

Banking Management in Russia: Its Shortcomings and Stages of Transformations

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Abstract. In the current time period in front of commercial banks in Russia arises a need to improve the quality of banking management as a special sphere of credit institution management. The main drawbacks of banking management in Russia formulated by the authors are justified by logically built factors. In order to make adequate decisions in the banking segment of the financial market, it is proposed to study the process of transformation of banking management in Russia. The authors identify six stages of transformation of banking management in Russia: 1) deposit and loan stage, 2) investment and speculative stage, 3) marketing stage, 4) stage of socio-economic management, 5) risk management stage, 6) information and digital stage. All stages are allocated on the basis of research of formation and development of banking business of Russia in the conditions of market economy. Digital transformation in Russian banking practice poses significant challenges to existing business models. It is concluded that the sixth stage of bank management transformation requires not only financial investments, but also readiness for changes at the level of established processes, thinking and internal culture. This material was a continuation of a series of publications of the authors in the field of banking management

1. Introduction

Management of a commercial bank is one of the most complex areas of activity in the market economy and now in Russia in the context of digitalization of the economy is one of the leading places in the theory of management.

In the conditions of command and administrative economy in the system of the state bank of the USSR the existence and functioning of bank management could not be fully for the reasons reflected in Figure 1: in the command and administrative economy with a full monopoly of the state bank of the USSR and the presence of a directive system of regulations, there was no variety of financial and credit institutions, and even more freedom to manage them [1, 2, 3]. In such circumstances, the consequence was the uniformity and simplicity of the proposed banking products.

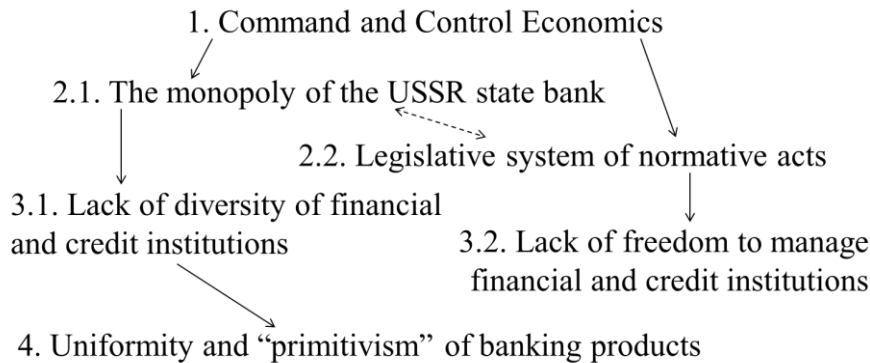


Figure 1. Interrelation and levels of the reasons of impossibility of existence and functioning of bank management fully in the USSR in the conditions of command and administrative economy.

The market economy is unthinkable without banking management, based on real competition in the financial market between credit institutions, the replacement of state financing of enterprises, which took place under the administrative and command system, the market mechanism for lending to specific investment projects and business plans aimed at creating a new commodity mass [4, 5, 6, 7, 8, 9, 10, 11]. Bank management is not just intended to lend any program, but to manage the expenditure of credit resources, especially preferential, for the stated purposes, their timely return. This material was a continuation of a series of publications of the authors in the field of banking management [12, 13, 14, 15].

2. Results and discussion

2.1. Banking management as a sphere of management, its shortcomings

Current economic trends in Russia include changes in the content of banking activities from speculative business to activities focused on the real economy. As a result, commercial banks need to improve the quality of banking management as a special sphere of credit institution management [16].

Classically, under the bank management it is proposed to understand the management system, which ensures the continuity and timeliness of the movement of credit resources in order to achieve macro- and microeconomic advantages.

In the context of globalization of the economy, adequate banking management allows you to confront the negative factors at the global, national, regional level, as well as a guarantee for the sustainability and efficiency of commercial activities [17, 18]. Focus on maximum profitability of banking operations is always associated with a variety of risks, including global ones, which have acquired a new quality. Unreasonable risk management, in the absence of a system of restrictions in the bank, may result in losses.

Among the main problems of management in the provision of traditional banking services in the world and domestic practice, a special place is given to the management of bank risks [19]. In Russia, the emergence of this problem is primarily due to the lack of management tools or, otherwise, proven technologies in the field of banking management.

The main problems of management of commercial banks include: the reliability of information technologies and systems as the basis of new banking products, as well as the quality of management personnel and personnel of the credit institution (otherwise—staff leasing).

Disadvantages of banking management in Russia can be justified by the following factors [20]:

- ignoring in most credit institutions the need to have a reasonable concept of development and management or lack of skills to implement such needs;
- insufficient development of horizontal, structural relations between bank divisions, leading to inconsistency in work, mutual professional ignorance and, as a result,—making unjustified decisions;

- the presence in the bulk of credit institutions of an inefficient system of internal control, regulated by regulations, which are fragmentary in nature, and insufficiently meaningful in scientific terms and in practical use;
- lack of an effective system of information support for the process of bank management;
- non-compliance with the logical relationship between the successive stages of the management decision-making process (analysis, planning, regulation, control);
- insufficient attention to the departments or services that conduct system analysis, diagnostics and forecasting of the bank's general activities, which entails the inefficient use of mechanisms for managing the profitability of the credit institution, the technology of a comprehensive analysis of the process of its formation;
- weak risk management and control system in the bank, inadequate risk level and current situation in the financial market;
- an undeveloped system of financial monitoring of the activities of the credit institution.

In order to make adequate decisions in the banking segment of the financial market, it is necessary to study the process of transformation of banking management in Russia.

2.2. Transformation of banking management in Russia

Transformation is a characteristic indicator of recent trends in both the global and national economies. In turn, the transformation of various components of banking is a fairly dynamic object, which is in the category of research objects.

In fact, banking management is a relatively “young” scientific direction in Russia. Its formation in Russia, in contrast to the developed countries of Europe and America [21], began in the period of transformation of the social structure of the state, institutional changes in the economy, its transition from administrative-command form to market form.

The reasons for such a late appearance of banking management in Russia lie in the socio-economic structure of the state. Although some of its tools and technologies are still used in the system of the state bank of the USSR, for example, staff motivation, social competition. Before the reform of the banking system in Russia, under the monopoly of the state bank of the USSR, there could be no question of any bank management because of its redundancy and uselessness for the administrative and command economy. Banking management, as a special sphere of management, appeared only in the conditions of formation of market economy. In the administrative command system, the transfer of non-cash amounts from one entity to another did not cause any problems for the bank [4].

The transition to a market economy has ceased to limit the bank only by attracting cash resources and issuing them at interest. When expanding the range of banking operations to the level adopted in economically developed countries, these services include operations with securities, credit cards, currency, assistance in saving and distributing shares of other banks and commercial structures, assistance to customers in the rational investment of their funds, evaluation of investment projects, leasing, factoring and other services.

Among the main problems faced by the Russian banking management in the early stages of transformation, the following are logically distinguished [22]: (1) growing distrust of the country's banking system; (2) depreciation of the national currency; (3) significant dependence of assets and liabilities of the banking system on the US dollar exchange rate; (4) significant reduction in bank liquidity; (5) extended credit.

Based on the analysis of the works of various authors (for example [23, 24, 25]), in our opinion, the presented in Figure 2 the stages of transformation of banking management in Russia.

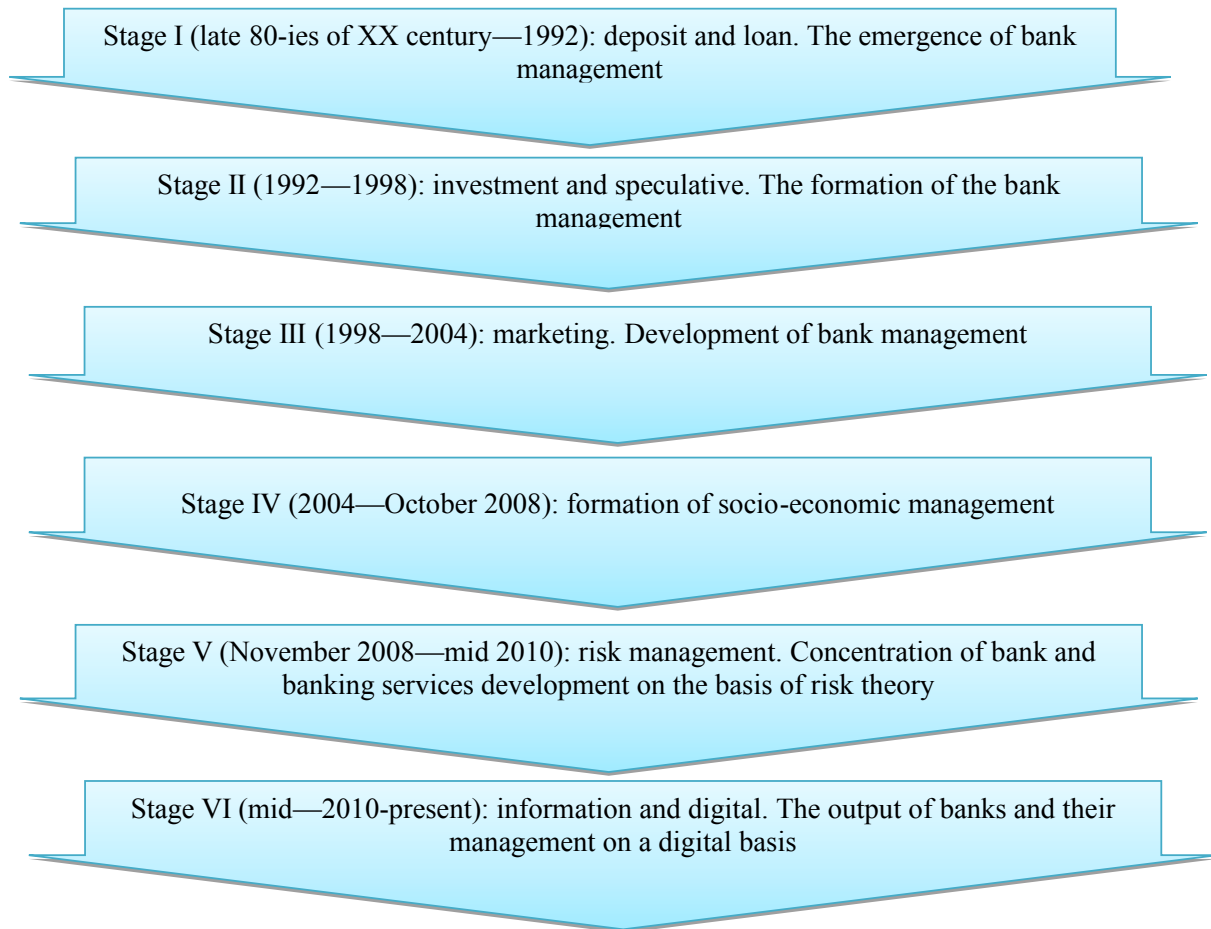


Figure 2. The stages of transformation of banking management in Russia.

The first stage of transformation of banking management in Russia (deposit and loan) is directly related to the beginning of banking reform, when in 1988 a network of state special banks was created, the process of registration and structuring of the credit system of the country and the formation of non-state functional levels of this system began.

The formation of the second level of the credit system affected the period 1989—1990, corresponding to the accepted form in the countries of the continental (European and Anglo-Saxon banking system). This means a network of commercial and special banks, whose activities are regulated and controlled directly by the Central bank (the first level of the credit system). It was during this period, in the conditions of the primary formation of a two-tier banking system on new principles, there was a need to study the experience of management of non-state banking organizations, accumulated in economically developed countries, or otherwise-banking management.

The second stage of transformation of bank management (investment and speculative) is associated with the emergence of non-state insurance companies and (somewhat later) pension funds in the Russian credit system. At this stage it has been observed that the deficit of financial services of the highest level on the background of competition between both banking and non-banking financial institutions inside the sector, the traditional financial services that did not require complicated financial innovation and highly skilled personnel. Also at this stage in the period from 1995 to August 1998 there was an initial accumulation of capital. A significant number of mistakes were made in the management of Russian banks. There was a formation in practice of a strategic view of the issues that Russian bank managers have just started to face or inevitably had to face in the future, based on foreign experience.

The third stage of transformation of banking management (marketing) was associated with a large-scale rethinking of approaches to doing business in the country. Since 2002, the country has made fundamental changes in legislation, interest in the fundamental, strategic issues of the theory of banking management has increased. In practice, everywhere began to use the instruments of banking management.

The fourth stage of transformation of bank management (socio-economic) was associated with the formation of a socially oriented economy in the country. This period of time was marked by the improvement of the quality of life of the country's population, the decision of significant social programs, and accordingly, the proposal of banks of socially-oriented banking products aimed ultimately at improving the life of the end user and the development of the economy as a whole.

The fifth stage of transformation of bank management (risk management) is connected with concentration of development of commercial banks in the country and banking services based on the theory of risks. This period was characterized by the strengthening of globalization processes in general, in connection with which the global crises and trends affected the management of individual Russian banks and the banking system. Therefore, the theory of risk management of banks has become predominant in this period.

The sixth stage of transformation of bank management (information and digital) is due to the release of banks and their management on a digital basis.

At the first stages of transformation, bank management is characterized from the standpoint of Genesis and approbation of its tools and technologies, and at all subsequent stages—their development and implementation in the practice of banks. In particular, in the early stages of banking managers massively faced with the need to study the experience of management of non-state credit institutions of economically developed countries; lack of high-tech financial services, with increased competition between banking and non-banking financial institutions within the sector of traditional financial services; the formation of bank managers' strategic view on the management of credit institutions empirical method of knowledge based on foreign experience. The circle of problems faced by bank management as a science of management of credit institutions was outlined.

If at the first stages of transformation of banking management in Russia the main task was the survival of banks and the banking system of the country, then at the next stages—their purposeful development.

Information and digital stage of transformation of banking management is associated with such modern trends and concepts as Informatization and digitalization of the country's economy, remote banking, the introduction of new banking products based on gamification technology, the emergence of credit factories, the development of cryptocurrencies, the introduction of blockchain technology, benchmarking and crowdsourcing, the introduction of personnel management elements of the “theory of generations”, the use of robotic consultants, the creation of virtual reality, the use of chatbots and virtual assistants.

The digital transformation of the banking business is now a fait accompli [26]. Different banks are looking for their own approaches to this process. Banks actively cooperate with IT-suppliers, they are interested in the development of integration solutions and transactional services, load and automated functional testing, support of various IT-systems, architectural supervision [27-29].

For example, the VTB Group adopted a strategy for the development of digital business until 2019, where one of the priorities was the development of the data monetization service in order to conduct a detailed analysis of data from external and internal sources to improve customer service and ensure the growth of VTB bank's profits (http://www.cnews.ru/articles/2018-06-07_tsifrovoe_budushchee_kak_vtb_vystraivaet_protssess_transformatsii). In the retail business segment of VTB Bank actively uses information from social networks, data on buying habits, geolocation. On the basis of this information, behavior patterns and characteristics are identified in a generalized form, which allow distinguishing a “good” borrower from a “bad” one. The use of such a tool as DataLake by VTB Bank makes it possible to quickly test hypotheses and make changes on the principle of Agile.

This stage of transformation of bank management requires not only financial investments, but also readiness for changes at the level of established processes, thinking and internal culture.

3. Conclusions

This paper shows the bank management as special area of management of a credit organization, its problems, deficiencies and the stages of transformation. The main disadvantages of bank management are justified by logically built factors. The process of transformation of bank management in modern Russia is described by six stages: 1) deposit-loan, 2) investment and speculative, 3) marketing, 4) stage of socio-economic management, 5) stage of risk management, 6) information and digital stage. The basis for the allocation of these stages was the study of the formation and development of the Russian banking business in a market economy. The last sixth stage of bank management transformation requires readiness for changes at the level of established processes, thinking and internal culture, as digital transformation in Russian banking practice poses significant challenges to existing business models.

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