

# Supply Chain Strategy in Banking Sector of Russia: New Challenges and Strategic Fundamentals of Development

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**Abstract-** The present study aims to examine the idea of supply chain management in the financial institutions like banks in the region of Russia. Currently, the banking sector of Russia is showing a steady improvement in key indicators - the cost of borrowing is declining, the lending to the national economy is expanding, household deposits are growing, and profits are increasing. However, the challenges of banking intensify every year. There are different views on the strategic fundamentals of banking development among the specialists and leaders of the banking sector. Particular emphasis is placed on new financial platforms and related ecosystems, focused on e-commerce and logistics priorities. This will require the development of new forms of organization, supply chain management, supervisory and regulatory control. The preservation of banking business potential requires the implementation of a long-term competitive strategy, which goes far beyond the financial sector.

**Keywords-** *supply chain management, financial intermediation; transformation of banks; ecosystems; technological platforms; banking sector.*

## 1. Introduction

Supply chains should be managed in an integrated way. Integrated approach to supply chain management focuses on managing relationships, information and material flow in the inter-organizational dimension in order to reduce costs and improve flows. The current stage of socio-economic development of our country is characterized not only by internal technological modernization, but also by the need for effective adaptation to the global challenges of the world economy [1-6]. At the same time, the overwhelming majority of challenges, facing the national economy of Russia, turn out to be the additional strategic tasks for the development of banking sector. The effective functioning under the conditions of foreign economic sanctions and credit support for the necessary breakthrough socio-economic development, while maintaining financial stability, are, in fact, the main functional goals of the banking system development for the next few years. And the effectiveness of all the reforms, outlined in our country, depends on the banks readiness for such challenges.

## 2. Method

The current state of the Russian banking sector is characterized by the specialists of the Bank of Russia primarily on the criteria of a return to a positive tendency of growth of key indicators since 2017 [7-12]. The main achievement is the reduction in the cost of borrowing. It allowed to accelerate lending to the national economy. The growth of household deposits has become sustainable. And last year, the banking sector's profit reached 800 billion rubles, against the background of the expansion of electronic document management, the introduction of international recommendations, taking into account the state of the domestic market and other reform measures. A number of indicators of the banking sector development are presented in Table 1.

Special mention in this regard should be made of a set of measures for the financial recovery of several large banks, implemented last year. The advantages of the Banking Sector Consolidation Fund were actively used in this work. This became the tool for the required additional capitalization of credit organizations, which allowed to return banks to a steady state. Moreover, this mechanism helped to eliminate the acute problem of underestimation of accumulated credit risks in a number of banking groups.

**Table 1.** Macroeconomic indicators of the banking sector of the Russian Federation (as of the beginning of the year) \*

	2013	2014	2015	2016	2017	2018
Assets (liabilities) of the banking sector, billion rubles	49510	57423	77653	83000	80063	85192
As % of GDP	72.6	78.5	98.0	99.5	92.9	92.6
Own funds (equity capital) of the banking sector, billion rubles	6113	7064	7928	9009	9387	9397
As % of GDP	9.0	9.7	10.0	10.8	10.9	10.2
As % of the banking sector assets	12.3	12.3	10.2	10.9	11.7	11.0
Loans and other placed funds, provided to non-financial organizations and individuals, including arrears, billion rubles	27708	32456	40866	43985	40939	42366
As % of GDP	40.6	44.4	51.6	52.7	47.5	46.0
As % of the banking sector assets	56.0	56.5	52.6	53.0	51.1	49.7
Securities, purchased by banks, billion rubles	7035	7822	9724	11777	11450	12311
As % of GDP	10.3	10.7	12.3	14.1	13.3	13.4
As % of the banking sector assets	14.2	13.6	12.5	14.2	14.3	14.5
Deposits of individuals, billion rubles	14251	16958	18553	23219	24200	25987
As % of GDP	20.9	23.2	23.4	27.8	28.1	28.2
As % of the banking sector liabilities	28.8	29.5	23.9	28.0	30.2	30.5
As % of money incomes of the population	35.7	38.0	38.7	43.4	44.7	47.7
Deposits and funds in the accounts of non-financial and financial organizations (except credit organizations), billion rubles	14565	16901	23419	27064	24322	24843
As % of GDP	21.4	23.1	29.6	32.5	28.2	27.0
As % of the banking sector liabilities	29.4	29.4	30.2	32.6	30.4	29.2

\* See: Report on the development of the banking sector and banking supervision in 2017. The Bank of Russia. - M., 2018. - P. 101.

### 3. Results

The results of the banking system performance over the past ten years showed that, on the whole, its strengthening by using supply chain strategy were ensured, regardless of many previously unforeseen difficulties. It should be emphasized the effectiveness of strict conservative management in the commercial policy of banks and in the operational activities, resulting in the increase of efficiency. It was able to provide the fundamental growth in the assets of the

Russian banking sector. These assets, in their quantitative parameters, approached the level of gross domestic product (GDP). According to many indicators, the banking sector has reached the level of world requirements, and that can be seen from the data in Table 2. At the same time, a certain slowdown in the growth rates of bank assets after the global financial crisis, which has become a characteristic feature, is an almost global trend [7].

**Table 2.** Selected indicators of the banking system of Russia and regions of the world \*

	2008	2010	2013	2016
Bank assets, as % of GDP				
Russia	68	73	79	93
Eurozone	322	328	299	277
Great Britain	531	502	426	392
USA	94	86	90	91
Emerging Markets	-	-	-	-
Return on assets, %				
Russia	2.4	1.8	1.9	1.2
Eurozone	0.0	0.3	0.1	0.2
Great Britain	-0.2	0.3	0.1	0.1
USA	-0.1	0.6	1.1	1.0
Emerging Markets	1.1	1.0	1.2	0.0
Return on equity, %				
Russia	18.3	11.7	14.9	10.3
Eurozone	-2.8	5.5	3.0	3.8
Great Britain	-4.6	5.2	1.3	1.2
USA	-1.0	5.6	9.4	9.3
Emerging Markets	17.0	13.0	17.4	13.1

\* See: The 2008–2017 Decade in the Russian Banking Sector: Trends and Factors. A Series of Economic Research Reports (No. 31/ June 2018). The Bank of Russia. - M., 2018. - P. 80.

In addition, it should also be emphasized that the universal business model is a priority organizational and managerial form of development of the banking sector. The sustainability, promotion of fair interbank competition, and improvement of the

quality of services, required at the present stage, are ensured within its framework.

Considering the organizational future development, there are various approaches and proposals among the specialists and leaders of the Russian banking sector. Assessing the priority areas and potential prospects, they have different views on

the organizational forms of banking development in the near future.

The official materials, regarding such views of the regulator, traditionally identify the risks of the banking sector. They are the following: credit risk - due to the quality of portfolio, concentration of risks and their distribution between shareholders and insiders, etc.; market risk - through the assessment of markets and vulnerabilities of banks in the stock and foreign exchange sectors; liquidity risk - mainly through the effectiveness of ratios, the structure of assets and liabilities, the dependence on the interbank market; operational risk - especially in the area of cybersecurity and provision of customer confidence; capital adequacy risk - through the structure of own funds and assets.

In this regard, in 2017, the comprehensive measures for improvement the financial condition of a number of large banks were implemented by the Bank of Russia quite effectively. They became possible due to the use of the consolidation fund potential. As a result, these banks were recapitalized and they had a stable functional regime. At the same time, this new mechanism made it possible to solve the problem of underestimation of many risks in a number of banking groups, which had been forming and accumulating over the years. Qualitative and systematic evaluation of the assets in reorganized banks was followed by the company for a substantial restructuring of reserves, which had a positive impact on the overall financial performance of the Russian banking system.

Macroeconomic, technological and challenges of state participation in banking capital are defined as the main challenges to the banking system for the next decade.

Macroeconomic challenges, which are the first, come from the transformation of the structure of global and national economies. Most likely, these processes will lead to the fact that banks will have to function and develop under the conditions of positive real interest rates and effective targeting of inflationary processes. This, in turn, will create the requirements for adaptation to work with low margins and tough cost optimization. Moreover, there will be the additional factors of deterioration of the demographic situation, with corresponding changes in the structure of demand for banking services and changes in oil prices, with the accompanying fluctuations in exchange rates.

The most significant technological challenges are the sharp increase in the effectiveness of financial intermediation with the associated risks in terms of ensuring the confidentiality of information, operational resilience to technological shocks and financial stability. These challenges are additionally enhanced by the increased sensitivity of the Russian financial system to the global shocks. The requirement of leadership in the field of the so-called fintech will be applied to all banks without exception.

The problem, regarding the challenges of state participation in the capital of banks, remains controversial and does not yet have a universally accepted solution. Without state participation, it is

impossible to improve the financial situation of banks effectively, and to ensure the systemic stability in case of unfavorable foreign economic processes. At the same time, for these reasons, there is a restraint on the development of market competition as an important factor in the development of the banking system.

As a whole, this is a point of view of the leadership and specialists of the entire Russian banking system about the threats and challenges. But on the other hand, we should consider the ideas and the real actions of the leadership of the most advanced banks.

At the Gaidar Forum, which was held at the Russian Presidential Academy of National Economy and Public Administration in January 2016, the head of Sberbank G. Gref said that he associated the radical change in the banking sector with the upcoming natural change of generations, due to the inevitable decline in demand in the physical network. Banks themselves, in their traditional sense, will cease to function even earlier [5]. At the same time, he emphasizes that in the next five years no bank can be a real market participant without switching to completely new technological platforms, which are fully digital. Consumer demand for traditional banking services will last no more than ten years.

At the meeting, devoted to the Investor's Day, which was held in December 2017 in London, the head of Sberbank stated that he did not believe in banks. In this regard, a line was drawn to the formation of a modern high-tech company, such as Google, Apple, Amazon and Facebook [6].

When the representatives of these companies were asked whether their entry into the banking sphere was possible, they answered negatively, with references to the excessive regulation of the banking business. Being the representatives of a free business, they could not imagine the effective development in the conditions of everyday and pervasive tight control. However, last year, the attitude towards the problem changed, and Facebook registered its bank in two jurisdictions. The emergence of Amazon Finance and Google Finance is becoming real in the near future. Therefore, Sberbank Group must be prepared for such changes.

Such areas as medicine, education, tourism, entertainment, etc. also deserve special attention. The companies from these sectors can begin active entry into the banking business, because it is much easier to master banking than to determine the trends in customer needs.

The mentioned line is also confirmed in the official strategy of Sberbank [1]. Based on the irreversible changes in the complex and structure of consumer preferences, as a result of development of digital technologies, it is necessary to form its own ecosystem. This takes into account how American and Chinese companies Apple, Google, Alibaba, Amazon, Tencent, Facebook and others through the creation of ecosystems lay the foundations for a fundamental transformation of the global economic landscape, where the shift in value chains from production to distribution occurs. Leading positions are successively

transferred to the creators and owners of technological platforms, integrating manufacturers of goods and services, with the subsequent formation of the best package offers for the customers.

In such conditions, Sberbank sets the task of completing the technological transformation of the existing financial business in the process of creation of new platform, with the transfer of the entire business to it, and with the parallel construction of an additional ecosystem in non-financial sectors. Due to this ecosystem, the group will be able to meet the ultimate customers' needs.

The development and proposal of new additional services, which are synergistically coupled with financial products in such areas as procurement, healthcare, recreation, home, etc., will create a new potential for Sberbank. This will significantly improve the quality of relations with customers. It will be the key factor in saving of long-term competitiveness. The priority is given to e-commerce and logistics, which are the most significant in terms of ensuring the investments and profit.

Thus, the maintenance of business potential and growth of profit is seen in a long-term competitive strategy outside the financial sector.

In principle, the leadership of Tinkoff Bank has the similar positions. So, Oleg Tinkov in his interview to the electronic newspaper "Business-gazeta.ru" of September 7, 2016, defined his strategy as the consistent formation of a financial supermarket, fully supporting the actions of Sberbank and its management. This strategy faces many problems in regards to dependence on loans, on trends in the Russian economy. But in any case, there will be no banks in their traditional sense within five to ten years. Therefore, the main task is to create a full range of financial services for a client in one place, in the cloud environment, through the large-scale business diversification.

In our opinion, when identifying the challenges, facing banking development, one should take into account such trends as the financialization of the economy and the disintermediation in financial markets.

Currently, the commercial banks of Russia are mainly focused on such activities as financial intermediation, that is, the attraction of free cash from some customers and lending them to others. This can be clearly seen in the income structure of Russian banks, where about two-thirds are net interest income [11]. But this situation is also characteristic of the world market.

Thus, the UN experts on trade and development highlight in their report a well marked trend in the outstripping growth rates of financial flows, relative to the development rates of the real sector of national economies. In our country, this difference in the noted growth rates is also increasing. For example, according to the official website of Rosstat, the share of investments in non-financial assets since the beginning of the century has decreased

from 46.2% to 7.7%. Accordingly, the parameters of financial investments increased from 53.8% to 92.3%.

#### 4. Conclusion

This paper examined supply chain performance basing on its relationship with marketing in order to partly fill the existing knowledge holes. All this is summarized by the specialists in determining the financialization of national economies of both developed and developing countries [3]. This process is qualified according to the criteria for outstripping growth in the total volume of financial transactions, relative to the growth rate of gross domestic product and investments in fixed assets [10].

As a result of these processes, commercial banks lose interest in investment in the real sector of the economy, in financing of funds for the accumulation of capital goods, especially those focusing on innovative bases. Currently, the banks of Russia are minimizing their reproduction lending. They are limited to loans to replenish working capital, and lending to citizens is reduced to the provision of consumer purchases and mortgages. Moreover, as noted previously, in general, Russian commercial banks are characterized by the excessive liquidity.

The concentration of free cash mainly in the financial markets has increased the interest of non-financial organizations. Therefore, in recent decades, the practice of direct financing (disintermediation) is actively developed. It is associated with an increase in the number of new financial intermediaries, as well as the rejection of bank intermediation [13]. The characteristic features of this process were the refusal of bank intermediation in the capital market; wider distribution of direct issue of securities; withdrawal of funds from bank deposits in order to invest them; withdrawal of a part of credit resources from the banking system and some others [8].

Pointed processes affected not only the dynamics of the banking sector, but also the sectoral and regional investment processes [4],[14], financing of socio-economic development of the regions and innovations [13],[2].

As a whole, it is advisable to analyze fundamentally the foregoing challenges, faced the Russian banking system, and possible effective forms of its adaptation, from the point of view of their priority. Are these challenges for the banking system or for the banking activity?

- In our opinion, it is more appropriate to talk about the challenges for the banking activity, which is increasingly being mastered by the organizations outside the banking system, especially in new financial platforms and relevant ecosystems, focused on the priorities of e-commerce and logistics. This will require the development of new forms of organization, management, supervisory and regulatory control. All this becomes a prerequisite for the preservation and development of banking potential through the implementation of a long-term competitive strategy, far beyond the financial sector.

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