

# The causes of economic threats in the financial sector of a region

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**Abstract:** The article systematizes theoretical and methodological approaches to the study of the causes of economic threats in the financial sector of the region, reveals the internal and external conditions for the formation of economic threats in the region. The article defines that financial bubbles can have a positive and negative regulatory impact on the real economy. The paper recommends a systematic approach to forecasting and identifying the causes of economic threats in the region, assessing the real cost of capital of organizations, and ensuring the growth of the region's well-being in the long term.

**Keywords:** causes, economic threats, financial sphere, region, financial bubbles, the cost of capital of the organization, the real sector of the economy

## 1. Introduction

Economic security of regions in the financial sector is diagnosed by the ability to work reliably in the changing internal and external conditions. It is guaranteed not only by the flows of state finances, but also by the financial system created in the subject and the resource potential, the mechanism of their formation, distribution, and use. However, the analysis of scientific literature shows that domestic and foreign scientists and practitioners do not have a common opinion on the content of the causes of economic threats, in the field of regional finance, especially. This makes it relevant and necessary to assess the causes of financial risks in the region, which determines the structure and purpose of the study [13, 14].

The purpose of the work is to summarize the theoretical and practical aspects and develop recommendations for preventing the emergence of threats in the financial sector of the regional economy.

## 2. Materials and Methods

The theoretical basis of the survey consists of the concepts and provisions of the theory of economic science, the works of scientists and practitioners in the field of managing the financial component of economic security. The solution of this goal was implemented using the principles of dialectics, methods of comparative analysis, groupings, etc. The information of the Federal State Statistics Service, the Central Bank of the Russian Federation, the Internet information network served as the information base for the research.

### 3. Results

The social and public result of the financial market is the effective allocation of financial resources and risks, the establishment of fair prices for financial assets. The Bank of Russia does a great job of regulating and banking supervision in the financial sector to ensure economic security [7]. In the early 1990s, the country's banking sector had negative trends in terms of non-transparency of activity, shadow, "gray" operations, insufficient staff qualifications, and distrust of financial institutions due to the lack of mechanisms to influence unfair participants. Since the 2000s, the rapid growth of the banking sector assets has occurred. In the 2010s, it changed to a moderate growth [5, 6, 9]. The modern structure of the banking sector is represented by banks with state participation, they are directly and indirectly controlled by the state or the Central Bank of the Russian Federation, private banks, etc. The total assets of the banking sector of the Russian Federation amounted to 94 trillion rubles, of which own funds (capital) amounted to 9.9% of GDP, as of January 1, 2019. From 2012 to 2018, credit institutions of the country show profitable work, although the intermittent dynamics of the results [2, 7].

Current trends in the country's banking sector contribute to ensuring economic security:

- *A steady trend to reduce the number of credit institutions:* the number of large credit institutions increased by 19% and amounted to 50; the number of medium and small credit institutions decreased by 53.9% and amounted to 285; the number of banks with a basic license decreased by 2 times and amounted to 296, from 2012 to 2018 [2];
- *The concentration of business:* over the study period, the share of capital among leaders and large credit institutions increased by 13.3% and amounted to 88.4%; the share of five banks in the population deposit market increased by 4.7% and amounted to 65.2% from 2013 to 2017 [2; 7, p. 35];
- *Transfer of liquidity to larger credit institutions:* 7.2% of credit institutions registered capital of over 10 billion rubles as of November 1, 2018; only 5.2% of credit organizations had authorized capital of over 10 billion rubles, in 2016 [2];
- *Creation of banking groups and banking holdings:* 90 banking groups were in the country, which included 135 banks, or 86.1% of all banks, by the beginning of 2018 [2].

A similar situation exists in the regions. The number of regional banks decreased by 8.3% and amounted to 277. It should be noted that the decrease was also due to the revocation of 20 licenses, the financial recovery procedure in 15 banks. The share of regional banks in assets changed slightly: from 9.5% to 9.3%. The dynamics of profit of regional banks was favorable, it increased by 1.9 times, in 2017 compared to 2016. The highest provision of banking services is noted in the Central Federal District, followed by the North-West Federal District. In other regions, a slight increase or stabilization of the index of security was observed, with the exception of the North Caucasus Federal District, where the value of the indicator remains minimal [7, p. 35].

In the financial sphere, the formation of financial bubbles is considered an integral part of the markets. Macroeconomic bubbles may have different consequences for the region. They seriously affect the real sector: during the boom period, bubbles contribute to overheating in the real economy; subsequently, they result in distortions in the development of the regional economy expressed in re-investment, which inevitably leads to a loss of well-being of the region in the long term. The timely recognition of hazardous bubbles and their prediction is one of the key problems in ensuring the economic security of the region.

Note that the banking sector of the Chuvash Republic is represented by 3 independent banks, as well as 2 branches, 283 structural units of banks, as of January 1, 2019 [2].

The maturing "credit" bubble is called one of the last financial bubbles that have arisen, including at regional levels [5, 10, 12]. After the crisis of 2014, the lending market is steadily gaining momentum. The volume of loans issued to the borrowers of the republic increased by 26% in 2018. The "credit" bubbles arise due to the risky policies of financial organizations. Banks lend to borrowers without checking their financial condition at an adequate level and without requiring collateral. For

example, 100 thousand rubles can be issued on credit for 1 hour without references, guarantors and without collateral. Retail lending increased by 1.5 times. In 2018, pricing credit terms remained quite attractive for borrowers (the average cost of ruble loans for enterprises was 9.9%). The debt load in the Chuvash Republic was 39% of the population, by the beginning of 2019 [2].

Thus, if illiquid loans ceased to be repaid, this would lead to the impossibility of carrying out the direct function of lending business. This also would seriously affect the economy of the republic.

The unauthorized transactions in the financial sector pose a significant economic threat to stability. Their number in the country amounted to 417 thousand units with a volume of 1,385 million rubles, according to the report of FinTSERT for 2018, which was 44% more than in 2017 (Tables 1 and 2) [4, 7].

**Table 1.** Indicators of unauthorized operations by federal districts of the country in 2018 [4].

No.	Federal districts and cities of federal significance	Number of unauthorized operations, units	Volume of unauthorized operations, thousand rubles	
			Total	On 1 operation
1	Moscow	138422	522507	3.8
2	Privolzhsky	19952	52008	2.6
3	Central	18858	55718	3.0
4	Siberian	13103	27985	2.1
5	Southern	10689	26561	2.5
6	Ural	9374	27126	2.9
7	Northwestern	9183	17220	1.9
8	St. Petersburg	6705	61429	9.2
9	Far Eastern	5038	24748	4.9
10	North Caucasus	1808	5060	2.8

The average amount of one unauthorized operation increased by 9.6% and amounted to 3.3 thousand rubles in 2018. A peculiarity of the territorial distribution of unauthorized operations was their concentration in the Central Federal District, partly due to the presence of most credit organizations in this territory.

The subjects with the highest rates within their federal district are shown in Table 2.

**Table 2.** Indicators of unauthorized operations by subjects of the relevant federal districts of the country in 2018.

No.	Subjects	Number of unauthorized operations, units	Volume of unauthorized operations, thousand rubles	
			Total	On 1 operation
1	Moscow region	5140	29646	5.8
2	Rostov region	5670	10107	1.8
3	Republic of Karelia	4389	6782	1.5
4	Chuvash Republic	3640	4328	1.2
5	Novosibirsk region	4133	8368	2.0
6	Tyumen region	3559	13336	3.7
7	Khabarovsk region	1793	3016	1.7
8	Stavropol region	939	3421	3.6

As follows from the data provided in Table 2, the Chuvash Republic occupies the 5th place among the subjects of the Russian Federation in terms of the amounts of unauthorized debiting of funds, according to the results of 2018. And this means that credit organizations of the republic should pay increased attention to holding events to raise awareness in the employees and customers in the field of economic security.

The search for organizers of financial pyramids has always been a challenge for the Bank of Russia. In 2018, the regulator qualitatively changed the approach to identifying illegal financial

organizations. More than 685 organizations and Internet projects with signs of a financial pyramid were identified for the period from 2015 to 2018: 200 such organizations in 2015, 180 in 2016, 137 in 2017, 168 in 2018. This figure – 168 pyramids – does not mean that they really became larger. The model operates in the Bank of Russia, which allows one to continuously monitor the market, identify, and investigate the activities of financial pyramids and quickly respond to emerging new “projects”, including in the Internet. All materials on the identified pyramids are transferred to law enforcement agencies, including information about the organizers of the pyramids, which they managed to establish, and how they lured money from citizens. 72 pyramids were created in the form of LLC, 58 under the guise of consumer credit cooperatives, 5 consumer cooperatives, 18 Internet projects, and 15 operated in other forms in 2018 [4, 7].

The Bank of Russia offices in the regions also work to level the negative impact of economic threats on the real economy. For example, in 2017, the Branch-National Bank for the Chuvash Republic of the Volga-Vyatsky Central Administration of the Bank of Russia warned residents of Chuvashia about a large financial pyramid – a group of Russian and foreign companies operating under a single Cashbury brand. Companies of this group base their activities on the principles of network marketing, promise excessive profitability, conduct aggressive advertising in the media and social networks. Money is raised both in rubles and in cryptocurrency, but there are no signs of real economic activity. More than that, the companies that offer financial services do not have licenses from the Bank of Russia. The Bank of Russia transmitted to the General Prosecutor’s Office and the Ministry of Internal Affairs information about a group of companies operating under a single Cashbury brand.

Thus, economic threats in the financial sphere of the region arise constantly for internal and external reasons. At the same time, financial bubbles can have both positive and negative regulatory effects on the real economy. A systematic approach to forecasting and identifying the causes of economic threats in the region, assessing the real cost of capital of organizations, and ensuring the growth of the region’s well-being in the future is necessary.

#### **4. Discussion**

For regions, the key points for assessing and managing financial stability are the types and extent of economic threats to a regional financial system; financial sustainability indicators and criteria [1]. Causes of regional financial bubbles [3, 12]: insufficient development of tools to ensure the stability of the financial market in the presence of free liquidity; low level of financial literacy of the population; the unfair behavior of some participants in the financial market; insufficient attractiveness to investors of equity financing of public companies, etc. Valery Lyakh, Director of the Department for Countering Unfair Practices of the Central Bank of the Russian Federation, notes [5] that the history of “Cashbury” is over, but, as a rule, smaller financial pyramids arise on the fragments of the larger ones. As followers who offer some kind of new pseudo-investment idea, so fraudsters try to make money on the old scheme. They promise to return your money allegedly for quite a modest amount, organize a lawsuit with a guarantee of return on your investment in the pyramid and come up with other tricks. The avalanche-like interest in the “Cashbury” was created both by actively posting information in coordinated groups on social networks, and by creating a company’s image through advertising, including the quite well-known media individuals.

With the launch of the Competence Center and departments at the Bank of Russia, the potential for measuring pyramid schemes has increased. Field staff are in control of the situation in the regions, they see what is happening there. Offline illegal organizations are also identified with the help of citizens, the media. The second channel is an online search for companies operating online using bigdata technology, working with foreign financial market regulators within IOSCO. In the State Duma, the bill on the pre-trial blocking by the Bank of Russia of fraudulent sites passed the first reading. It should increase the speed of blocking several times, allow actually blocking the access of users from the territory of the Russian Federation to offers of financial services from abroad [4, 5, 6].

## 5. Conclusion

It is recommended to apply a systematic approach to forecasting and identifying the causes of economic threats in the region, assessing the real cost of capital of organizations, and ensuring the growth of the region's well-being in the long term.

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