

6) within the framework of legislation, banking operations that characterize the raising of funds include: attracting funds from individuals and legal entities for deposits (for unlimited and specified period) in rubles and foreign currency; opening and managing bank accounts of individuals and organisations; precious metals deposits [1].

Thus, the increase in the resources of commercial banks is guaranteed by a number of factors: their stable operation, the growth of trust in banks from potential investors, the

variety of deposits, the expansion of the range of banking services, and effective interest rate policy.

III. PRACTICAL ANALYSIS.

A classification was given above of the elements of a bank's funding; a characteristic of the attracted resources of a commercial bank taking into account the economic content: deposit, credit and investment is given below.

In the framework of this study, the attracted deposit resources are bank deposits. A bank deposit is the amount of funds placed into a bank which is to be returned upon expiration of the specified period, including interest payments stipulated by the contract [13].

To determine the essence of the deposit, it is necessary to consider its various types. There are many classifications of bank deposits. However, in the author's opinion, three main types are worth considering (Table 1).

The second group of attracted resources is credit resources: these include interbank loans. An interbank loan is a loan provided by one bank to another.

The Central Bank or commercial banks can act as lenders. The main purpose of the Bank of Russia lending to commercial banks is to maintain liquidity, which is one of

the instruments for stabilizing the banking system. Loans received from other commercial banks can equally pursue the goal of expanding active operations or generating additional income by investing in more profitable instruments [17].

The types of loans offered by Bank of Russia at present include [17]: intraday loans, overnight loans, loans secured by non-marketable assets or guarantees, pawn loans.

All loans from the Bank of Russia must be properly secured. The Bank of Russia reserves the right to introduce new refinancing mechanisms or change the existing ones based on the liquidity situation in the banking sector.

When forming the interbank lending market, the key rate determined by the Bank of Russia plays a special role. It is a guideline for determining interest on interbank loans from the Central Bank of the Russian Federation, as well as from commercial banks. In the framework of monetary expansion or restriction, the Bank of Russia can lower or increase this rate.

The period is another criterion for the classification of interbank loans. According to the loan period it can be either limited or unlimited. The latter means granting a loan for a minimum period, upon completion of which the loan goes into the category of unlimited.

TABLE 1. CLASSIFICATION OF DEPOSITS

Criterion	Types
1. category of depositors	<ul style="list-style-type: none"> - <u>deposits of individuals, residents and non-residents:</u> <ul style="list-style-type: none"> ✓ general public; ✓ self-employed individuals; - <u>deposits of legal entities:</u> <ul style="list-style-type: none"> ✓ funds of the Federal Treasury, the Ministry of Finance of Russia, financial authorities of the Russian Federation, constituent entities of the Russian Federation and local governments; ✓ funds of state and non-state extra-budgetary funds; ✓ funds of non-credit legal entities, residents and non-residents; ✓ funds of credit organisations, residents and non-residents.
2. period	<ul style="list-style-type: none"> - <u>demand (unlimited period) deposits:</u> <ul style="list-style-type: none"> ✓ funds in current accounts of self-employed entrepreneurs and legal entities; ✓ funds in current accounts of individuals; ✓ funds in special deposit accounts owned by individuals and organisations; ✓ funds in correspondent LORO accounts owned by other credit organisations - <u>time deposits:</u> <ul style="list-style-type: none"> ✓ for the period of up to 30 days; ✓ for 31 - 365 days; ✓ for more than 12 months.
3. deposit currency	<ul style="list-style-type: none"> - deposits in national currency; - deposits in foreign currency; - multi-currency deposits.

Interbank loans are attracted in two ways: independently, through negotiations between top managers of banks, and through intermediaries, for example, stock exchange.

The market for interbank lending in Russia is small. The most active banks account for more than half of the market. Such low activity indicates a fairly low level of trust in the interbank market as a whole. However, in recent years, the market for loans between banks has been

developing rapidly. Today, the share of interbank lending in the structure of attracted resources of banks accounts, on average, is for about 20-30% [3].

The website of the Central Bank presents weighted average interest rates on interbank loans. The rates are: MIACR (1994), MosPrime Rate (2005), RUONIA (2014), ROISfix (2014) [18].

Thus, we can conclude that the interbank loan (IBL) is another tool for increasing the attracted resource base, which has its own distinctive features. The main function of the IBL is to maintain bank liquidity.

And, finally, the third group of attracted resources is investment operations. The role of securities in the attracted resources of commercial banks is a subject of discussion among banking practitioners and theorists. Many experts and researchers do not single out this source at all (due to a relatively small share in the attracted resources, as well as the low popularity of this source), or consider only a fraction of all securities issued by the bank [5].

As noted earlier, funds generated through issuing securities make a relatively small contribution to the attracted resources of the bank compared to deposit funds (which form the basis of the attracted resources in the overwhelming majority of Russian banks). In Russian banks, the share of securities averages up to 10% of the total amount of resources: in the largest commercial banks, as a rule, the share of securities is 4-5%; for smaller ones, it varies from 10 to 30%, and sometimes reaches 50% [5]. About half of the banks do not issue securities at all [5].

Despite the wide variety of options offered by banks for investing free funds, bills and bonds are not so popular among customers, or with the banks themselves for various reasons. But, nevertheless, an increase is observed in the popularity of some elements of funding, which can later make its impact on the structure of attracted banking resources.

IV. RESULTS

As noted earlier, for the overwhelming majority of Russian banks, deposit sources make the main contribution to the attracted funds. To a greater extent this is due to: first, the relatively low costs on the part of a commercial bank (for example, compared to interbank loans); secondly, relatively high popularity with customers.

The deposit policy - a complex of measures aimed at determining the forms, objectives and content of banking deposit operations responsible for forming attracted resources - is responsible for managing deposit operations of a commercial bank [12].

Implementing the deposit policy, the bank has several objectives:

- forming a stable deposit base of resources;
- expanding attracted funds through deposits and maintaining the minimum optimal level;
- minimizing the cost of raising funds;
- minimizing deposit risk;
- maintaining liquidity and sustainability [4].

In the field of liquidity management of a commercial bank related to deposit operations, the Bank of Russia has

introduced the required reserve standards. In accordance with this requirement, the bank must keep a certain share of its own liabilities on attracted deposits in reserve as a deposit with the Bank of Russia [20].

In addition, the deposit insurance system for individuals in Russia that provides for state insurance of deposits should be taken into account. Monetary funds in rubles and foreign currency deposited by individuals are subject to insurance [7].

The following can be summarized: the bulk of the active operations of the bank is based on resources attracted through deposit operations. That is why effective and proper organization of work with these resources is required, aimed at maintaining the adequate amount and sustainability of deposit resources with a simultaneous increase in the volume of deposit operations.

V. DISCUSSION AND CONCLUSIONS.

Thus, within the framework of the study of the specifics of bank funding, two main approaches to determining the policy of managing attracted funds can be identified [9].

The first type is based on determining the target volume and directions of active transactions. Then the required size and structure of the attracted resource base is calculated. After that the possibilities of attracting the required amount of funds, taking into account external and internal factors, are researched. Finally, specific measures for managing attracted resources are developed. It should be noted that this method is effective when it is easier for a commercial bank to identify sources of funds to attract, rather than to find where to invest them. Thus, the bank focuses on identifying the specific types of active operations that determine the required volume and other characteristics of the attracted resources.

The second type is the opposite mechanism: the implementation of active banking operations on the basis of the amount of attracted funds. This method is implemented as follows. First, an analysis is made of the external and internal economic factors to determine the possibility of attracting resources. Next, the volume and nature of active operations is determined, taking into account the parameters already specified for the attracted resource base of the bank. The final step is developing a strategy to attract resources and implementing the selected operations for placing the funds. When applying the second method, first the funds are attracted, and then they are used. This approach is preferable if there are opportunities in the market for investing accumulated funds profitably, and not for acquiring resources.

Addressing the issue of attracted resources, it is necessary to evaluate the bank liquidity, which is directly related to the structure and qualitative assessment of the funds raised. A bank's liquidity is the ability to fully meet its financial obligations on time. Liquidity is inextricably linked with the solvency of a banking organization: insufficient liquidity can lead to the bank's insolvency.

It has already been noted that an effective bank liquidity management tool is an interbank loan. There are several advantages of using interbank loans to expand the resource base. Firstly, it is the speed of receiving it. Secondly, loans of this type do not require reserving in advance, since they are not deposits. And finally, such loans do not entail marketing or infrastructure costs. The interbank loan allows banks to redistribute funds among themselves, covering both the planned resource shortage caused by the discrepancy in the structure of banks' assets and liabilities, and the unforeseen difference between them, and helps maintain the liquidity of commercial banks. The price of an interbank loan in the market depends on supply and demand and is an indicator of the liquidity of the banking system.

Of course, the degree of dependence on external sources of borrowing can be evaluated. The greater it is, the more serious the problems may be in the event of even a temporary insolvency. The impact of this factor directly depends on the financial strength of the bank, as well as on the bank's policy.

The quality and sustainability of a bank's resource base is another factor affecting bank liquidity. The resource base is a determining factor for the volume and development of active banking operations, and, consequently, its stability affects the bank's financial stability and liquidity.

The Basel Committee for Banking Supervision issued the "Principles of Proper Liquidity Risk Management and Supervision" in 2008 [9].

The main focus of the Principles is on shaping management policies and establishing the limits of acceptable risk, on using liquidity risk management tools, developing reliable comprehensive emergency financing plans, using sensitive stress-testing scenarios, maintaining a sufficient amount of highly liquid assets in case of emergencies related to lack of liquidity.

For analyzing the bank's liquidity, the Central Bank of the Russian Federation has developed three liquidity standards: instantaneous, current and long-term - which should not be lower than a specified level [2].

Because of the higher cost of funding to obtain liquidity, liquidity risk is considered a discount for the bank's profitability, but liquidity risk shows a premium to a bank's effectiveness in terms of banks' net interest margin. Liquidity risk has the opposite effect on the bank's performance in a market economy [15].

Thus, if we talk about liquidity management through liabilities management - the bank determines the policy of managing the size of its own capital and borrowed funds, their optimal structure in order to use these efficiently in active operations. In a narrow sense, liquidity management through liabilities management often refers to actions aimed at raising borrowed funds when required to maintain liquidity.

VI. CONCLUSIONS

The resources of commercial banks are important components of the system of financing economic processes. When determining the policy of managing attracted resources, the bank proceeds from the need to replenish the attracted funds and maintain them at an optimal level. The procedure for devising a policy of managing the attracted resource base can be presented in stages:

1. Creating a general financial plan of the bank's activities, where the objectives of the policy of managing attracted resources are defined.
2. Determining the required amount of attracted banking resources, based on the objectives of the bank's activities, as well as on achieving and /or maintaining the regulatory indicators of the bank activity (liquidity standard).
3. Establishing ways to manage attracted resources.
4. Establishing ways to attract additional resources.
5. Organizing control and monitoring of the process of managing the attracted funds of a commercial bank.
6. Establishing the authority and responsibilities of the bank's management bodies, as well as of its divisions, regarding the management of the attracted resource base.

In 2017, the methodology for analyzing the sensitivity to the risk of liquidity loss was improved taking into account the recommendations from the Basel Committee on Banking Supervision. Thus, the methodology was supplemented with more detailed description of outflow types, as well as balance sheet items that can be used to cover them. That will certainly have an impact on the liquidity risk management process.

The outflow of customer funds is differentiated by types of funding (deposits of the general public and legal entities of various forms of ownership, government organizations, interbank loans, and others). In addition, differentiation by type of counteragent is possible (financial/non-financial organizations, residents /non-residents, state funds). Taking this into account, the outflow of general public deposits varies from 10 to 20%, deposits of legal entities and funds in their accounts - from 40 to 100%. The outflow can be covered by the bank's cash portfolio (cash, correspondent accounts and deposits with the Bank of Russia and other credit institutions), as well as through the sale of liquid assets with set discounts. If there are not enough liquid assets to cover the outflow, the bank is considered to be in a state of technical default, and the amount of uncovered outflow is its liquidity deficit.

The stress scenario implies that a stressful event does not occur simultaneously in all banks and is not a system shock [16]. The bank's principles of forming attracted resources depend on the current banking policy of the organization, which takes into account a whole set of important aspects: from strategic goals to the current state of the banking sector, as well as future expectations from

the economy. In particular, such factors as the impossibility of early withdrawal, the long-term nature and the attractiveness for the client of the proposed passive transactions play their role. The structure and volume of attracted resources are determined by the intensity and diversification of deposit and non-deposit operations. Most often, deposit funds make up a large part of the attracted resource base. As for issuing securities, bonds are the most common type, with certificates and bills of exchange being second most popular type [16].

In conclusion, it can be noted that the policy of managing attracted banking resources is based on the requirements of the Central Bank to the structure and size, on achieving the required indicators for assessing liquidity. The bank also relies on a financial plan and set objectives. When devising the policy for managing the attracted resource base, its optimal size is determined, as well as the ways of increasing it, based on the structure and volume of active transactions, as well as their riskiness. In addition, the bank establishes the desired ratio of active transactions and the funds required for their implementation. All of the above form the bank's policy for managing attracted funds.

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