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**ON PROBLEMS OF SUSTAINABLE DEVELOPMENT OF THE
BANKING SYSTEM**

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Abstract

Modern conditions of functioning of national and globalized economies are characterized with a significant volatility of financial market segments and their economic processes being dominated by political factors with a high level of uncertainty. At that, there is increased demand for technologies of sustainable development to be applied to economies of different scales. The role of financial driver is with the banking system and there is no alternative. However, to perform this role, the banking system shall provide financial stability and implementation of strategic projects in those regions where the foundation of national economy sustainable development is laid down. Existing deficiencies of the current Russian banking system makes it problematic to reliably determine the development prospects of its financial stability in both regional and national aspect. The list of unresolved issues is headed by insufficient capitalization of commercial banks, increased risk component. The prime causes of the identified issues lie in the lack of financial-economic, regulatory-legislative and information-communication mechanisms, institutional immaturity of the current banking system together with its insufficiently high financial potential. In the long term, sectoral pressure is likely to increase, while the financial sector is already experiencing a destructive external impact. Selection of this topic for research has been defined by insufficient theoretical coverage of the effects in the context of necessity to ensure sustainable development of regional and national economy, as well as by increased practical need to increase the efficiency of intersectoral interaction between banking and microfinancing sector.

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1. Introduction

Probability of appearance of new crisis phenomena in the banking system (including the regional one) is largely determined by geopolitical tensions (including sectoral sanctions aimed at destabilization of the Russian financial system). In the current context, there is a need for efficient tools that provide sustainable development of the banking system (including its regional segment) that takes into account increasing geopolitical tensions. Sustainable development of the regional banking system is provided by its financial stability and increased efficiency of intersectoral interaction (between banking and microfinancing).

Courses of development and modernization of the financial sector, as well as the banking system, specificity of its interaction with the real economy sector have been identified in works of such foreign researchers as E. Wallen and others. The national banking system was characterized in detail in works of (Ovchinnikov & Nimchenko, 2017).

Specifics of the regional segment of the banking system were identified in research by (Golodova, 2014; Gospodarchuk, 2018; Zenchenko & Shkolin 2017; Iusupov & Iusupova, 2016).

Practical development of a strategy for financially-sustainable development of the banking system was performed in the following works (Gerashchenko, 2000; Strassman, 2006; Matz, 2002; Tavbulatova & Iusupov, 2016) tools and technologies of achieving financial stability of commercial banks and the banking system in the context of uncertainty.

Development courses for increased efficiency of activities of commercial banks were elaborated in the following publications (Akinin, Akinina, & Alimova, 2016; Ovchinnikov & Nimchenko, 2017; Cooper, 2009; Hyvonen, 2004).

At the same time, most questions related to increasing the financial stability of the banking system in its regional aspect appear understudied in the modern context of increased geopolitical tensions, which is especially true of their theoretical and methodological aspects.

2. Problem Statement

In the modern context of increasing pressure from sectoral sanctions, the regional banking system experiences problems with deficit of own funds and buildup of debt capital with the aim of stabilizing reducing profit margin, thus facilitating development of a systemic risk. The answer to external sectoral pressure includes the following strategic mechanisms that provide sectoral financial stability of both captive banks and regional banking system as a whole: Reorientation to domestic financial market, import substitution for global financial resources, emphasizing meso-level of the banking system.

A key problem for sustainable development of the regional banking systems is the impact of sectoral sanctions that manifests in unfavorable conditions for foreign economic operations, obstructed securitization, including deficit of long-term financial resources. The sectoral external pressure is a long-term reality and requires developing adequate measures on behalf of the regional banking system taking into account its sustainable development agenda.

It is practical to include captive banks that implement socially-important economic programs in the region (including microfinancing, provision of loans to small and medium business) with the strategic credit

institutions. Federal strategic banks do not develop individual product lines for each regions with considerations for regional specifics. Captive banks, by contrast, thanks to long-term cooperation with borrowers, small and medium business of the region provide individual approach to each client with considerations for specifics of their business. Regional captive banks pursue a policy, which is adapted to the sectoral pressure, being focused on regional securitization and operational activities.

Development of banking risks directly depends on the trends in dynamics of activity indicators of strategic (captive) banks. As a result, heightened requirements are imposed to such credit institutions for drawing a strategy of self-imposed consolidation in case of evidence of decreased financial stability, as well as determining sources of external financial support. Ensuring sustainable development of the regional banking system makes it practical to stimulate formation of financially stable captive banks that are focusing on solution of strategic regional problems. Establishing captive banks as a separate group in state regulations will allow for more precision measures in both stability of the regional banking system and provision of sustainable development of the economy.

3. Research Questions

The subject of the research is financial-economic and organizational relations that arise during the transition of the regional banking system to the sustainable development trajectory.

4. Purpose of the Study

The research objective is conceptual development and empiric verification of effective tools for sustainable development of the banking system and its regional segment in the modern context that is defined by increasing pressure from sectoral sanctions.

5. Research Methods

The research used the following methods: logical, systemic-functional, situational, economic-mathematical and statistical analysis, comparison, grouping, monographic surveying.

6. Findings

The research identifies the following as the main subjects of the regional banking system: regional arm of the Central Bank of the Russian Federation (hereinafter – CBRF), credit organizations with headquarters and branches territorially located and operating in the relevant federal district of the Russian Federation, branches of credit organizations from other regions, branches of credit organizations with foreign headquarters, as well as various types of non-bank credit companies. From that, the regional banking system is defined as a set of subjects of the finance and credit sector of the regional economy that perform banking operation within the territory of a certain region, as well as their branches and additional offices, including the regional institution of the CBRF and other organizations that provide necessary functions of the CBRF, interacting with each other and other subjects of non-financial sector of the economy. As a prioritized direction and target reference of mesoeconomic strategy, this work defines

outstripping development of credit and finance infrastructure, increasing scale of cooperation between commercial banks and enterprises of the real sector of economy in the context of credit services, participation of large economic subjects through their agents, especially in household savings, increase in the total capital of finance and credit sector in the region, which will result to increase in the total capital of the regional banking system, its increased stability and implementation of modern banking technologies.

A complex of state regulation measures for mesoeconomic potential of the financial and credit system of the country in the context of facilitating improvement of its competitiveness may be implemented by means of the following set of interrelated actions:

- diversification of mesoeconomic systems on the basis of formation of favorable environment for development of activity of non-banking institutions and microfinancing sector;
- stimulation of capitalization growth and increase in stability of long-term resource base of regional credit organizations;
- easing the procedure for opening and subsequent registration of a branch or subsidiary office of a commercial bank;
- increasing economic attractiveness and improving financial and investment climate in regions of the country to stimulate development of small and medium credit-and-finance structures (including microfinancing organizations).

A complex of state regulation measures could be implemented with the activities by the following principal elements:

- it has been established that in the context of increasing pressure of sectoral sanctions, problems with deficit of own funds and increase in debt capital with the aim of supporting reducing profit margin promote development of a systemic risk. On the basis of refining substantial characteristics of the terms “regional banking system”, “financial stability of a commercial bank” and development of results previously obtained by Igonina (2008) in analysis of the problems in stability of the Russian banking sector revealed by the crisis of 2007-2009, a sequence of action has been developed, which when implemented will allow increasing the efficiency of interactions with the microfinancing sector in the modern economic context, providing financial stability of the banking sector (including its regional segment), will allow reducing the toxicity level of bank assets;
- key challenges have been developed originating from increasing pressure from sectoral sanctions, their long-term nature and a necessity of proactive measures to protect the values of sustainable development of the regional banking system. It has been shown that the degree of influence of the sectoral sanctions is largely determined by large-scale integration of the Russian financial system in the global one. Thus, orientation towards sustainable development values and focusing operational activities of regional commercial banks on micro- and small enterprises allows providing financial stability of the regional banking system;
- from assessment of functional efficiency of strategic (captive) banks, a significant influence of the sectoral sanctions on the regional banking system has been revealed. It manifests in increased concentration of banking capital against the background of stable values of performance indicators of the captive banks in question at the level of sustainable development and high degree of reliability. However, integral reliability indicator, calculated according to Kromonov (2011) method has shown a negative trend (2013-

2017), which is an evidence of partial negative influence of the sectoral sanctions onto the regional banking system;

– interactions between banking and microfinancing sectors have been evaluated as insufficiently active. However, formation of banking-affiliated microfinancing organizations (MFOs) with which there are active interactions for securitization of microfinancial activities shows that it is actively developing, with the exception of operational activity of the microfinancial sector as a whole in loaning to micro- and small enterprises. Substantial characteristics of the term “microfinancing” have been refined as social entrepreneurship of financial institutions (banks and MFOs) aimed at development of micro-enterprises, whose expansion will allow stimulating interactions between the MFOs and entrepreneurs (including micro- and small enterprise owners) in the context of sustainable development of the region and its banking system;

– a methodological approach has been developed to defining properties and evaluating factors that provide financial stability of a captive bank that is identified with a quantitative parameter of operational domination in the regional market and qualitative parameter of focusing on solving strategic problems of the region, primarily stimulation of entrepreneurship development (both micro- and small). It allowed identifying a regional bank as having regional priorities in all the aspects of banking activity and requiring increased attention on behalf of regulators, taking into account the specifics and roles in the regional economy.

7. Conclusion

The work substantiates the recommendations aimed at increasing efficiency of regulating regional banking system in the context of ensuring its sustainable development: creating microfinancing structures affiliated with captive banks; stimulating formation of a guarantee-based mechanism for protection of saving loans through participation of the captive banks in self-regulating microfinancial organizations; orientation of the microfinancing sector towards actualization of the regional sustainable development targets.

Defining the tasks in managing the stability of credit organization when actualizing systemic risks, seen as consequences of external and internal negative factors is becoming a priority business dimensions of commercial banks against the background of expanding integration of the Russian banking sector into the global financial system. In pre-crisis years, commercial banks provided assistance to economic agents in reducing and restructuring risks of their financial and lending operations.

Sectoral pressure may be neutralized with sectoral stimulation, on condition of sufficiency of financial resources, which is not the case. It is evident that without a systemic sectoral approach, without activating internal reserves of the banking system, an efficient solution will never be implemented. Attaining stable growth at regional, national and international level is possible only on condition of providing stable financial development.

Subsequently, the work considers a captive bank, as stability of the regional banking system depends largely on large regional banks. As a rule, a captive bank is a bank registered and operating in the region. Captive banks have specific features that distinguish them from other credit-and-finance organizations.

They are the ones providing investments to the regional economy, funds to local borrowers to cover their current liabilities.

Thus, a captive bank is characterized here as a credit organization oriented towards operating in the region and implementing strategic tasks in the context of sustainable development. The number of regional banks attests to the level of regional development. In economically weak regions, branches of metropolitan-based banks were opened that are connected to their headquarters.

Among the most important advantages of captive banks the authors see the following:

- broad awareness of regional specifics;
- adaptation of bank services being offered to the needs of regional clients;
- preparedness to providing loans to small and medium enterprises;
- active participation in solution of regional problems.

The model of type 1, a commercial bank with foreign participation in its capital has been revealed from the factor analysis as being the most efficient, financially stable and profitable in the modern situation of geopolitical tensions, on condition of a correct implementation of the selected strategy of stable banking that includes environmental, social and operational reliability. Due to that, formation of a layer of such economic institutions (captive banks) in the national financial system may become a foundation for transformation of the national banking sector and form its strategic competitiveness.

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