

ORIGINAL PAPER



DOI: 10.26794/2587-5671-2021-25-1-143-156

UDC 336.7(045)

JEL G01

Interbank Competition in the Russian Banking Market

O. Yu. Donetskova

Orenburg State University, Orenburg, Russia

<https://orcid.org/0000-0002-7849-4034>

ABSTRACT

The stable development of the banking sector is closely related to interbank competition. **The subject** of the research is the improvement of interbank competition, which contributes to improving service quality standards, reducing costs and prices, expanding the product line, and clearing up the market from weak and unscrupulous participants. The study **aims** to make recommendations for improving interbank competition to ensure the stability of the country's banking sector. The work employed the analytical **methods** of analysis, synthesis, comparison, graphic method. The theoretical aspects of the subject helped the authors to formulate their concept of interbank competition as the bank competition attractive sources of accumulating resources and placing them considering the customer-oriented approach and in order to ensure their stability in the banking market. The practical analysis relies on statistical data from the Bank of Russia and reflects the uneven distribution of banks across the country with the dominance of banks with state participation. The systematic and integrated approaches of the study made it possible to identify the main trends in interbank competition: monopolization, centralization, concentration of capital, federalization, and globalization. The authors **conclude** that a significant decrease in the number of banks against the increase in assets of state-owned banks limits interbank competition. The largest state-owned banks dominate in the country's deposit and credit markets. The Herfindahl-Hirschman index demonstrates the sufficient importance of credit institutions in the market. Foreign banks also influence their competitiveness. The authors proposed measures aimed at strengthening interbank competition: reducing the degree of state participation in the banks' capital by establishing a standard for the permissible state participation in the authorized capital of credit institutions; establishing equal "rules of the game" for all participants in the banking market and excluding state privileges; developing regional small and medium-sized banks through tax and financial incentives. **The prospect** of further research is in a more detailed study of minimizing factors that negatively affect interbank competition.

Keywords: banks; competition; banking market; competitive environment; interbank competition; level of competition

For citation: Donetskova O. Yu. Interbank competition in the Russian banking market. *Finance: Theory and Practice*. 2021;25(1):143-156. (In Russ.). DOI: 10.26794/2587-5671-2021-25-1-143-156

INTRODUCTION

The relevance of this paper is due to the importance of studying the trends of the interbank competition development in Russia at the present stage. The severity of the interbank competition concerns not only the largest participants in the banking market but also medium-sized and small banks since the stable functioning of banks determines the efficiency of the country's banking system and the national economy as a whole.

The study of this topic is of great importance both in the theoretical aspect and in the practical one. It is important to distinguish between interbank and banking competition since the pool of competitors is expanding at the expense of non-bank financial institutions. Banks that have the same products and operate in the same market are competitors. At the same time, the primary goal of banks is to attract more customers, increase sales of banking products and, accordingly, increase profits. Consequently, interbank competition is a dynamic process in which banks ensure their stable position in the banking market [1]. Many economists, both foreign and domestic, are studying the interbank competition. The classics of economic theory also paid much attention to this topic. J. Robinson studied "the mechanism of price formation, considering each manufacturer a monopolist" [2]. F. Hayek emphasized a special role of competition "as a way to identify new products, the implementation of which allows you to get high profits, use new markets and ensure the dynamic development of the economy as a whole" [3]. E. Chamberlin has formed a model of the market structure, in which numerous participants are independent of each other and have no restrictions on entering any market sector, while buyers of a number of monopoly products and services purchase them for an increased price [4]. F. Edgeworth investigated the state of perfect competition, in which the number

of suppliers of products, services, and their consumers is infinite, and the equilibrium of exchange is certain [5].

Domestic economists O. P. Ovchinnikova, E. A. Dynnikov define competition as a factor of the banking market stability [6]. L. V. Demchenko believes that competition increases the risks of banks [7]. V. G. Sadkov and A. K. Podmaster'eva adjusted the Herfindahl-Hirschman index by the price change index, which made it possible to obtain reliable information about the competition in the banking market [8]. Yu. O. Skorpupina developed methods to adequately assess competition, considering the factors that determine the situation in the banking market [9]. V. M. Kutyin, on the basis of absolute and relative indicators, assigned banks eleven clusters of competitive positions [10]. L. M. Sadykova explores the unification of the competitive conditions of a business competition between financial intermediaries aimed at achieving goals and increasing profits [11].

It should be noted that the legislation of the Russian Federation does not give an unambiguous interpretation of "interbank competition", and the studies of economists do not have a unified approach to this issue. This is due to the fact that interbank competition is a relatively new phenomenon in the economy of our country because, during the Soviet period, industrial banks (Gosbank, Zhilstroibank, Promstroibank, Vnesheconombank, Agroprombank, Vneshtorgbank, Sberbank) functioned in the banking market, which occupied certain market niches and did not compete between themselves.

The Bank of Russia as a mega-regulator interprets competition as the rivalry between financial intermediaries for the consumer of their products and services.

A. M. Tavasiev believes that "interbank competition is a dynamic struggle between credit institutions in the market for deposits, loans, and other banking products, as well as

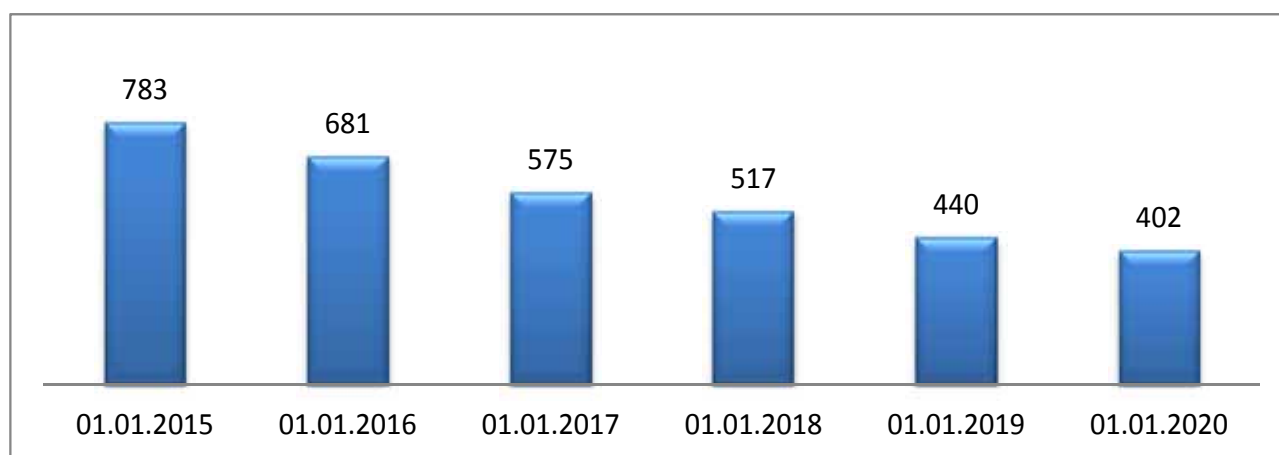


Fig. 1. Number of banks in Russia, units

Source: compiled by the authors based on data from the Central Bank. URL: <https://cbr.ru/statistics/bbs/statisticheskii-byulleten-banka-rossii/> (accessed on 04.09.2020).

in alternative financial markets”.¹ The same point of view is shared by A. A. Khandruev, A. A. Chumachenko [12]. Moreover, interbank competition contributes to the efficiency of the implementation of banking products and services and their improvement [13].

We understand interbank competition as the functioning of banks in a competitive environment for attractive sources of accumulating resources and their placement, considering the principle of customer focus and with the aim of ensuring their stability in the banking market. The development of the product line of banks ensures the improvement of interbank competition. Based on the author’s concept, we will analyze the state of interbank competition in the Russian banking market.

Currently, a stable trend in the development of the Russian banking market is the reduction in the number of banks. For the period 2015–2020 their number decreased by 381 units (Fig. 1).

This situation is primarily due to the macroeconomic goal of the Bank of Russia, aimed at “improving the banking market by revoking licenses from financially unstable financial intermediaries implementing risky

credit policies and suspicious transactions” [14]. During 2020, the number of banks decreased by another 22 (from 442 to 420), of which 13 banks had their licenses revoked, and 9 were reorganized. The Bank of Russia forecasts the revocation of licenses until 2021 in an amount comparable to 2019 (approximately 30–35 reviews per year).² At the same time, the increase in the share of bank reorganizations in recent years (mergers, acquisitions, license waivers) is not negative dynamics due to the fact that the mega-regulator is pursuing a strategy of market contraction. The financial market is characterized by an oligopoly with a competitive environment with a relatively high level of state participation in the capital of financial intermediaries.³

By determining the state of interbank competition, it is possible to record the increasing dynamics of a high level of asset concentration. So, as of January 1, 2020, the Top 5 largest banks own about 60% of the total assets of the banking sector, 20 banks — more than 80%, and 200 banks — 99.2% (Table. 1).

¹ Tavasiev A. M. Competition in the Russian banking sector: a study guide for universities. A. M. Tavasiev, N. M. Rebel’skii. Ed. A. M. Tavasieva. M.: UNITY-DANA; 2001. 304 p.

² Experts expect an acceleration in the revocation of licenses from banks by the end of the year. URL: <https://ria.ru/20200824/1576216444.html> (accessed on 04.09.2020).

³ Bank of Russia approaches to developing competition in the financial market. URL: <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf> (accessed on 04.09.2020).

Table 1

Assets in the banking sector, %

Distribution of credit institutions, ranked by assets (descending)	01.01.2015	01.01.2016	01.01.2017	01.01.2018	01.01.2019	01.01.2020
First 5	53.8	54.1	55.2	55.8	60.4	60.3
6 to 20	20.9	21.6	22.8	23.5	21.2	22.6
21 to 200	22	21.5	19.9	19.2	17.4	16.3
From 201	3.3	2.8	2	1.5	1	0.8
Total	100	100	100	100	100	100

Source: compiled by the authors based on data from the Central Bank. URL: https://cbr.ru/banking_sector/statistics/ (accessed on 04.09.2020).

A significant proportion of these assets belong to the state-owned banks. The trend over the past six years has demonstrated an increase in total assets from 43.9 to 59% and an increase in total capital – from 48.9 to 64.2%.

The impact of the pandemic has undoubtedly slowed banking activity. However, from the second half of 2020, the activity of the economic participants has been observed, which allowed the majority of banks to enter the growth trajectory. An increase in assets is observed in 59% of the banking market participants, including 37 banks from the Top 50 and all representatives of the Top 10.⁴ Moreover, the three largest banks with state participation (Sberbank, VTB, Gazprombank) own more than 50% of the total assets of the banking market (*Table. 2*).

The quality of banks' loan portfolios is important for interbank competition. Considering the current economic situation during the pandemic, the Bank of Russia assumes that in the mid-term, the banking sector will see an increase in overdue loans

and bad credit debt service. However, the situation can be mitigated by restructuring loans to affected borrowers under the terms of banks' own programs or by granting loan holidays adopted by law. For most of these loans, the Bank of Russia allowed banks to temporarily not build up additional reserves, planning that borrowers will soon return to normal servicing of credit debt.⁵

It should be noted that the share of the leader, Sberbank, is twice the share of its closest competitor, VTB Bank; 7.7 times higher than the share of Alfa-Bank, which occupies the 5th place in the ranking; 23 times higher than the share of Raiffeisenbank, which closes the Top 10 largest banks in terms of assets. We believe that the excessive concentration of assets of the largest systemically important state-owned banks negatively affects the interbank competition. At the same time, there is a loss of investment interest in the banking business in Russia. Obviously, it is difficult to fix the situation by strictly regulating the dominant banks and selling rehabilitated banks to private investors. Large

⁴ URL: https://finance.rambler.ru/realty/44766683/?utm_content=finance_media&utm_medium=read_more&utm_source=copylink (accessed on 04.09.2020).

⁵ URL: https://cbr.ru/press/pr/?file=10082020_163109pr_0.htm (accessed on 04.09.2020).

Table 2

Top 10 Russian banks in terms of assets, household deposits, loan portfolio and their share as of 01.01.2020

Ranking place	Top 10 banks by assets	Top 10 banks in terms of household deposits	Top 10 banks in terms of loan portfolio
1	Sberbank (29.9%)	Sberbank (43.6%)	Sberbank (35.1%)
2	VTB (15.2%)	VTB (14.1%)	VTB (17.8%)
3	Gazprombank (7.1%)	Alfa-Bank (3.9%)	Gazprombank (8%)
4	National Clearing Centre (4.2%)	RusAg (3.8%)	RusAg (4.2%)
5	Alfa-Bank (3.9%)	Gazprombank (3.8%)	Alfa-Bank (4.1%)
6	RusAg (3.7%)	Otkritie Bank (2.9%)	MKB (3.4%)
7	Otkritie Bank (2.8%)	MKB (1.6%)	Otkritie Bank (2.4%)
8	MKB (2.6%)	Raiffeisenbank (1.5%)	National Clearing Centre (2%)
9	NB Trust Bank (1.4%)	Sovcombank (1.4%)	NB Trust Bank (1.6%)
10	Raiffeisenbank (1.3%)	Post Bank (1.3%)	Raiffeisenbank (1.4%)

Source: compiled by the authors based on data from Banki.ru. URL: https://www.banki.ru/banks/ratings/?source=submenu_banksratings (accessed on 04.09.2020).

banks with state participation in the capital are currently important trendsetters⁶ and main active players in the market.

In the deposit market, more than 40% of individual deposits are also concentrated in Sberbank; the share of VTB Bank (14.1%) is 3 times less than the share of the leader; the shares of other banks from the Top 10 are less than 4%. This situation has a negative impact on the intensity of interbank competition in this segment of the banking market.

As of January 1, 2020, the deposit accounts of the Top 5 banks accounted for 66.5% of the total amount of funds attracted from legal entities and individuals (compared to 65.5% in 2019), the Top 50 banks attracted 92.1% customer funds (2019–91.2%), and the Top 100 banks have accumulated — 95.8% (2019–95.6%).⁷ A slight decrease of deposits in mid-2020 is associated with the priority of depositors to purchase everyday goods during

the pandemic, as well as the fact that they made purchases “to have in store”, fearing an increase in prices.

It should be noted that large banks offer their depositors deposits at a lower interest rate, in contrast to small regional banks. In this case, depositors are guided by the status of the bank’s reliability, guarantee, and reputation, rather than the possibility of earning more income. This fact reduces the level of interbank competition.

One of the sectors of the financial market where interbank competition is actively manifested is the payment market. The reason for this is the steady trend of a drop in the share of the cash in circulation and the rapid growth in the issue of payment cards and the volume of transactions with their use. According to the statistics of the Bank of Russia, each citizen of the country has up to three bank cards, one of which is “Mir”. The share of payments by bank cards has already reached 60%; at the same time, the ratio of the volume of payments by cards to the amount of cash withdrawn is more than 80% (compared

⁶ Banks.ru Financial supermarket. Banking Sector Review 2019. URL: https://static2.banki.ru/ugc/ba/58/70/d0/bank-obzor-2019-dl_-publikacii.pdf (accessed on 04.09.2020).

⁷ See previous.

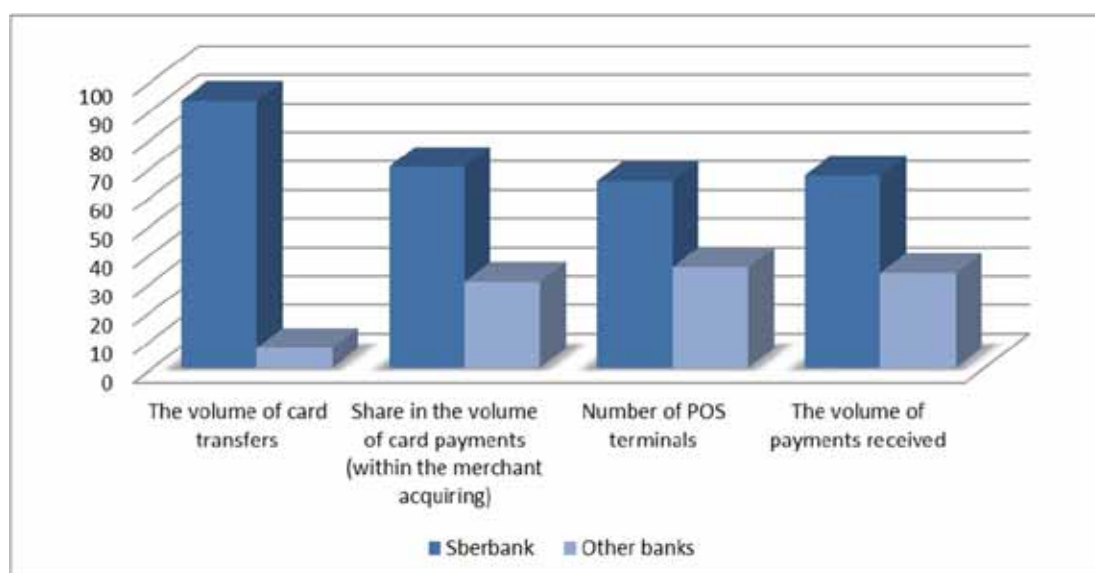


Fig. 2. Share of banks in the volume of card transfers, %

Source: compiled by the authors based on data from the Central Bank. URL: https://cbr.ru/Content/Document/File/90556/Consultation_Paper_191125.pdf/ (accessed on 04.09.2020).

to 2015 – 38% and in 2010 – 12%).⁸ At the same time, domestic banks are innovation leaders in the field of cashless payments (Mir Pay, Apple Pay, Samsung Pay). Considering the peculiarities of the payment system, interbank competition is observed between issuing banks for a customer – cardholder and acquiring banks for merchant services (*Fig. 2*).

Fig. 2 presents Sberbank's noticeable leadership in the market of non-cash payments and transfers. First of all, this is provided by the issue of debit cards for "salary projects". The merchant acquiring niche is occupied by about 140 banks, but Sberbank still holds the lion's share in terms of the number of electronic terminals and in terms of the volume of payments made. Thus, there is a classic monopoly of Sberbank in this segment of the market, where other banks have no opportunity to compete.

So, Sberbank is the leader in the payment, deposit, credit, and other sectors of the financial market. The share of its loan portfolio reached 35.1%. VTB's loan portfolio is half the size (17.8%) and Gazprombank (8%)

is significantly inferior to it.⁹ The intensity of interbank competition in the credit market is stronger than in the deposit market. However, Sberbank is the undisputed monopolist of the market.

Thus, the backbone of the Russian banking market is state-controlled banks [15]. Anti-crisis measures implemented in 2008–2009 helped to strengthen the monopoly of state banks. Undoubtedly, large banks provided significant support to the population, entrepreneurs, small and medium-sized businesses during self-isolation in 2020. It is easier for large state banks to cope with crises in the financial market. The advantages of the state-owned banks in the market are the stability of the country's banking system, the provision of benefits to bank customers, low interest rates on loan products, profitable savings programs. However, a significant drawback of the prevalence of banks with state participation in the country is the decrease in interbank competition. It is important to consider that if the mega-regulator decides to reduce the share of the state in the capital

⁸ URL: https://cbr.ru/Content/Document/File/90556/Consultation_Paper_191125.pdf/ (accessed on 04.09.2020).

⁹ URL: https://www.banki.ru/banks/ratings/?source=submenu_banksratings (accessed on 04.09.2020).

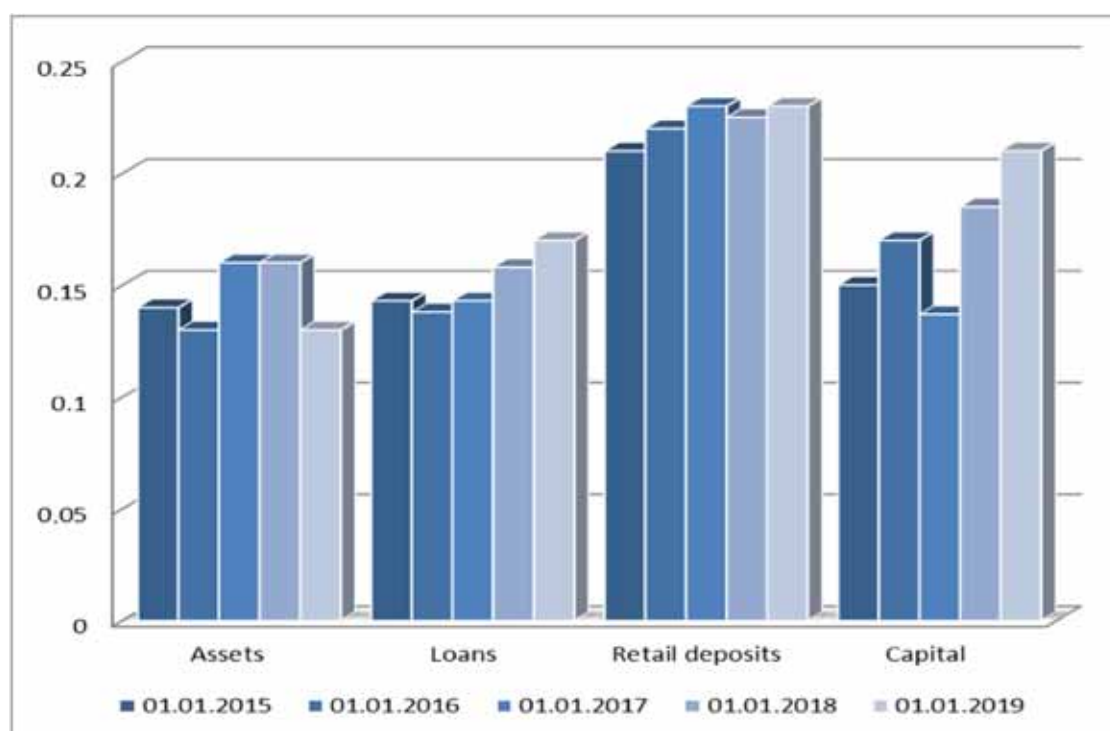


Fig. 3. Values of the Herfindahl-Hirschman index for the main indicators of the banking sector

Source: compiled by the authors based on data from the Central Bank. URL: <https://cbr.ru/publ/nadzor/> (accessed on 04.09.2020).

of banks in order to develop the interbank competition, customers may lose confidence in private institutions, as they do not provide an additional guarantee for the safety of their funds. Especially, if the bank is the only supplier of financial products in a small remote region of the country, then not only trust but also the availability of financial services for consumers becomes an issue.

To determine the level of interbank competition, let us analyze the dynamics of the Herfindahl-Hirschman index (Fig. 3) by indicators: assets, equity, deposits of individuals, loans, and other placed funds provided to non-financial resident organizations. The Herfindahl-Hirschman Index (HHI) considers both the number of credit institutions and the inequality of their position in the banking market and characterizes the level of monopolization. The value of HHI decreases with an increase in the number of credit institutions and increases with increasing inequality between them for any number of them.

The tendency of increasing the concentration of the banking sector in all four

indicators is clearly visible. In terms of assets and loans, HHI has changed insignificantly over the past 5 years and corresponds to the value of the moderately concentrated banking market. This is characterized by the fact that, despite the dynamic revocation of licenses, the banking sector has a fairly large number of credit institutions.

At the end of 2017, the value of HHI by capital moved to a zone of high concentration, and in 2018 there was a sharp increase to 0.21. At the end of 2019, a small number of banks had capital gains, and in 2020 — only 59.7% of banks. This dynamic of increasing the capital base of banks is the worst result over the past 10 years. The reason for the low capitalization is the weak growth in the profitability of the banking business. Sberbank (RUB 300 billion, 7%) was among the leaders in terms of absolute bank capital growth over the past year, VTB Bank ranked second (RUB 82 billion).¹⁰

¹⁰ Largest banks in terms of equity capital as of January 1, 2020. URL: <https://riarating.ru/banks/20200304/630157179.html> (accessed on 04.09.2020).

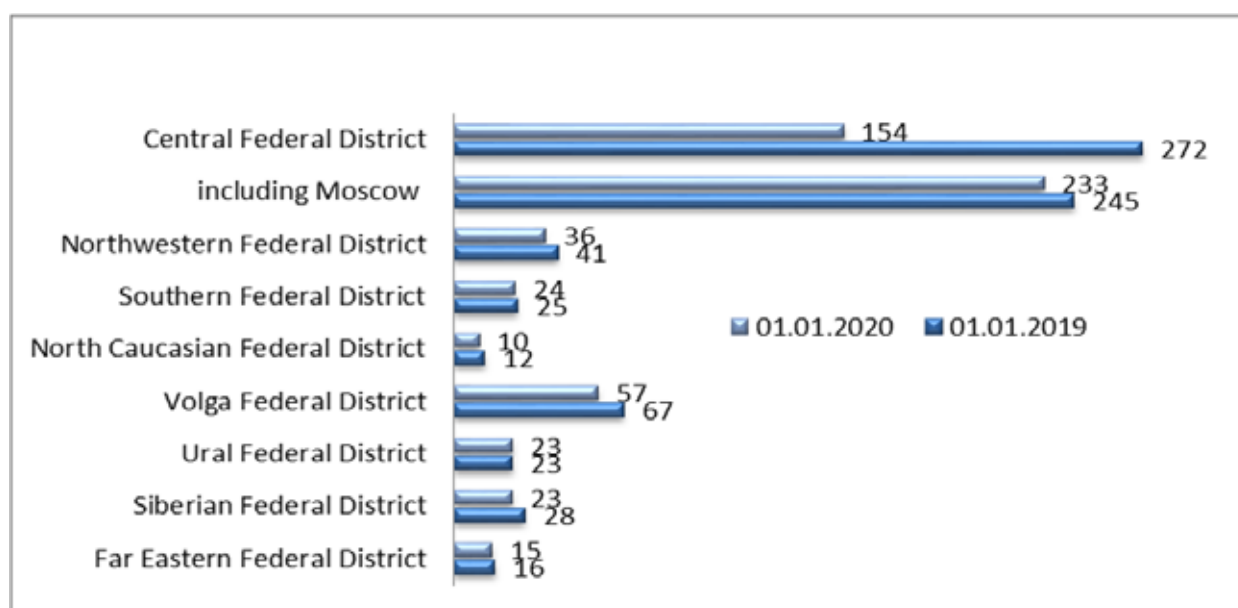


Fig. 4. Distribution of credit institutions in Russia as of 01.01.2019–01.01.2020

Source: compiled by the authors based on data from the Central Bank. URL: https://cbr.ru/statistics/bank_system_new/cr_inst_branch_010118/ (accessed on 04.09.2020).

The highest value of HHI is observed in the deposit market. After a slight decline in 2017, in 2018 HHI reached an all-time high of 0.23.¹¹ The study of the deposit market demonstrates a monopoly position in the market of Sberbank (40–50% of all deposits) due to the location of its multi-branch structure throughout the country; availability of banking products and services for all segments of the population, as well as customer focus on business. Consequently, the segment of household deposits is characterized as a market with a high level of concentration. Thus, all the above values of the Herfindahl-Hirschman index confirm the earlier conclusions about the high concentration of the Russian banking market [16].

In our opinion, it is difficult to give an accurate assessment of interbank competition, since a number of the largest banks have a strong influence on the banking market; and the remaining insignificant market share is

under strong competition from small and medium-sized banks. Many banks are trying to diversify their product line, soften the conditions for the customer, and make their products and services more attractive.

The analysis of the state of interbank competition is complicated by the fact that:

- the same bank can be both a leader and an outsider in different regions of the country, depending on the bank competitor;
- the interbank competition in all segments of the banking market depends on the economic situation in the country, which increases the risks of the unpredictability of changes occurring outside the banking market.

The interbank competition must be analyzed from the perspective of the activities of each bank in a particular region to generate the most reliable information about it.

We agree with the opinion of A.M. Shaposhnikov on the importance of assessing the competitiveness of regional banks in the context of interbank competition [17]. The use of the index of the integral competitiveness of regional banks will increase their importance in the market. An important competitive advantage of regional

¹¹ Development of Competition in the Financial Market: Russia and International Practice. Analytical materials. XVI International Banking Forum “Banks of Russia — XXI Century”. Sochi, 2018. URL: https://asros.ru/upload/iblock/af3/18061_analiticheskiematerialysochi2018.pdf (accessed on 04.09.2020).

banks is personal relationships with clients, understanding the needs of small and medium-sized regional businesses. However, the weaknesses of regional banks reduce their competitiveness: low capital, limited branch network, inaccessibility of banking innovations, lack of qualified personnel. Regional banks in the context of interbank competition should pay careful attention to internal and external factors, expand their product line, focusing on customer needs, determine price parameters, predict long-term goals and develop a strategy for achieving them. Large banks, on the contrary, redistribute monetary resources not in favor of the regions, since they do not consider the interests of the region and have their offices in the central federal districts of the country.

Geography has a huge impact on interbank competition. In the regions of Russia, due to the unequal level of their economic development, there is an uneven distribution of banks (*Fig. 4*). Systemically important large banks operate in the developed regions of the country. In remote territories of Russia, customers experience the insufficient provision of banking services and a low level of interbank competition [18].

According to the statistics of the Bank of Russia,¹² the share of the Central Federal District (Moscow and the Moscow Region) is 52.5% of the banking market, while the regions account for 3.4% (in the Far Eastern Federal District) to 12.9% of banks (in the Volga Federal District). The geographical factor emphasizes the urgency of organizing an effective mechanism for regulating interbank competition aimed at the development of each region [19].

Thus, in Russia there is a steady trend of scaling the territorial presence of large banks in the regions, reducing the share of the regional market and the effective functioning of regional banks.

It should also be noted that the presence of foreign banks in the banking market influences interbank competition. A number of factors (high macroeconomic risks, increased influence of banks with state participation, changes in the country's foreign policy situation, intensification of the processes of mergers and acquisitions of credit institutions) contributed to the decrease in the number of foreign banks, the closure of their branches and the outflow of foreign capital from the country. Thus, according to the Central Bank of the Russian Federation, for the period from January 1, 2015 to January 1, 2020, the share of non-residents in the total authorized capital of operating credit institutions decreased by half (from 26.42 to 13.9%)¹³ [11]. And it should be noted that during the analyzed period the share of operating credit institutions with the participation of non-residents increased from 28 to 32% [11]. The largest banks with foreign capital (UniCredit, Raiffeisenbank, Citibank, Rosbank) are included in the Top 20 credit institutions in Russia, they operate successfully and actively compete with state banks in key segments of the banking market. The presence of foreign credit institutions intensifies the interbank competition in Russia.

Signs of improvement of the interbank competition can be considered the introduction of innovation in the banking business, the emergence of new customer-oriented products and an individual approach to customer service, an increase in the quality of service, an increase in the speed of service provision, ensuring accessibility and simplicity.

To determine the state of interbank competition, in our opinion, it is necessary to consider the quality and degree of customer focus of banking services and products. The applied impression index is based on such criteria as how the bank's products correspond to the client's needs, the

¹² URL: https://cbr.ru/statistics/bank_system_new/cr_inst_branch_010118/ (accessed on 04.09.2020).

¹³ Information about operating credit institutions with the participation of non-residents. Bank of Russia. URL: https://cbr.ru/analytics/bank_system/PUB_130701/ (accessed on 04.09.2020).

Table 3

Advantages and disadvantages of top 5 Russian banks according to the level of the Customer Experience Index

Bank	Advantages	Disadvantages
Sberbank	Quick to introduce modern technologies, friendly and attentive staff	Modern technologies are rarely used in branches of remote regions
VTB-24	High level of bank reliability, client-oriented business, convenient office locations	The value of its balance sheets is inferior to the leader of Sberbank
Alfa-Bank	Customer-oriented approach, friendly service	The bank has slowed down innovation activity and is inferior in some positions to its competitors
Home Credit	High-quality work, customer focus	Does not have large deposits due to lack of trust from depositors
Raiffeisenbank	Convenient branches, efficient sales of "boxed" products	Overpriced

Source: Russian banks are making the best possible impression on customers. URL: <http://www.plusworld.ru/daily/rossiyskie-banki-proizvodyat-vse-luchshee-vpechatlenie-na-klientov/> (accessed on 15.04.2020).

availability and simplicity of service points, the communication of bank personnel with the client, the attractiveness of the brand, the effectiveness of advertising.¹⁴

It is very important for bank managers to monitor the mood of clients and conduct their behavioral segmentation. At the same time, consumer demand management must be carried out not only before and during the sale but also after transactions. Obviously, after poor service at the bank, customers will share their opinions, spreading a negative impression. Therefore, managers must respond quickly to all customer feedback and create a positive customer experience. Currently, a multi-channel factor has formed, which cannot be ignored. Multichannel, in our understanding, is a combination of online and offline tools for the effective organization of a communication system with the bank's customers. Statistics show that customers aged 55–64 prefer to ask questions of interest by phone (for example, the bank's hotline), while the younger generation of 16–24-year-old customers of the bank will use the

Internet.¹⁵ It is also necessary to consider the gender of clients since women and men do not receive information in the same way. So, women prefer personal communication with bank employees or call by phone for advice; and men give preference to personal opinion, solve the problem on their own, they need initial information. Consequently, successful customer service, a clear presentation of the demographic portrait of the audience, and preferred points of communication are important for increasing interbank competition.

Thus, Russian banks must constantly monitor customer satisfaction while servicing and providing products (services). To increase interbank competition, it is recommended that banks implement systematic monitoring of customer satisfaction on a quarterly basis. Its introduction into the bank's management system will increase the loyalty of the target audience and implement effective management. All this will ensure long-term relationships between the bank and its customers and will increase trust in a bank.

¹⁴ Rudskaya E. N. Customer experience as a tool for the competitiveness of commercial banks. Young scientist. 2016;(11):937–948. URL: <https://moluch.ru/archive/115/30407/> (accessed on 04.09.2020).

¹⁵ URL: https://finance.rambler.ru/money/38073067-issledovanie-bankovskie-klienty-stanovyatsya-distantsionnee-i-molozhe/?article_index=1 (accessed on 04.09.2020).

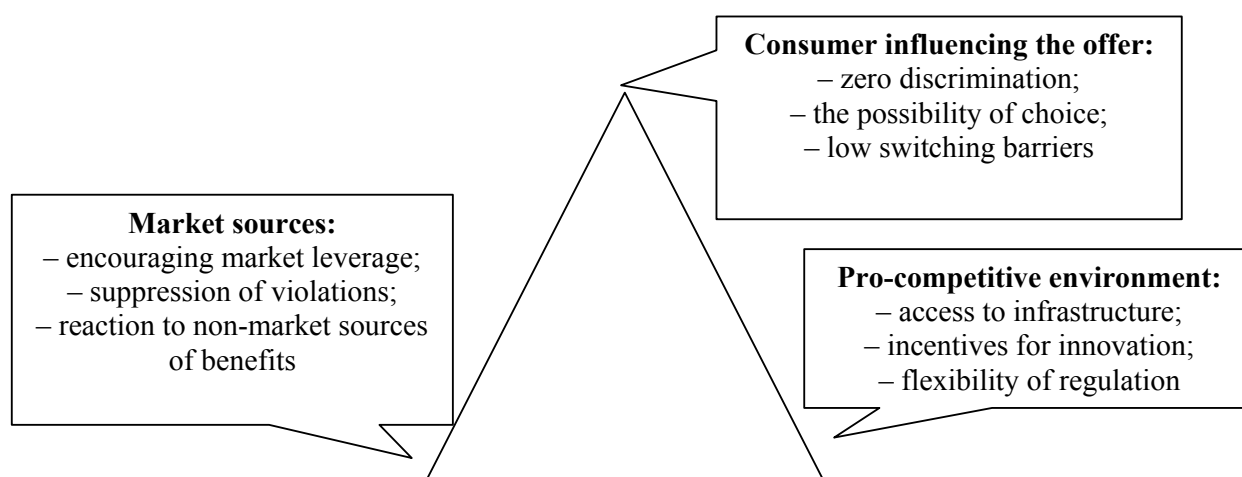


Fig. 5. Targets for interbank competition

Source: compiled by the authors based on data from the Central Bank. URL: http://www.cbr.ru/content/document/file/90556/consultation_paper_191125.pdf (accessed on 04.09.2020).

In a volatile market, banks need to ensure their financial stability. Numerous risks negatively affect the stability of banks. The most vulnerable banks may be banks of narrow specialization with low-quality risk management, with high dependence of business on one segment of the banking market, on the weak economic development of a region or industry. Currently, the problem of imperfect risk management systems and ensuring the financial stability of banks has become aggravated. In our opinion, the red line marks the issue of risk management in the context of interbank competition. Much attention should be paid to risk management not only in each specific bank but also on the part of the mega-regulator in relation to the entire market. Increased risks of one bank can lead to losses, up to its bankruptcy and liquidation. The impact of systemic risks on the activities of banks can upset the balance in the entire banking system. Banks should prioritize the development of risk management practices.

The main ones are:

- reservation — formation of a reserve to cover unforeseen expenses;
- insurance — the creation of an insurance fund of resources to compensate for damage from unforeseen risks;
- hedging is used to minimize possible investment losses due to market risk;

- distribution of the degree of risk (indexing the cost of services, provision of guarantees, property pledge, a system of penalties);
- diversification of assets;
- avoiding risks by completely rejecting specific transactions by the bank;
- minimizing risks by managing assets and liabilities.¹⁶

Formed trends in the development of the banking market: monopolization, centralization, the concentration of capital, federalization, globalization — hinder the effective development of the banking business and the economy as a whole. We consider it expedient to set the task for the Bank of Russia to provide conditions for a healthy competitive environment and strong interbank competition. It is a fair competition that will make it possible to carry out qualitative changes in the banking business aimed at increasing the efficiency of banks' activities. In our opinion, to achieve this goal it is necessary:

- 1) to reduce the degree of state participation in the formation of banks' capital by establishing standards for the admissible state

¹⁶ Competition in the financial market. Analytical report. Bank of Russia. 2018. URL: https://cbr.ru/StaticHtml/File/41186/20180607_report.pdf (accessed on 04.09.2020).

participation in the authorized capital of credit institutions;¹⁷

2) establish equal “rules of the game” for all participants in the banking market and exclude state privileges;

3) not to mention the participation of the state in the authorized capital of a credit institution in advertising of banking products and services;

4) upgrade the mechanism of proportional regulation of banks, namely, to promote the development of regional small and medium banks through the provision of tax and financial incentives; stimulate the development of new banking products; “legislate the priority of the participation of regional banks in servicing the investment programs of the region”, etc. [19];¹⁸

5) introduce measures to reduce unfair interbank competition and corruption in the banking market;

6) to promote “the formation of non-price competition to increase the attractiveness of credit institutions”¹⁹ and the development of digital financial infrastructure.

In turn, measures to increase interbank competition cannot run counter to the rest of the development of the banking sector. When approving the policy for the development of interbank competition, the Bank of Russia adheres to the goals of ensuring financial stability, establishing trust in the financial market, and the availability of banking products and services.

However, the goals to increase interbank competition often contradict the goals of stabilizing the banking sector. As a result of interbank competition, weak ineffective players

leave the market. Nevertheless, leaving the market of a major player leads to an imbalance in the banking system and can cause a “domino effect” that threatens with high costs. When goals are comparable, it will contribute to the sustainable development of the financial market as a whole.

Implementation of relevant measures in the above areas will improve the state of interbank competition in the banking market.

The primary task of stabilizing the state of interbank competition is to minimize the risks of the banking sector. The Bank of Russia sets out targets for interbank competition.²⁰ Fig. 5 presents a “triangle of target” showing banks’ productive activities and anticipated reactions to market developments.

We believe that in order to reduce risk, banks should maintain an optimal balance in the following areas.

First, the offering of products and services should be driven by customer preferences, as they are the driving force behind the competition.

Second, interbank competition should be market-based and encourage banks to compete with each other. Focusing only on non-market factors and privileges for some banks increases the risk of unfairness and negates the incentives to expand the banking business.

Third, expanding the access of small and medium-sized banks to new financial technologies, platform solutions, and outsourcing.

CONCLUSIONS

Thus, as a result of the study, the authors understand interbank competition as the process of banks’ functioning in a competitive environment for attractive sources of accumulating resources and their placement, considering the principle of customer focus and the goal of ensuring their stability in the banking market. The authors’ clarification of the concept

¹⁷ Through direct or indirect acquisition or long-term retention of shares by the state (stakes in the authorized capital) of credit institutions.

¹⁸ Impact of banking sector rehabilitation policies on competition and sustainability. Economic Research Report Series. Bank of Russia. 2017. URL: https://cbr.ru/Content/Document/File/16717/wp_22.pdf (accessed on 04.09.2020).

¹⁹ Competition in the financial market. The analytical report was prepared by the Bank of Russia with the participation of the FAS Russia for the XXVII International Financial Congress. Bank of Russia. 2018. URL: https://www.cbr.ru/Content/Document/File/44303/20180607_report.pdf (accessed on 04.09.2020).

²⁰ Bank of Russia approaches to developing competition in the financial market. URL: https://cbr.ru/Content/Document/File/90556/Consultation_Paper_191125.pdf (accessed on 04.09.2020).

of interbank competition emphasizes their contribution to the development of theoretical science.

Interbank competition develops depending on the degree of improvement of the product line of banks. The analysis of the current state of interbank competition reflects a steady decline in the number of banks, mainly due to the revocation of licenses from financially unstable institutions. However, with a decrease in the number of participants in the banking market, an increasing dynamic of a high level of concentration of banks' assets was revealed. At the same time, the Top 5 banks in Russia form about 60% of the total assets of the banking sector (loans, investments, etc.). A similar situation is observed in the deposit market and the market for non-cash payments. Sberbank, VTB, Gazprombank, Alfa-Bank play a dominant role in the market. The Herfindahl-Hirschman Index demonstrates the sufficient importance of credit institutions in the banking sector, despite the dynamic revocation of licenses. The authors emphasize the dependence of the banking market on the activities of the largest state-owned banks. At the same time, the competition between small and medium-sized banks intensifies as they are expanding their product line and increasing their attractiveness. The factor of the geographical location of banks is of great importance. Large banks operate in the developed regions of the country, while there are no sufficient banking services in remote territories. It is worth noting the importance of the presence of the largest banks with foreign capital on the Russian market (UniCredit,

Raiffeisenbank, Citibank, Rosbank) since they make up the Top 20 credit institutions in Russia. The presence of foreign credit institutions intensifies the interbank competition in Russia.

We believe that to increase interbank competition, bank managers need to pay attention to successful customer service, a clear presentation of the demographic profile of the target audience, and preferred points of communication. It is necessary to constantly monitor the quality of customer service and the provision of banking products (services) to them. To increase interbank competition, it is recommended that banks carry out systematic monitoring of customer satisfaction on a quarterly basis.

We believe that in a volatile market, a special place in banking management should be given to risk management. The increased risks of one bank due to the "domino effect" can destabilize the entire banking system. We recommend that the mega-regulator implement measures to minimize the risks of banks and provide conditions for the formation of a healthy competitive environment. The Bank of Russia, when developing a policy for the development of interbank competition, should focus on ensuring financial stability, establishing confidence in the financial market, and the availability of banking products and services.

Thus, the author's contribution to the development of practical science consists of identifying the factors that determine interbank competition; as well as the development of recommendations for the mega-regulator aimed at strengthening interbank competition.

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ABOUT THE AUTHOR



Ol'ga Yu. Donetskova — Cand. Sci (Econ.), Assoc. Prof., Department of Banking and Insurance, Orenburg State University, Orenburg, Russia
olja-ja-77@mail.ru

The article was submitted on 07.09.2020; revised on 21.09.2020 and accepted for publication on 07.12.2020.

The author read and approved the final version of the manuscript.