

# Revising Monopolization of the Russian Banking System

I. K. Bitkina, T. A. Korenkova

Volgograd Institute of Management,  
Branch of The Russian Presidential Academy of National Economy  
and Public Administration under the President of the Russian Federation,  
Volgograd, Russia  
bitkinai@rambler.ru

**Abstract**— The paper presents the outcomes of research that reveals the monopolization level of the Russian Banking Sector. The objective of the conducted research is to evaluate the current level of monopolization of the Russian Banking Sector in terms of developed methodological approach and revealing its effect on finance and credit sector. In this paper the research issue is shown, methodological characteristics and the evaluation complexity of the Russian Banking Sector monopolization level are proven, and the effect of the high concentration and monopolization level on the Russian Banking Sector is revealed. It was found out that the monopolization level estimation can be accomplished by applying both qualitative (the possibility of influencing on the decisions made in the banking sector, the distribution of assets and capital between banks, the presence of barriers to entry and exit in the banking market) and quantitative characteristics.

**Keywords**— *Monopolization, Concentration, Banking system, Capital, Assets, Market power*

## I. INTRODUCTION

It is generally admitted that the banking system is the basic element of financial sector of any country. But regardless of this fact at the moment there is a lack of the represented indicators and criteria in economics that allow determining the national banking system level of development. Sufficient number of commercial banks can be ascribed to one of these criteria. But, undoubtedly, this criterion that is directly connected with the number of banks can affect either the monopolization level or the concentration level in the banking sector. Indeed, monopolization is a situation when a big company that accumulates market power dominates a market. This kind of privilege allows a company to set conditions, price and output of the products and services that it offers to its consumers. Hence, the question of the monopoly influence on the development of the economy remains open in the scientific community; it is worth mentioning that at the moment the banking sector undergoes big changes that need to be noticed to form a fair view on current situation and tendencies that exist in the Russian Banking Sector. Therefore, applicability of the conducted research consists in importance of the evaluation of the current level of monopolization of the national banking sector for identifying potential perspective development strategies. The objective of the research is to

evaluate the current monopolization level of the Russian Banking Sector on the ground of developed methodological approach and revealing its effect on finance and credit sector. The research subject is economic relations arising from the processes of concentration and monopolization of banking institutions. The object of the study is the banking system of Russia.

## II. DATA FOR STUDY AND RESEARCH METHODS

Methodological complexity of the research involves challenges in understanding the terms «monopolization», «concentration», «force of market power». In our opinion, for the purpose of this study, we can talk about the following basic signs of monopolization: the ability to influence decisions in the banking sector, the distribution of assets and capital between banks, the presence of barriers to entry and exit in the banking sector.

The methodological foundations of the study also include the limitations presented within the framework of the Russian Antimonopoly legislation. In case where it is necessary to maintain supervision and to conduct the analysis of the banking market structure, using the Herfindahl-Hirschman index, calculated as the sum of squares of the specific share of credit institutions in the overall volume of the banking sector. In case of other transactions (rendering of other financial services) implementing by a credit institution its dominating position is established according to the order of providing analysis without considering the features established by this resolution. In this case, the FAS of Russia has developed a different procedure, formalized in the Order of April 28, 2010 № 220 «On approval of the procedure for the analysis of the competition state in the commodity market».

## III. RESULTS AND DISCUSSION

In order to establish the presence of such phenomenon as monopolization in the market of banking services, it is necessary to identify the main features and trends formed in this sector and to correlate them with the features relating to the monopoly market. [2] As a result of the conducted research it is necessary to emphasize the following features of the banking sector of Russia at the present stage:

The reduction in number of competitors

Despite the increasing number of credit institutions from 1990 to 2004 their number is steadily decreasing from 2012.

Moreover, this process has significantly accelerated over the past 3 years due to the policy of the Russian Central Bank of Russia to «clean up» the banking sector from unscrupulous participants.[3, p. 35] (Figure 1).

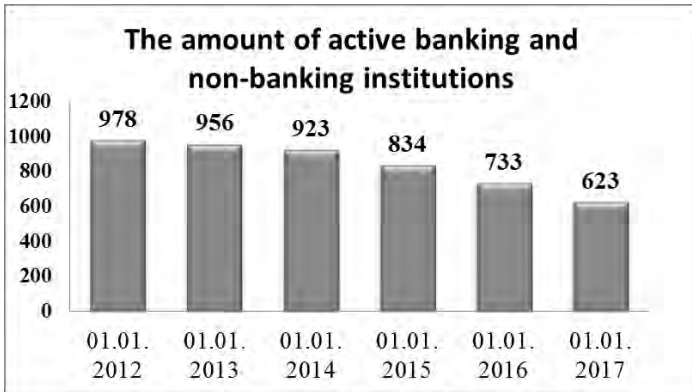


Figure 1: The amount of active banking and nonbanking

Institutions in 2012-2017 [compiled by the author based on source 9]

It is remarkable that during the period from 2013 to 2016, the structure of reasons for revocation of licenses has also changed (Figure 2).

It is worth noting that the proportion of license revocation caused by loss of funds dramatically increased in 2016 compared to 2013 – 2014 (14.6% of increase) at the same time the proportion of causes related to money laundering and dubious operations decreased (9.3% of decrease); the proportion of causes related to significant unreliability of reporting data (7.6%) and inability to satisfy the claims of creditors also decreased (7.6% and 5.8% of decrease respectively).

Apart from the tendency of reduction of the number of credit institutions in Russia there is a specific spread of banks by region in Russian Federation. According to the CBR database, the number of all national banks is spread in a following way (

After analyzing the data given above it is fair to say that the level of monopolization in Russian Banking Market is not similar throughout the country. A more demonstrative structure of credit institutions by regions at the beginning of 2017 is shown in Figure 3. Thus, more than a half of the banks

- Adopting high-risk credit policy
- Income laundering and conducting doubtful operations
- Reported data falsity
- Incapability of satisfying creditors' requirements
- Capital loss
- Having a ground for bankruptcy
- Competent authority decision to stop Bank from functioning

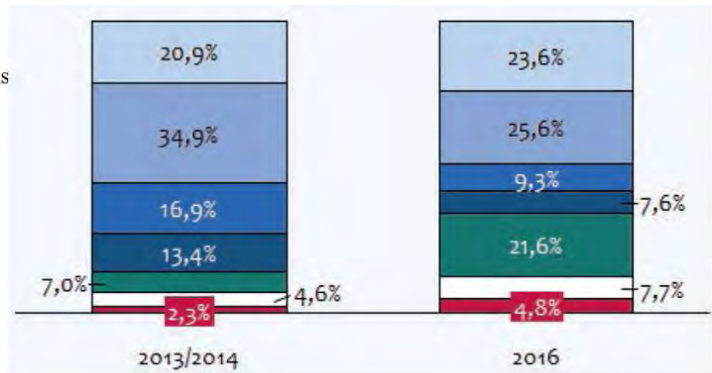


Figure 2: Reasons for license revocation[18, p. 23]

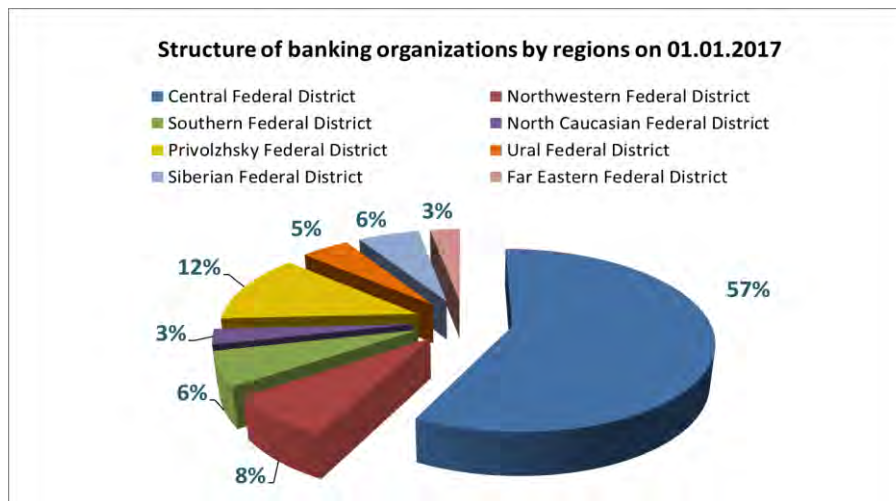


Figure 3: Structure of banking organizations

(57%) are concentrated in the Central by regions on 01.01.2017[compiled by the author based on source 9]

Federal district mainly due to the capital and the Moscow region, and the largest distant areas account for the smallest percentage of credit institutions. Only 12% of all banks in the banking system are concentrated in the second largest region (in Volga Federal district). It should also be noted that the competitive environment in the peripheral regions is supported by branches and offices of numerous capital banks.

2. The concentration of Finance in private credit institutions

Apart from the tendency to reduce the number of credit institutions in the Russian banking sector, there is a tendency to accumulate Finance in a small group of the largest banks in the country. According to ratings of 01.01.2017 five largest banks control 55% of the Russian Banking system assets. The concentration tends to increase: over the past decade the share of banks that are ranked as 300 and below has fallen from 8.2% to 2%. In Russia as in all developed countries, there are banks that occupy an exceptional position in the banking market. For example, take the first five banks, which are the leaders of the Russian banking system on assets according to the Central Bank (Figure 4). These five banks possess over a half of the total financial assets of the industry (55%). In absolute value this is 48 641 644 million rubles of total assets of credit institutions that compose 80 365 303 million rubles. It is worth noting that the share of Sberbank assets is about 29% of all assets of the industry, which already puts it in an exceptional position. The alarm signal is not majorly the fact that assets of the top 5 banks with state participation occupy more than a half of the entire system, but the positive dynamics of this phenomenon. However, violation of the principles of market competition plays a less significant role in the monopolization of the banking sector. Market power depends on the degree of concentration of capital and assets, which can be reflected through the Herfindahl - Hirschman index. Calculations shows that at the beginning of 2017 the index of monopoly power on assets is 1027,205 (moderate level of monopolization), and the index of monopoly power on deposits is 2 337 (high level of monopolization).

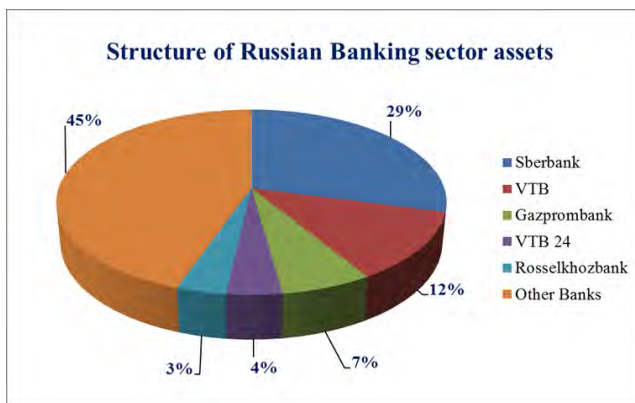


Figure 4: Structure of Russian Banking Sector

assets[compiled by the author based on source 4]

3. Absence of foreign competitors

Firstly, this phenomenon may be associated with the imposition of foreign sanctions against Russia and blocking the access for Russian business to the Western capital market. Additionally, the protectionist policy of the state limits the competition blocking access for foreign credit institutions to the Russian banking market.

4. State participation in the capital of the largest banks

In Russia the financial condition of the largest banks is supported by the state through participation in their capital. For instance, the capitalizations increase of banks in 2014. Within a framework of crisis situation the government pursued a policy of the banking sector supporting through provision of treasury bonds on concessional terms (OFZ). After analyzing the data on the structure of the authorized capital, it is possible to identify the following features: 1) The founder and the principal shareholder of Sberbank is the Central Bank of the Russian Federation, which owns 50% of the authorized capital and one voting share. 2) The main shareholder of VTB is the Russian Federation, which owns 60.935% of banks' voting shares on the behalf of Federal Property Management Agency and the Ministry of Finance, or own 45.01% of the authorized capital of the Bank (including GC «Deposit insurance Agency» — 92.23%). 3) The Gazprombank's capital structure includes: - PJSC Gazprom-29.764% of ordinary shares (in turn, 50% of GAZPROM shares belong to the state); - JSC «Gazprom gas distribution» – 16. 25% of the ordinary shares (JSC «Gazprom gazoraspredelenie» fully owned by OJSC GAZPROM); - Vnesheconombank-8.534% of ordinary shares (VEB is 100% owned by the state); - The Russian Federation, represented by the Ministry of Finance of the Russian Federation, owns 100% of the preferred shares of A type; - State Corporation «Deposit insurance Agency» owns 100% of preferred shares of B type. 4) VTB Bank 24 is 99.93% owned by VTB Bank, which as previously stated is the majorly a state Bank. 5) Russian Agricultural Bank (Rosselkhozbank) is a Bank with a 100% state participation.

#### IV. CONCLUSION

After analyzing the features of the Russian banking sector at the present stage, it is necessary to draw conclusions that in the modern banking sector of Russia it is possible to observe a number of stable trends, such as monopolization and federalization, which contribute to the slowdown in the competition development in the banking sector. [7, p. 52].

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