International Financial Congress

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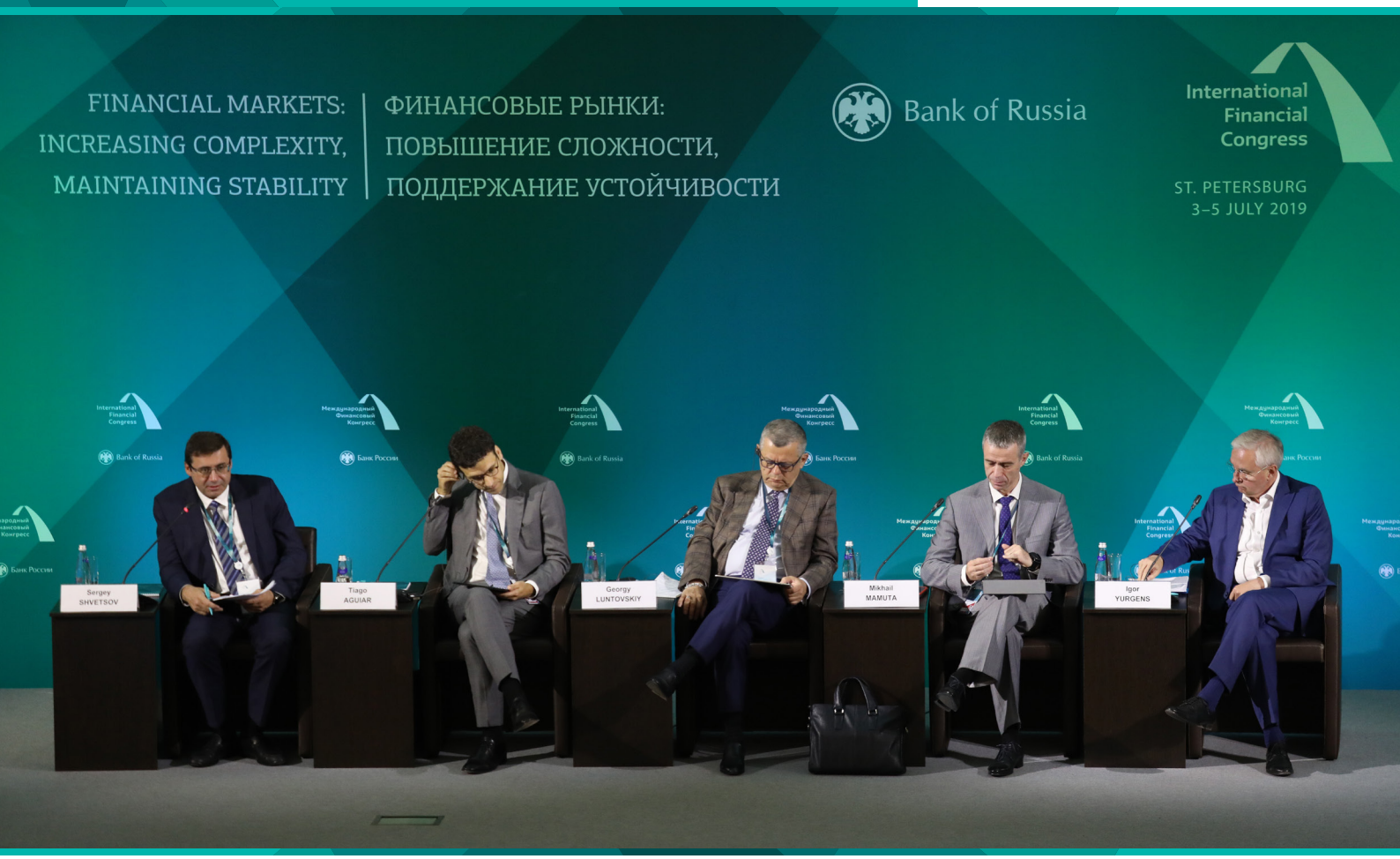
PLENARY SESSION II

Self-Regulation, Ethics, and Conduct Supervision: Challenges for the Next Three Years



Moderator:

Sergey Shvetsov, First Deputy Governor, Bank of Russia

Speakers:

Tiago Aguiar, Deputy Head of the Banking Conduct Supervision Department, Bank of Portugal

Georgy Luntovskiy, President, Association of Banks of Russia

Mikhail Mamuta, Head of the Service for Consumer Protection and Financial Inclusion, Bank of Russia

Igor Yurgens, President, All-Russian Insurance Association

Sergey Belyakov, President, Association of Non-State Pension Funds

Konstantin Ugryumov, President, National Association of Non-Governmental Pension Funds

Vasily Zablotsky, President, Self-Regulatory Organisation 'National Finance Association'

Alexey Timofeev, President, Russian National Association of Securities Market Participants (NAUFOR)

Alexander Solomkin, Director, Self-Regulatory Organisation of Credit Consumer Cooperatives 'Cooperative Finances'

Elena Stratyeva, Director, Russian Microfinance Centre (RMC); Director, Microfinance and Development Union of Microfinance Organisations

Andrey Yazykov, Leading Researcher, Department of Insurance and Social Economics, Financial University under the Government of the Russian Federation

Plenary session II

Self-Regulation, Ethics, and Conduct Supervision: Challenges for the Next Three Years

In his opening remarks, Moderator Sergey Shvetsov highlighted the fact that conduct supervision, ethics, and all other aspects of prudential regulation are fairly new topics for the Russian financial market. The Russian financial market, as any other financial market, cannot exist without trust. Trust is the soul of a financial market, which is why identifying financial market goals and satisfying consumers are issues of the utmost importance. 'Building trust' has been designated as one of the four major directions of the latest version of the primary development goals.

Interactions with consumers play a large part in shaping consumer expectations about the products they receive. These expectations are then either met or missed. If the consumer (thanks to their interactions with the financial institution) comes away with falsely exaggerated expectations, they will be disappointed when they take make use of a financial instrument. This disappointment lies at the heart of the issue of trust, since a lack of trust hampers the popularization of financial services and stymies market growth.

Georgy Luntovskiy noted that the banking system's entire existence is based on trust. Trust lies at the heart of both active and passive operations. The level of trust in the banking sector can currently be characterized as growing and fairly high. The creation and maintenance of a trusting environment is of utmost importance to credit organizations. If there is no trust, then credit organizations are faced with growing costs and slowing investment and the entire economy suffers as a result. An example of the state influencing levels of trust can be found in the crisis of 1998, when the state announced a default and lines formed outside the largest bank – the Savings Bank [Sberegatelny bank, currently known as Sberbank, – Trans.]. It was only through regulatory action that the bank was able to function normally again. The second example is the signing of the Law on Insuring Deposits. When this law was passed on 1 January 2003, 69% of the population's deposits were kept at the Savings Bank. Today, this figure is closer to 44%. The passing of this law not only bolstered trust in credit organizations, but also allowed them to compete with major banks.

In recent years, the regulator's role in fostering trust lay in clearing the banking sector of mala fide actors. Moreover, the Bank of Russia has raised its expectations regarding the corporate governance of commercial banks and taken action on proportional and conduct supervision. These measures facilitate the creation of a trusting environment. There is currently a constructive dialogue happening between regulators and banks, both major and regional.

The role of banks themselves is also worth mentioning. They are the party with the most interest in increasing trust and creating a trusting environment, since they are interested in attracting both clients and depositors. A trusting environment facilitates the growth of banks and the development of competition in the banking sector.

A current trend is the development of modern technologies and the creation of related ecosystems by banks. It is important that regulators understand the opportunities available to smaller banks and, on their part, propose the implementation of various platforms. There is some discussion on how to make commercial banks' lives easier with respect to controlling loan risks, especially of loans made to small enterprises. These actions also help create a trusting environment. Many banks, especially major ones with greater financial opportunities, are announcing the creation of their own ecosystems. Clients are becoming closer with banks; they now have faster and more convenient access to services. Many clients have simply stopped going to bank offices. This is a positive trend that saves clients time. Further evidence that trust in banks is growing is the fact that the volume of deposits made by the population has been growing actively over the last several years. Beginning in 2016, the annual increase in deposits made by the population was somewhere around RUB 1 to 2.5 trillion. The current volume of deposits is RUB 29 trillion. The Bank of Russia has proposed their own system for evaluating trust levels, a composition satisfaction index, for the financial market's primary development areas. From May 2017 to May 2018, this index grew by 10 points, from 41.4 to 51.1. However, the target value of this index is 100 points, from 0 to 100. 100 is the maximal score. As such, both banks and

regulators have references points to help them continue to improve trust levels.

Building on those ideas, Sergey Shvetsov noted that there is a lack of trust, not just between consumers and financial institutions, but also between financial institutions themselves (via self-regulation) and between intermediaries and the Central Bank. The Central Bank's credibility matters. The ethical norms espoused by the Central Bank guide financial market participants and shape the financial environment. The next discussion participant, representing Portugal, was asked about the market effects of the increase in trust following the Bank of Portugal's approval of a code of ethics for employees, which extended to the Board of Directors, and about the tools used to evaluate the effectiveness of this code.

Tiago Aguiar informed the audience that the internal code of ethics for employees of the Bank of Portugal was approved in 2014. The Bank of Portugal serves a number of functions: in addition to market supervision, it performs macroprudential supervision, payments oversight, and more. Given these important public functions, there are high standards for the staff. There is an ethics committee that oversees compliance with the code, there is even a compliance officer, who is responsible for the execution of the code. The code includes requirements regarding the receipt of gifts by staff members, which is based on their value. There are standards for working abroad and working with other institutions. There are rules about the ownership of shares. The compliance officer is responsible for monitoring adherence to these rules. The code applies to the staff responsible for supervision and macroprudential policy. There is another code that applies to board members, and yet another that applies to senior staff. The presence of such high standards for representatives of the public sector and compliance with these high standards is very important because it demonstrates the quality of the work being done, not just to banks, but to the public as well.

Each year the ethics committee releases a report and delivers it to the board. The compliance officer does the same. The staff must report any issues that may come up to the committee, which is composed of 5–6 people. There are no external evaluations or indicators for the effects of this code.

Sergey Shvetsov asked participants whether implementing codes of conduct, developing related KPI, and monitoring these KPI is feasible from a cost standpoint.

Andrey Yazykov noted that such instruments are needed and useful; they have a strong effect on the market. If one takes mortgages as an example, in 2009 the country was riding out the consequences of the global financial crisis and many borrowers were unable to make their mortgage payments. Bankers were competing between themselves in the speed with which they levied fines. The logic was simple: since it was unclear what real estate prices would look like tomorrow, sales needed to occur as swiftly as possible. Abroad, the philosophy was completely different: the borrower must be given the chance to overcome these temporary financial difficulties, they will then love their bank, and, of course, one can't sell real estate in a down market. By 2018, the situation had radically changed: bankers had established a dialogue with their borrowers. However, these were major banks acting under the pressure of the Central Bank. That said, this was a significant boost to the development of the mortgage industry. Today, it is clear that the market and the balance between conduct and costs are moving in favour of the individual. As soon as people feel that the financial market's relation to them changes, the market sees a colossal growth spurt.

Answering the moderator's question about fostering trust in the financial market, Sergey Belyakov noted that trust is a multifaceted concept. It is important to foster trust in the market and the trust of clients, of the members of all of the self-regulating organizations, and of the Central Bank, because this is a question of which practices are used to move products. Unfortunately, in the competition between bona fide and mala fide practices, the bad faith approach frequently triumphs because it is an easier way to get clients. It is cheaper and provides a competitive advantage. The goal of the market and self-regulating organizations is minimizing and

eliminating bad faith practices and rewarding good faith conduct. Currently, there is not enough desire in the market to reprimand those engaged in bad faith practices, though the punishment ought to be sufficiently harsh. First, the mala fide practices need to be identified. Then, some sort of sanction or algorithm for preventing violations and addressing the causes that led to this violation must be put in place. Should the player refuse to comply, they must be excluded from the market. This serves as a sort of alternative to regulation from the regulator; the market must take this function on themselves. If self-regulating organizations want to take on supervisory and control functions and perform conduct supervision in general, then they must be ready to perform these unpleasant functions. Bad faith practices conflict with the principles of the formation of the organization itself, composed of its members and existing because of their contributions. Members should demand the expansion of bona fide practices and ethical market conduct, so that self-regulating organizations become leaders in preventing bad faith conduct. The will needs to be there. However, that is not enough. These competencies need to be developed in the market and in the organizations themselves. Compared to the experience of regulators, these competencies are underdeveloped. However, if self-regulating organizations seek to take on these harsh functions, they must acquire these skills.

In response to Belyakov's comments, Sergey Shvetsov noted that it is unlikely that the market will be able to independently self-organize, approve a code of ethics, and build relationships with consumers. In the words of Marx, capital becomes very bold in the face of 200% profit. In this sense, the regulator must take and does take a proactive position and construct a conduct supervision system.

Mikhail Mamuta shared the results of the Bank of Russia's work on conduct supervision, noting that creating trust is the cornerstone of facilitating long-term sustainable market development and that conduct supervision (and supervisory measures in general) are the toolkit that not only helps punish bad faith practices, but also changes companies' relationship to the topic itself. It is important to understand that the primary objective is transforming relations. Companies that prioritize client-orientedness, attention to client problems, and deem bad faith practices when selling financial products and services unacceptable have a strategic advantage. Moreover, trust is a very fragile thing. In this age of open information technologies, news of any mala fide case will rapidly become public and negatively affect trust levels and other sustainable market growth indicators.

Conduct supervision started being implemented at the Bank of Russia approximately two years ago. A set of conduct supervision standards were approved late last year. These standards describe supervisory goals, objectives, and functions. Currently, the Bank of Russia is implementing this type of supervision in accordance with the indicated standards. What is its primary feature? Conduct supervision is by nature a risk-oriented type of supervision. Attention is paid to individual companies or market sectors based on the risks of their activities for consumers. This kind of risk-oriented supervision, based on monitoring signal indicators, was implemented last year. It works fairly simply: it takes into consideration the ratio of complaints about a specific company or market segment to the number of active agreements in this sector or with this company. Accordingly, companies are sorted by level of consumer risk. Intensiveness of conduct supervision depends on what category a company falls into. Those companies that behave themselves better than the market do not suffer any losses, because the regulator works with them strictly on a reactive level – processing complaints. On the other hand, companies with the most complaints get increased attention from the regulator. By that point, it cannot be a coincidence. It is the result of concrete, systemic, more or less pronounced failures in how sales operate, how consumers are informed, and how these companies address consumer complaints. In the long run, all of this affects how consumers relate to this company. The idea behind preventative conduct supervision lies in identifying the causes behind such a state of affairs and working with companies in a consultative manner to eliminate these causes. The overwhelming majority of companies and their self-regulating organizations have reacted positively to this idea.

Regulators have seen some results in the last year and the first two quarters of this year: the number of complaints had begun decreasing somewhat last year, for the first time after several years of fairly rapid increases in complaints in both the credit and non-credit financial organization sectors. This year, this trend continues: in the five months of 2019, according to initial estimates, the number of complaints about all financial organizations has decreased by approximately 3%. This figure is even higher when calculated over the last six months. What is more, this trend is occurring across all non-credit financial organizations, with the exception of microfinance companies. The credit organization market is seeing a small increase in complaints, though it is increasing at a far slower rate than it did last year. Looking at the supervisory areas that fall under preventative supervision, the decrease is even more noticeable. Similar conclusions can be made by looking at the rate at which complaints are decreasing in regard to companies in the highest risk group – which regulators work with in a more intensive fashion. This model will be developed further. Taken alone, changing trends in the quantity of complaints (and they number in the hundreds of thousands) is not a sign that any goals have been achieved. Work needs to be done so that the market and consumers are interacting as comfortably as possible.

There are future plans to, first of all, strengthen the consultative function of preventative conduct supervision. Developed countries, including those within FinCoNet, are actively implementing the concept of product governance. Currently, regulators work with the consequences of violations, whereas product governance is the pre-emptive self-evaluation of a product from the very beginning, by the organization itself and then as part of its cooperation with the regulator. They evaluate how a product will operate on the market, what benefits it brings or will bring to consumers, and how its usefulness can be evaluated. The Bank of Russia plans to offer this type of model to the market in the near future (on a voluntary basis for the time being) to work out the kinks in its methodology. Companies interested in reducing disputes with regulators or complaints from consumers have a wonderful opportunity to take another look at their own work and compare it to the regulator's expectations. This function may be transferred to self-regulating organizations in the future, following the conclusion of the pilot project and subsequent reviews.

The Bank of Russia pays close attention to complaints policy and procedure. There is now a financial commissioner in the market. It is vital that consumers turn to the financial company before matters are turned over to the commissioner. The idea is that the financial company should have at least one chance to voluntarily regulate the problem, given that it does not always know that the problem exists. Consumers frequently send in complaints to all channels, except for the financial organization itself. Here, there is fairly considerable potential for reducing burdens: both in terms of the supervisory burden on the market and the speed with which financial service consumer problems are solved.

And just a few words about conduct supervision. Many problems identified through supervision need regulatory solutions, not supervisory ones. This is the same thing that is happening in the third-party vehicle liability coverage sector, because it would be impossible to solve certain problems without changing regulations. Similar objectives are being set in the securities market. First is finishing work on the law on retail investor qualifications. This is a very important law because it aims to introduce a new procedure, the essential procedure for relations between financial service sellers and customers, through conformity assessment. In other words, the company must make sure that consumers understand the nature of a financial instrument and associated risks before acquiring that instrument. This will have a significant impact on reducing risk.

Second is the implementation of key information documents. These are very important texts, because they will reduce the risk of misinformation when products and financial instruments are being offered to consumers. It will also reduce the risk that the consumer, having misunderstood the product, will suffer from false expectations. False expectations are the very thing capable of undermining future trust in products. This year, the plan is to work with the market to develop over 30 such key information documents for the most popular instruments

and products across all segments of the financial market.

There are also plans to introduce several regulatory innovations related to consumer credit. First is the implementation of a cool-down period for collective insurance agreements. This is a well-known concern that should become law in the near future. It should be read in the State Duma committee next week. It will give consumers the opportunity (regardless of the type of insurance) to waive that insurance if they do not need it in its individual or collective forms. The second problem is related to the pushing of various services. There is a current practice where companies offer clients pre-selected services. In other words, clients don't need to choose these services when receiving credit – on the contrary, they must decline that service or 'uncheck the box' when it comes to electronic agreement forms. However, consumers are not always aware that they can decline said service; they are not always able to recognize that it isn't part of the service, but an additional option. The fight against such mala fide practices, currently being fought through supervision, can be also be regulated by amending the law on consumer credit.

Conduct supervision and conduct history, in the long term, have a strategic effect on the market. Regulators and market subjects must work together, understand problems in the same way, and take a unified approach to combating bad faith practices in order to achieve the best results possible.

In answering Moderator Shvetsov's question about test purchases, conduct supervision, and the development of rules for selling financial instruments through digital channels, Tiago Aguiar pointed out the similarities between the approaches of Russian and Portuguese regulators.

The Bank of Portugal has been working on regulatory instruments since 2008. They have introduced rules of conduct and general legal principles which then serve as the basis of recommendations. There are also significant requirements regarding information accessibility. Each product – deposit, consumer credit, mortgage, etc. – has a standard information sheet that must be provided to consumers depending on the type of product they're interested in. These are comprehensive requirements; there is a code of conduct. In 2018, the law also granted regulators the authority to analyse the conduct of self-regulating organizations. Regulators can arrange inspections, analyse marketing campaigns, review indicators that are then used to evaluated data presented by banks (e.g. interest rates, marginal tariffs for certain operations). They make use of the 'secret shopper' method and do off- and on-site inspections. The secret shopper method is a powerful tool that allows one to enter any branch and see how the staff are selling credits, how they accept deposits, if there is some disinformation on the part of the sellers in order to receive some sort of fringe benefit.

Another important supervisory tool is complaints handling, which is a way of seeing what is going on in the market. By reviewing complaints, the regulator can understand what bank practices are coming under fire and react in a timely manner. In certain countries (in Spain, for example) the model is that a complaint must first be sent to the institution itself, and then if the organization does not accept this complaint, then it is directed to the Central Bank. There are no such limitations in Portugal. Each banking branch must have a complaints book, just like any restaurant or café. There are many ways to file complaints: it can be done through the regulator's website or electronic complaints books.

Last year, legal changes were made to address the conflict of interest between bank staff and clients as a result of sales incentives. The law lays out general principles that say that banks' renumeration policies cannot jeopardize consumers' interests.

What's more, regulators have set forth standards for the knowledge and competencies of the staff selling mortgage credits. They have developed a process for certifying educational institutions' programmes for bank employees, so that mortgages are only sold by specially trained individuals. A transition period has been devised, during which employees with over three years of experience can continue working in mortgage sales, as long as they go on to receive the necessary training at an accredited institution.

Sergey Shvetsov considered the issue of misselling and the reasons behind why this phenomenon occurs on the financial market, which include:

- because it helps make more sales;

- because everyone else does it (what's more, everybody thinks that they are the best at it). In discussions with the market about misselling, the regulator gets fairly significant pushback against limiting these practices because of a strange paradigm where each organization is convinced that they are slightly better at misselling than other organizations, so a general ban on misselling would lower the competitive advantages of each organization;

- or, thirdly, because there are no consequences for it. This is important because, if there are market practices that, in the short run, because of short-term KPIs, help increase sales and, what's more, go unpunished, there's a big problem.

The Bank of Russia works across all three areas to make sure that misselling is not a common practice and that KPIs destimulate misselling. The regulator is interested in seeing KPIs nullify the bonuses of any identified misselling and having concrete punishments for misselling.

The Bank of Russia is doing a lot to develop digital distribution channels. However, the majority of products are sold through bank networks. Banks have a lot of market power, credit organizations have a lot of physical locations, and consumers trust banks. Certain people take advantage of this trust. Through work on various products, including life insurance, and having created self-regulation standards through the All-Russia Insurance Association (ARIA), it became clear that sales are done through bank channels, and banks are not governed by the standards developed by insurers. At that point, the Bank of Russia proposed that self-regulating organizations and bank associations sign an agreement to make sure that banks also develop sales standards that satisfy insurance companies, broker companies, and anyone else who sells their products through bank networks. These standards have been developed and were recently approved by the Association of Banks of Russia.

In response to Moderator Shvetsov's question about the implementation of these standards and current results, whether market practices have actually changed thanks to the standards, Georgy Luntovskiy noted that this is one of the first examples of voluntary self-regulation where an association has established standards at the initiative of commercial banks. The standards that were developed are based on the standards that exist for self-regulating organizations in the financial market, in order to avoid conflicts and contradictions. The information letter from the Bank of Russia provided serious support to the cause by increasing interest in these standards. The standards were approved without any objections from the banks. They were approved unanimously. However, the banks did note the necessity of an adaptation period that would allow banks to amend internal regulations and procedures after acceding to the standards. In response, amendments were made to the standards that stated that banks have up to three months after acceding to coordinate their internal procedures. At that point, the largest bank – Sberbank – agreed to accede to the standards.

Many banks noted that the principles of bona fide conduct had already become an ingrained part of their everyday work, which is why the demand for a code of standards came in part from the banks themselves.

Igor Yurgens proposed considering the issue of trust not just between insurers and the insured, not just between banks and their customers, but also between the state and those providing these services. An interesting example is the Israeli organization Lemonade, which is able to adjust a claim in three seconds and allows clients to swiftly receive their insurance payments if they have a good credit and insurance histories. This is an example of trust that is built up over years.

With respect to the standards approved by the banking association, it was noted that two of the nation's 400 banks voluntarily acceded to the standards. One of those banks has practically no stake in life insurance. Accordingly, either there

needs to be a system for making sure that all companies involved in sales – insurers, bankers, and other organizations – uphold basic standards, internal standards, and an ethics code, or control functions need to be handed over to the regulator because there are doubts that voluntary assent will work.

In response to Moderator Shvetsov's question about self-regulatory solutions to problems that clients of non-state pension funds may have, Konstantin Ugryumov noted that self-regulation was unable to solve the issue of a loss of client funds when transitioning between pension funds. What's more, the National Association of Non-Governmental Pension Funds, which has existed since 2002, has significant experience in self-regulation and has developed a significant number of standards. However, before the enaction of mandatory self-regulation, the organizations that acceded to these standards voluntarily had a superficial relationship them. Moreover, there is a conflict of interest between self-regulating organizations and their members, which limits the ability of a self-regulating organization to enforce regulations. For this reason, self-regulation must operate by the principle that either the government has no control functions and simply controls the activity of the self-regulating organizations, or all control functions must be ceded to the government.

Alexander Solomkin described the experience of self-regulation in the credit union system, disagreeing with Ugryumov's argument that a conflict of interest limits self-regulating organizations when it comes to control and disciplinary measures. It is important to note that previously, many market participants perceived self-regulating organizations as an additional burden and a pre-condition for entering the market. However, the experience of developing a self-regulating organization in the credit union system is that proactive agreements on the elimination of mala fide practices related to capping savings interest rates and maternity (family) capital were made before the basic standards even came into force.

External market participants' perception of the self-regulating model as superfluous is incorrect. A fair amount of time has to pass so that the self-regulating organization is able to win the trust of market participants and so that participants no longer perceive the self-regulating organization as a simple control measure. Self-regulating organizations have many functions that have not been realized, things such as information transparency, informing financial service consumers about market participants, and educating market participants on how to interact with consumers. For this reason, if the concept of self-regulation and supervisory delegation is fully realized, it will be possible to develop a roadmap for reducing excessive regulatory burden on market participants, especially in relation to minor market participants, giving the community itself the ability to establish and enforce the rules of the game and protect bona fide practices in the interest of the market's long-term development. This brings up the issue of trust and relations between market participants and self-regulating organizations: they can either be seen as costs or investments. It stands to reason that these are investments in the future; they build and develop.

Elena Stratyeva, representing the Russian Microfinance Centre (RMC) and the Microfinance and Development Union of Microfinance Organizations, which unites the largest market players (over 70% of the credit portfolios of the entire microfinance organization market) informed congress participants that, since the basic standards have only recently come into force, the self-regulating organization considers the present a sort of initial stage, during which self-regulating organizations' primary objective is elucidating and clarifying any misconceptions or lack of knowledge and eliminating the causes behind violations, rather than taking punitive action. For that reason, the Microfinance and Development Union of Microfinance Organizations is primarily issuing warnings to its members.

From the point of view of the prospects of self-regulation, it is important that basic and internal standards are created by the self-regulating organization itself, taking into consideration practical issues and costs and transforming the relationship to upholding these standards.

Moreover, self-regulating organizations have other functions and powers, including education and consulting. When self-regulating organizations identify a violation, they can then identify what should be added to which education programmes to improve understanding and which public events their powers should be used at. In this sense, the potential of self-regulating organizations is infinite.

Sergey Shvetsov introduced Alexey Timofeev as a discussion participant and the author of the extant model of self-regulation and asked him to evaluate the current state of the self-regulation industry.

Alexey Timofeev noted that the current self-regulation model aligns with expectations about how this model should function. The failures that have been observed are likely tied to the institutionalization of a specific self-regulating organization, its resources, and the relationships that have formed between its members. These issues are growing pains. In general, the architecture for interactions between the state regulator (the Central Bank) and self-regulating organizations has shown itself to be an effective model of co-regulation.

Certain issues, in part, those related to transitions (between non-governmental pension funds) can be handled by state regulators. Everyone is equally interested in maintaining a high level of trust in the financial industry, since this is part of a normally functioning financial market. The industry is well-motivated to eliminate mala fide participants and, most importantly, to do so independently. This motivation is effective in the current model of self-regulation, one of co-regulated conduct supervision on the financial market.

What is concerning is the discussion about rejecting this model, forcing self-regulating financial market organizations to serve some general, conceptual other based on deregulating the law on self-regulating organizations. The law on self-regulating organizations in financial markets is sufficiently effective and gives self-regulating organizations the opportunity to open up and function as efficiently as possible in the interest of fostering necessary levels of trust.

Regarding the measures undertaken by self-regulating organizations, it was noted that the primary goal of self-regulating organizations is not punitive action, but correcting the situation that led to the supervisory measures in the first place.

In response to Moderator Shvetsov's question about influencing members of self-regulating organizations and the logic behind the multiplicity of self-regulating organizations, Vasily Zablotsky specified that the self-regulating organization he represents has had positive experiences with conduct supervision and upholding the code of ethics. The trust mentioned by the presenters can be defined as responsibility – the responsibilities of each market participant before their clients, each other, and even within subdivisions.

Standards of conduct consist of three parts. The first part is developed by the Central Bank. For example, there is currently work being done on sales scripts to make sure that individuals looking to purchase financial instruments understand what they are buying. The second part is proposed by the market. As such, comments from the initial offerings market fuelled the development of a corresponding part of the standards. There is a demand for developing rules that apply to all market participants. That is self-regulation in itself. The third part consists of practices born of life experiences. The National Finance Association's experience resolving a conflict between two market participants on a matter that was not regulated by existing legislation led to the development of a standard of ethics. The draft was developed, shared online, and organization members actively left comments and, within half a year, the Board of Directors had approved the standard. The standard has been in effect since 2018: an ethics committee has been created, its members are financial market representatives, and this standard is mandatory for all members and associated members. This is the direct responsibility of bank executives, those in charge of the business's operations, who understand that any irresponsible behaviour will, in the long run, shorten their client relationships. All of this comes together to create trust.

The speaker posits that self-regulation is working and that the presence of multiple associations fosters different points of view, different work opportunities, and the possibility of sharing cutting-edge experiences. More discussion is needed regarding the presence of a single self-regulating organization.

At the behest of moderator Shvetsov, Elvira Nabiullina expressed her opinions on the issues discussed, noting that the key issue behind the development of self-regulation is how to move conduct supervision forward. Conduct supervision and upholding product sales standards is very important and fosters trust in the market. The central issue is whether or not self-regulation works. If self-regulation is ineffective in a number of sectors, the regulator will turn to state regulation. Market participants must understand that the regulator will not stand for misselling and mala fide practices, which undermine trust in the market. In a number of sectors, self-regulation has shown itself capable of solving problems, protecting and advancing general industry interests, and functioning in the long-term, rather than with a focus on short-term financial interests.

A concerning moment is the possibility that self-regulation only works as long as there are a lot of similarly sized participants. If one microfinancial organization is excluded, everyone else is more or less interested in moving forward. The concern is in situations where there are very large players who have more power than the self-regulating organization. Here, work needs to be done to come up with a form of self-regulation where the self-regulating organization can truly exert its influence, consult, and correct. If there are no sanctions against violations, then the pressure to rectify is significantly weakened.

The banking industry is another issue to be considered. The way that insurance sales standards are being implemented is forcing the regulator's hand. The regulator cannot afford to wait while the banking industry matures enough to take on these standards. The issue has been discussed for a year now. If the banking industry is not ready to self-regulate, the regulator will be forced to take on these responsibilities, and then, when the industry is ready, to pass those responsibilities on for self-regulation.

Market participants may not like this position very much, but the mega-regulator has the legal responsibility to protect the rights of consumers and it will do so. The banking community is called to propose a functional self-regulation model that will address the issues of misselling and mala fide sales and conduct. The regulator is ready to approve such a model, but there is a timeline, because the regulator has a responsibility to consumers and society. Perhaps this is not a happy conclusion, but it is important to diagnose the situation, move forward, and take responsibility, individually and overall.

Wrapping up the discussion, Sergey Shvetsov noted that participants understand the importance of trust in the financial market and are ready to invest in trust. Waiting for ethics and culture to spread organically will take too much time, so the regulator must aid where they can, using their authority and administrative resources. Self-regulation needs to prove its viability, primarily with regards to supervisory responsibilities. In many jurisdictions, the head of a self-regulating organization is appointed by the regulator, not the members. In that case, the head, who is sometimes required to make uncomfortable decisions for the members of a self-regulating organization, is then drastically independent. Lastly, banks have been called on to address the sales problems present in the market.

International Financial Congress

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ROUNDTABLE 1.1

New approaches to construction financing: challenges and opportunities for the banking and construction sectors

Moderator:

Olga Polyakova,
Deputy Governor of the Bank of Russia

Speakers:

Artem Fedorko, Chairman of Bank DOM.RF

Dmitry Olyunin, First Deputy President and Chairman of the Management Board of VTB Bank

Nikita Stasishin, Deputy Minister of Construction, Housing, and Utilities of the Russian Federation

Evgeny Bushmin, Deputy Chair of the Federation Council of the Federal Assembly of the Russian Federation

Anatoly Popov, Deputy Chairman of the Executive Board and Head of the Corporate Business Block of Sberbank

Roundtable 1.1

New approaches to construction financing: challenges and opportunities for the banking and construction sectors

In accordance with legislative requirements which came into force in December 2018, as of 1 July 2019 the raising of funds for shared equity housing construction on all new construction projects, as well as on existing projects (with the exception of projects that meet criteria for level of completion and number of equity participation agreements signed as set by the Government of Russia) is only permitted with escrow accounts. The Russian construction industry therefore now finds itself in a period of transition to project financing for housing construction projects. This represents a new financing mechanism involving the gradual phasing out of personal funds as a means of raising funds for housing construction in favour of bank lending and other forms of financing.

The session moderator Olga Polyakova, Deputy Governor of the Bank of Russia, highlighted the importance of the issue and its implications for the implementation of the national Housing and Urban Environment project, while also announcing the results of work already carried out and the readiness of all participants in the process. Polyakova confirmed that the issues regarding the transition to project financing are a source of concern not only for the construction and banking community, but Russian citizens too. The problem of defrauded homebuyers was one of the incentives for introducing the legislative amendments, which are aimed first and foremost at creating a transparent system of financing in which the banks themselves will be key participants in the process.

Polyakova opened the discussion between the International Financial Congress participants by asking how the goals set out in the national projects can be achieved, whereby the conditions for the sustainable development of housing construction are created without leading to an accumulation of systemic risk in the banking sector.

Polyakova acknowledged that at the very beginning there were highly negative views being shared about the changes to the legislation, both on the part of developers and banks. Broadly speaking, very few believed the changes were feasible and everyone said that house prices would increase and the sector would face difficulties, with numerous points put forward. Now, however, we can see that the process is already underway, and there has already been substantial dialogue between banks and developers, with particular discussions about lending terms taking place. Statistics already show that certain developers are accessing credit.

Artem Fedorko, Chairman of Bank DOM.RF, said that the housing construction market's credit requirements exceed RUB 7 trillion. Representatives of the Bank of Russia and banks participating in the discussion announced their willingness to work with developers and engage in project financing, outlining the volumes of credit issued to date and discussing plans for the future. Polyakova noted that the Bank of Russia is constantly assessing the capitalization of the Russian banking sector and can state with confidence that it is equipped to provide credit in the amount specified in the national Housing and Urban Environment project charter. Clarifying this, Dmitry Olyunin, First Deputy President and Chairman of the Management Board of VTB Bank added that according to the bank's estimates, the new market could be as large as RUB 3 trillion, taking into account the gradual transition to escrow accounts.

Such a large-scale and complex reform, requiring the implementation of a broad range of legislative initiatives over an extremely tight time period, requires the work of a large number of participants: the Bank of Russia is holding regular meetings with authorized banks and developers that are attended by representatives of the Ministry of Construction, Housing, and Utilities of the Russian Federation and DOM.RF, as well as civil society organizations whose responsibilities include banking support, lending to developers, ensuring optimal interaction between lending institutions and developers, and providing information support to participants in the transition period.

The process for implementing the reform is linked to a number of difficulties in the transition to a new system, and requires consistent actions both on the part of the regulator and market participants.

According to the participants in the discussion, the transition to project financing makes it possible to

secure the main goal of the reform, namely protecting the interests of participants of shared equity construction, while developers will be provided with a stable source of financing for the entire project implementation period. As Nikita Stasishin, Deputy Minister of Construction, Housing, and Utilities of the Russian Federation stressed, protecting the rights of participants of shared equity construction is achieved by monitoring whether banks are using the funds of equity holders for their intended purpose, ensuring the security of funds placed in escrow accounts, and creating the conditions for the fulfilment of obligations regarding construction completion dates.

At the same time, as Deputy Chair of the Federation Council of the Federal Assembly of the Russian Federation Evgeny Bushmin pointed out, the Bank of Russia offers full information support for market participants, providing information, recommendations and regulations for lending institutions and developers alike. This is hugely important given the fact that, as Anatoly Popov, Deputy Chairman of the Executive Board and Head of the Corporate Business Block of Sberbank emphasized, around a third of developers have experience in working with banks.

Ensuring guaranteed and uninterrupted project financing eliminates the risk of falling demand for developers, something which often leads to construction being put on hold, and effectively secures the interests of developers in the transition to the new system, as stated by Anatoly Popov: at present, over 300 applications from developers are currently under review by Sberbank, with the decision-making process taking 25 working days on average. There was also an announcement regarding Sberbank's development of additional financial products as part of project financing, namely bridge loans, a form of lending backed by future profit. The representative of Sberbank also made clear his view that most important work being carried out jointly by banks alongside the Bank of Russia and the Ministry of Construction, Housing, and Utilities of the Russian Federation involves training developers to capitalize on the opportunities presented by switching to project financing.

As the transition to a new financing system gets underway, participants are facing obstacles of various kinds, requiring constant adjustments to the reform: it is very important in this context that modifications to regulations, recommendations and the regulatory framework are made in a timely manner. This, as Nikita Stasishin underlined, is made possible by the constant work of the legislative authorities, with the announcement of new legislative amendments set for Q3 2019.

A number of challenges and issues remain, however, and these need to be addressed, in particular with regard to the regions and in relation to decisions on financing low-margin projects and small, regional organizations operating within the construction industry. As Nikita Stasishin announced, potential financing and co-financing schemes for the construction of utilities infrastructure are being developed.

The participants also discussed the question of a rating system for developers, something which is not widely used at present, but could in future be used by market participants as a sustainability benchmark.

Conclusions and recommendations

The housing segment of the Russian construction sector is on the cusp of large-scale changes aimed at protecting the rights and interests of equity holders and developing the industry. The discussion made clear the multiplier effect of the reform's positive influence to all participants:

Shared equity construction participants:

- Protecting interests and funds, including through a deposit insurance scheme.

The construction sector:

- Growth in market transparency;
- Growth in the market's stable development;

- Growth in the market's investment attractiveness.

The banking sector:

- Deep market;
- Growth in healthy competition.

Developers:

- Securing guaranteed financing for the entire project implementation period;
- Eliminating the risk of funding shortfalls during periods of reduced demand;
- Opportunity to concentrate on key area of activity;
- Transparent system of administration.

Nevertheless, the implementation process faces a number of limiting factors, in particular a lack of financial competency among developers, the presence of low-margin projects, and the inadequate provision of debt obligations on the part of the borrower. The most pressing issues involve securing the implementation of low-margin projects and supporting representatives of small and medium-sized business in the sector, mainly in Russia's regions. It is therefore becoming clear that the reform still needs all market participants and regulators to take action, but at the same time there is already a positive multiplier effect, and this will have wide-reaching positive consequences in the long term.

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ROUNDTABLE 1.2

IFRS 9: Specificities and Results of Implementation

Moderator:

Andrey Kruzhalov, Deputy Governor, Bank of Russia

Speakers:

Maria Voloshina, Director, Accounting Regulation Department, Bank of Russia

Alexey Lobanov, Director, Banking Regulation Department, Bank of Russia

Ekaterina Nekrasova, Partner, PricewaterhouseCoopers Audit

Mikhail Ratinsky, Senior Managing Director, Chief Accountant – Director of the Accounting and Reporting Department, Sberbank

Roundtable 1.2

IFRS 9: Specificities and Results of Implementation

New accounting requirements for credit institutions based on the principles outlined in IFRS 9 Financial Instruments came into effect in early 2019. The algorithms for using new accounting data to calculate prudential indicators were also clarified. Session speakers discussed the results of the transition to IFRS 9 in accounting, the specifics of implementing these standards, and the effects of these accounting changes on prudential indicators.

Starting off the session, **Andrey Kruzhalov**, Deputy Governor of the Bank of Russia, called the transition of accounting to IFRS 9 a revolutionary process. He noted that individual IFRS 9 requirements had already been implemented in Russian accounting, but that the complete transition occurred in 2019. The moderator set the tone of the discussion, focusing speakers' attention on the particularities of implementing IFRS 9 and the initial results of this implementation within each speaker's professional purview.

In her presentation, **Maria Voloshina**, Director of the Accounting Regulation Department at the Bank of Russia, highlighted several regulatory features, including:

- implementation of two types of reserves with the use of the adjustment principle;
- registering overdue debt (without classifying categories);
- two methods of calculating interest for debt instrument assets, evaluated by fair value reported in profit and loss;
- registering non-financial guarantees based on their fair value at initial recognition;
- not making non-market adjustments for loans obtained by credit organizations from the Deposit Insurance Agency of Russia (DIA) and remainders on escrow accounts.

Maria Voloshina noted that one of the transition provisions was that these new requirements will apply to credit organizations' operations starting on 1 January 2019, noting that the transition period was restricted to the first quarter of 2019 and that credit organizations had the opportunity to choose between two methods of reflecting their transitionary financial results.

On a separate note, the speaker mentioned simplified accounting procedures for banks with a basic license and non-bank credit organizations with respect to periodic disclosures of the amortized cost of financial instruments and the application of the criteria of materiality to compensation for bank guarantees.

Implemented credit organization proposals for accounting regulations included:

- reflecting expected credit loss (ECL) for assets based on fair value;
- applying materiality to commissions, deal expenditures, linear amortization;
- quarterly IFRS 9 reserve disclosures.

It was also noted that the following topics are under consideration:

- applying the principle of materiality and implementing the events after balance sheet date adjustment mechanism for IFRS 9 reserves when preparing interim reports;
- writing off uncollectible debts via the IFRS 9 reserve;
- calculating overdue debt depending on the category of financial asset.

Alexey Lobanov, Director of the Banking Regulation Department of the Bank of Russia, discussed how credit organizations were implementing two types of reserves: the prudential reserve based on the Bank of Russia's methodology and the evaluative IFRS 9 reserve. He noted that the Bank of Russia neutralized the effects of the transition to IFRS 9 on banks' prudential indicators in order to prevent any sudden changes in banks' financial positions based on changes in accounting methods in the transition to IFRS 9, given the lack of reliable

estimates of its effect before 2019. Instruments include the use of prudential reserves instead of evaluative reserves in calculating capital, regulations, and indicators in supervision and the elimination of adjustments to asset value per IFRS 9 from capital calculations. It was also noted that IFRS 9 evaluative reserves and adjustments are included in the calculations for published financial results, while prudential reserves are used for calculating taxable profits and, moreover, that banks disclose information about both prudential and evaluative reserves.

Alexey Lobanov presented a general picture of the effects of the transition to IFRS 9 on Russian banks. As a whole, the transition to IFRS 9 has had a moderate effect on the entire banking system (-2.6% capital). What's more, nine systemically important banks saw their prudential reserves exceed IFRS 9 reserves, with just two such banks seeing the opposite result. The ratio for the remaining credit organizations was 60 to 40%. In conclusion, it was noted that the effect of the transition to IFRS 9 did not have a unilateral effect on Russian banks, so reports over a longer period of time are needed to make conclusions about the possibility of disclosing asset value in accordance with IFRS 9 in banks' capital and prudential regulations.

Mikhail Ratinsky, Senior Managing Director and Chief Accountant – Director of the Accounting and Reporting Department at Sberbank, characterized the session topic as a large-scale transition in accounting over the last decade. The speaker identified the primary challenges faced by banks, including Sberbank.

- First is a methodological challenge. This is a serious step forward from the point of view of the accounting community's professional knowledge; basing accounting on economic principles.

- Second is a technological challenge. In order to implement IFRS 9 requirements, the bank was forced to update all of its systems.

- The third challenge is operational. The need to create new processes. For example, Sberbank created a new system to address this objective.

- The fourth challenge is more relevant for large banks – the factor of volume. A basic transition of the remainder of accounts while simultaneously implementing new algorithms in a large number of systems and adjusting product systems – all of this was a serious challenge for Sberbank.

The speaker mentioned several concrete figures related to the bank's transition to IFRS 9 accounting:

- 40 systems were updated as part of the implementation of the Bank of Russia's requirements (front-office systems, back-office systems, accounting systems; the bank implemented an internal solely payments of principal and interest (SPPI) testing module to analyse monetary flows of financial assets in real time);

- 100% of accounting systems were updated to conform with IFRS 9;

- 40 processes were adapted to IFRS 9 requirements and automated;

- Over 11,000 credit transactions were analysed to make sure that they were correctly classified according to IFRS 9;

- Over one thousand people facilitated the seamless transition of client services during the new year's holidays;

- Over 50,000 people were involved in the transition to IFRS 9.

In her discussion of this topic, **Ekaterina Nekrasova**, Partner at PricewaterhouseCoopers Audit, considered global experiences, in part, the experiences of European countries, comparing results from Europe and Russia. In evaluating reserves in terms of capital adequacy regulations, Europe uses IFRS 9, while Russia uses prudential reserves; IFRS 9's effect on capital adequacy regulations in Europe had a negative effect on 60% of banks, because it led to a reduction in the

indicated figure; IFRS reserves are reported in financial disclosures both in Russia and Europe; Russia also has parallel accounting; there is a one-time procedure for acknowledging the effects of IFRS 9 on financial reporting in Europe and Russia.

In **Ekaterina Nekrasova**'s opinion, Russian accounting's transition to IFRS 9 opens up new opportunities for the banking system of the Russian Federation; it has brought accounting, financial, and management reporting closer together; and it has saved the time and resources of accounting and financial reporting staff by reducing the number of adjustments. The speaker noted the effect of this process on business, risk management, and IT. Thus,

- business is seeing changes in product pricing procedures and in the earnings of separate business segments;
- risk management procedures for evaluating credit risk and decision-making are now more similar to credit risk calculations in finance (accounting);
- as a rule, calculations made in accordance with IFRS 9 better reflect bank clients' credit quality;
- IT systems have increased their functionality, allowing them to regularly calculate IFRS 9 reserves and adjust for the market and effective interest rate; what's more, in some cases, the transition to IFRS 9 has led to the integration of financial and risk-management IT systems.

Rounding out her presentation, **Ekaterina Nekrasova**, noted that more time is needed before any next steps can be determined. As such, the European Central Bank is taking a short pause to evaluate interim results. Logically, the regulator's attention is focused on the comparability of bank data, defining defaults, and applying criteria and comparability to disclosures.

Wrapping up the session, moderator **Andrey Kruzhalov**, Deputy Governor of the Bank of Russia, highlighted the growing role of auditor assessments and the professional judgment institution. In his opinion, the culture of auditor consultations will prevail, with the role of CPOs and professional communities, such as the Association of Banks of Russia, growing as well.

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ROUNDTABLE 1.5

Infrastructure Projects for the Financial Market: Initial Results and Prospects

Moderator:

Olga Skorobogatova, First Deputy Governor, Bank of Russia

Speakers:

Vladimir Komlev, Chairman of the Board, Chief Executive Officer, National Payment Card System (NPCS)

Oliver Hughes, Chairman of the Management Board, Tinkoff Bank

Ilya Polyakov, Chairman of the Management Board, ROSBANK

Dmitry Rudenko, Chairman of the Board, Post Bank

Vladimir Verkhoshinskiy, First Deputy Chairman of the Executive Board, Chief Executive Officer, Member of the Board of Directors, Alfa-Bank

Alexey Parfenov, Vice Chairman of the Management Board, Sovcombank

Roundtable 1.5

Infrastructure Projects for the Financial Market: Initial Results and Prospects

Opening the session, the moderator Olga Skorobogatova recognized the fact that the regulator is actively participating in the creation of infrastructure projects for the financial market. First of all, this is an opportunity for the regulator to provide equal opportunities for all participants (large, medium-sized and small) and, in doing so, promote competition. Moreover, the regulator has shown considerable interest in the year-on-year reduction of transaction costs on standard operations. Secondly, a faster payments system is already an integral part of the work of any regulator, and this is true for all types of transaction. Thirdly, regulators are keen to develop a digital profile.

The moderator also noted the complexity of the remote biometric identification project: it required large organizational and technical innovations on the part of government bodies as well as banks and participating IT companies. To date, 156 banks are equipped to collect biometric data, representing around 5,700 branches.

With regard to opportunities for development, Olga Skorobogatova mentioned first of all that this year the regulator and the Ministry of Digital Development agreed to launch a biometric data collection scheme at multifunctional centres, primarily in Moscow and Moscow Region. Secondly, as the security requirements are very strict, the regulator believes that banks can use a lower reserve ratio for loans issued using biometrics (amendments to Regulation No. 590-P are set to be introduced in the near future).

The first question about the development prospects of the biometric project and the convenience it might bring to customers was put to Dmitry Rudenko, Chairman of the Board of Post Bank, who actively participated in piloting the project.

Rudenko highlighted the experience of Post Bank as a pioneer in biometric identification, which it initially deployed for lending, and then for other operations. The company operates an extensive network of services and communication channels for customers, spanning the entire territory of the Russian Federation and all its time zones, with Post Bank often represented by an agent in place of an employee. The speaker emphasized the need to identify employees (including for the purpose of ensuring that operations are being carried out by Post Bank employees, rather than someone who has stolen an employee's password).

Rudenko acknowledged that this project is proving highly profitable for the Bank, allowing it to make significant cost savings and offering protection from classic cases of credit card fraud where a stolen passport is used. At present, the Bank is using biometric identification to confirm several hundred operations per day, in particular when unusual customer activity is detected on the bank's mobile application. The system allows the bank to follow up on unusual activity by sending a biometric identification request.

Developing functionality for opening bank accounts using biometric data collected elsewhere, for example at a multifunctional centre, and the subsequent use of that data in all banking processes, was highlighted as one possible scenario for the future expansion of the project.

Vladimir Verkhoshinskiy expressed his support for Dmitry Rudenko's stance on using biometrics in all processes, citing Alfa-Bank's project to create a paperless customer experience and stating that banking departments could go completely paperless in the space of 2–2.5 years thanks to biometrics.

The moderator then asked Oliver Hughes, Chairman of the Management Board of Tinkoff Bank, about the experience of using biometric technologies in online banking.

Oliver Hughes shared the experience of Tinkoff Bank in collecting biometric data: "We have 2,500 representatives (you could call them smart couriers, but we call them representatives), who travel across Russia, holding 30,000 meetings every day (with new and existing loyal customers). All of our representatives have a mobile device, which means that customers can register with the Unified Biometric System and smart biometrics services."

In his address, Oliver Hughes outlined a key problem encountered in the collection of biometric data: the speed with which the data can be collected. According to Hughes, very few templates have

been created since the data collection drive was launched, which is first and foremost due to technical difficulties encountered in quality control processes (the Unified Biometric System requires high-quality templates so that other organizations can use them for remote identification). Nevertheless, Rostelecom and VisionLabs recently helped to create a solution in the form of a quality control library system.

For this project to advance, Hughes believes it must be popularized with a critical mass (network effect) achieved.

For the next question the moderator asked Hughes to comment the faster payments scheme in the light of his international business experience. Should participants fear the widespread adoption of the FPB and the fact that other products are being replaced by it?

Oliver Hughes stated that Russia has the most widespread adoption of contactless payments in the world by number of operations made using mobile devices. “This is a highly technologically advanced market. Accordingly, there is no need for users to switch to other services.”

Chairman of the Board and Chief Executive Officer of the National Payment Card System Vladimir Komlev also spoke about the faster payments project. The speaker confirmed that the faster payments system is currently being developed as a technical provider, as opposed to a plastic card system where the provider is also the payment system operator (the Bank of Russia is the payment system operator for the FPS). The successful experience of B2B transfers means that the system can be further expanded with the development of C2B payments, creating new user stories and a much more convenient user experience than the one in place today. For example, instant online invoices could be offered when it is absolutely safe to do so, without users having to enter their card number. Rather, a link will be provided, taking users to the recognizable interface of their bank’s mobile app. The invoice can then be paid with a single click, containing all the information required by the payee and the tax service. In other words, the most important thing is to maintain and improve the user experience when it comes to making payments. Fundamentally, new segments are now emerging on the financial market, and they will provide additional sources of transaction activity on the part of customers (cashless payments) and, accordingly, provide banks with new revenue streams.

Olga Skorobogatova then asked Vice Chairman of the Management Board of Sovcombank Alexey Parfenov to offer a response on using the faster payment system as a means of transferring salaries from legal entities to individuals by telephone number.

According to Alexey Parfenov, the fact that discussions around the possibility of using the faster payments system for payroll accounting are taking place is a fantastic thing. Nevertheless, the speaker noted a crucial security issue: the simpler the tool, the greater the level of uncertainty that it can be reliably protected.

Dmitry Rudenko shared Alexey Parfenov’s view that market players are hugely interested in this idea. He added, however, that its promotion on the market should include prominent explainers for customers (if it is not communicated clearly to users it will be very difficult for them to familiarize themselves with and understand the technological and operational capabilities of the system in a timely fashion).

The moderator also noted that, thanks to the introduction of the FPS, banks have begun to get a sense of their place in a competitive market, including with regard to the areas where they are winning and losing. This has even led to some banks changing their business strategies or charges based on a better understanding of consumer behaviour.

Vladimir Komlev also highlighted the influence of evaluating the FPB on banking policy: for example, if a bank introduces a charge on withdrawing funds, the number of operations will fall sharply, but at the same time cash withdrawals at ATMs will increase, leading in turn to huge increases in the bank’s internal costs.

Olga Skorobogatova noted that certain market players, having noticed that clients were taking

money out of their systems, introduced restrictive tariffs. The moderator viewed this as a short-sighted measure.

The moderator then asked a question about the need to develop Marketplace.

Alexey Parfenov outlined the need to create numerous Marketplaces, as this would facilitate the use of new products. If Marketplace was compatible with all kinds of tools, and not only financial ones, then banks would be able to expand their product range. In the speaker's view, Marketplace is largely dependent on the financial technologies it uses, and so what is required first of all is to update them. A priority area is remote identification, which should be essential to the Marketplace user experience. With this in mind, when a critical mass of FPS biometric templates has been collected and the system is fully adapted for online use, it will be possible to talk about a significant breakthrough in implementing this project.

Continuing the theme of discussing the speakers' experience, the moderator turned to Ilya Polyakov, Chairman of the Management Board of ROSBANK.

Ilya Polyakov confirmed the abovementioned trend regarding the advanced digitalization of the Russian market, emphasizing the fact that the Bank has created the special role of chief innovation officer in order to monitor and promote digitalization processes. This structure makes it possible to exchange best practices and concrete solutions, including financial technologies, which appear on the global level and can be implemented in various operating countries. Furthermore, the chief innovation officer does not shy away from customers, and in fact communicates with them constantly. It is a role that requires a relatively close relationship with both the technology and the customer experience.

Olga Skorobogatova noted that a trend for introducing such a role could in fact be observed in the case of many large companies. This person or role effectively combines knowledge of processes, innovations, technologies and security. Other speakers, however, voiced their scepticism about the possibility of identifying a single person who could fill this role.

Ilya Polyakov also mentioned the fact that ROSBANK is an active participant in efforts to introduce a biometric system: "all ROSBANK branches are already collecting biometrics, and are planning to introduce new products as of the third quarter." One of the initial products will be an online loan based entirely on the Unified Biometric System. The speaker singled out the need to maintain growth in competition in the Russian banking sector as a priority area of development, stating that it is exactly what infrastructure projects – primarily the FPS and biometrics – need, since they cannot be implemented by one player alone.

The moderator then asked Vladimir Komlev, Chairman of the Board and Chief Executive Officer of the National Payment Card System, about finding the right balance between a bank's long-term strategic plans, customer retention, KPIs, and opportunities for generating profits on the market.

Vladimir Komlev acknowledged that switching costs for customers are getting lower and lower and, using his own company as an example, showed that the customer base is growing thanks in large part to the fact that switching banks is now much simpler. He therefore believes that if certain restrictive tariffs are applied to essential everyday services there will be an increase in customer dissatisfaction and, instead of retaining customers, banks will haemorrhage them.

The closing question raised by the session moderator related to the possible licensing of tech companies providing financial services: to what extent is competition among technology companies possible in Russia, including if they are recognized as financial market participants and awarded licenses?

Vladimir Komlev stressed that the majority of large and relatively successful banks in Russia can be safely considered FinTech companies by any international standard. The speaker provided an example of a successful partnership between an IT company and the banking sector: Alfa-Bank fully

digitalized its mortgage process after bringing in a partner represented by a major technology holding. It was decided that there was no need for any new regulation governing such situations in the sector.

Dmitry Rudenko expressed concern regarding the possibility of tech companies entering the market and acting as lenders, but without creating reserves equivalent to those in the traditional banking sector. With this in mind, he proposed a system of regulation by area of activity: if companies are engaged in lending, then it follows that they should create reserves.

The session concluded with a question from the moderator that the speakers were asked to give a short response to: “What does each of you think the customer (or indeed citizen) will require from the financial sector and financial services industry over the next two to three years?”

Oliver Hughes: I need a Russian passport to register with the Unified Biometric System.

Vladimir Komlev: speed, convenience and security.

Alexey Parfenov: I would like to see the bank offering as much as possible, and all rolled into one, with a simple explanation, and so I can see that it is fully reliable.

Vladimir Verkhoshinskiy: a combination of high technologies and human contact, a human face, and care.

Dmitry Rudenko: security – we already have everything else.

Ilya Polyakov: convenience.

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ROUNDTABLE 1.6

Macroprudential Policy: Aims, Means, Results

Moderator:

Elizaveta Danilova, Director, Financial Stability Department, Bank of Russia

Speakers:

Patrizia Baudino, Senior Advisor, Financial Stability Institute, Bank for International Settlements

Alexander Danilov, Senior Director, Financial Institutions, Fitch Ratings

Dzhangir Dzhangirov, Senior Vice President, Sberbank

Ilya Polyakov, Chairman of the Management Board, Rosbank

Roundtable 1.6

Macroprudential Policy: Aims, Means, Results

Macroprudential policies became an active part of the professional regulatory agenda following the 2008 financial crisis. Regulators shifted their focus from risks borne by individual market participants to systemic risks. This paradigm shift required new tools. Given how recently these instruments were implemented, regulators continue to debate and argue their effectiveness and the issue of maintaining financial stability remains relevant.

Moderator Elizaveta Danilova, Director of the Financial Stability Department of the Bank of Russia, noted that macroprudential policies are one of the central focal points of the congress and that the session is dedicated to the practical issues and aspects of these policies. The moderator stressed the importance of the regulator's arsenal. In part, the Bank of Russia considers one of the primary instruments in macroprudential regulation to be risk ratio increases. The sectoral approach is being used in response to an irregular credit trend. Regulating capital is most effective when banking institutions dominate the financial market.

Elizaveta Danilova started off the discussion with a question about the increase in consumer lending, noting that the ratio of unsecured consumer loans to the disposable income of the population is 29% in Russia, which is significantly lower than in other countries (for example, in China, this figure is 106%). However, the Bank of Russia is taking forward-looking measures and, from 1 October, banks will be required to calculate debt burdens.

Dzhangir Dzhangirov, Senior Vice President of Sberbank, confirmed regulators' focus on figures, noting that after the 2014–2015 crisis, consumer loan portfolios grew at a rate that doubled each subsequent year. Moreover, the risk metrics of these portfolios peaked in 2014–2015 and are currently stabilizing somewhat. However, according to the speaker, it is important to consider the potential risks that may arise should household incomes fall or in light of other negative factors. Concerning the practice of using debt burden indicators, the speaker noted that PTI indicators are already being used at Sberbank. He also identified three problems related to the use of this indicator.

1. The fairness problem when using a general measure across the entire banking system, though specific banks face specific risks.

2. The problem of implementing major risk measures, which will require an increase in capital. One of the possible consequences is longer maturity terms.

3. The problem that banks are not allowed to use propriety models for calculating PTI. Sberbank uses a proprietary model to calculate the denominator, which provides a more accurate result.

According to the Sberbank representative, if the regulator allowed for the use of model calculations, banks would get more accurate results.

In his speech, Ilya Polyakov, Chairman of the Management Board of Rosbank, noted that the session's topic is one of the more popular and relevant topics currently being discussed and that it has received much attention at numerous platforms.

Building on the discussion, the speaker brought up several figures: in Russia, the ratio of the total retail lending portfolio to GDP is currently at 20%, while in other developing countries this figure is closer to 40%, exceeding 70% in developed economies.

However, Ilya Polyakov noted that the structure of credit portfolios must also be taken into consideration, since the share of short-term credits in Russia's portfolio is greater than the global average – 75% of European loans are mortgages, while that figure is 45% in Russia. Moreover, interest rates in Russia are far higher than in Europe, which increases borrowers' monthly payments. Since the population's debt burden is fairly high, the speaker has a positive opinion of the fact that the Bank of Russia is addressing this issue and supports the implementation of PTI indicators in banking. In his opinion, the implementation of this indicator will have a positive effect.

With respect to the use of proprietary models for calculating borrower income, the speaker believes that any models must be validated by the Bank of Russia.

Alexander Danilov, Senior Director of Financial Institutions at Fitch Ratings, believes that loans are a privilege available to borrowers. He bases this position on the fact that, in the case of a crash, in the long term, the loan is paid for by taxpayers.

The rating agency that the speaker represents believes that the issue lies not only in the fact that the population's debt is increasing, but primarily in that it is growing significantly faster than household incomes. The speaker pointed out that new debt is incurred by existing borrowers and that banks are not seeing any flows of new borrowers. Stressing the seriousness of the situation, he brought up that there was an analogous situation before 2014 and, in response to an exogenous shock, every fourth loan stopped being serviced. Loan refinancing has become widely popular among banks, which essentially works as a financial mini-pyramid on the end of the borrower. The speaker backed up their argument with the following data: 'a person pays 75% of their income, banks offer them 50% after refinancing, and the left-over money stays in their pocket.' The speaker pointed out that the absolute value of the debt burden is increasing. Moreover, the speaker argues that longer maturity terms result in consumer demotivation, since short-term consumer goals (such as vacations, home appliance purchases, weddings) have been reached, while the loan payments for events (that have long since been forgotten) remain.

Regarding the Bank of Russia's risk-weight-related innovations, Alexander Danilov said 'the Bank of Russia sees potential problems and is attempting to stay the growth of consumer loans.' However, risk weights only apply to new loans. Increased risk weights were related to the true cost of credit and banks were able to avoid factoring in this indicator. The new risk weights are more effective, but there is a loophole: there are no term limits.' The speaker proposes limiting terms for unsecured credits.

In her comments, Patrizia Baudino, Senior Advisor of the Financial Stability Institute at the Bank for International Settlements, considered the effectiveness of measures being undertaken in various countries, attempting to summarize the intermediate results of regulators' work in macroprudential policy and achieving financial stability. She noted that it is currently difficult to concretely identify the most effective instruments, since all of the results are e relatively recent, though many studies have been conducted. In her opinion, regulators must have various instruments in their arsenal.

She expressed the opinion that the Bank of Russia's actions with regards to staying the negative trends related to the population's increasing debt burden is completely justified. Misclassification of loans is could be a potential cause of the problem. The speed of growth of loans is also important, since absolute numbers may not reflect the situation in its entirety. The speaker supported the idea that countercyclical capital buffers and limiting PTI and LTV could increase banks' ability to absorb losses. However, the problem may lie in the communication of these policies, since borrowers may find it difficult to acquire loans. The regulator must find a balance between restraining borrowers and regulating creditors' policies.

Regarding the effectiveness of approaches to stress-testing, Patrizia Baudino noted that this is a promising method being used in a number of countries. The US is not active in the area of macroprudential policy, but they use stress-testing to evaluate banks' capital adequacy. In Europe, stress testing is used for macroprudential purposes. The Bank of England uses stress-testing to calibrate their policies. In this way, stress-testing helps evaluate a system's resilience.

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ROUNDTABLE 3.1:

New Requirements for Financial Market Specialists

Moderator:

Konstantin Korischenko, Chairman of the Commission for Professional Qualifications in Risk Management and Financial Services, Council for Professional Qualifications in the Financial Market; Chairman of the Supervisory Board, Guild of Financial Analysts and Risk Managers

Speakers:

Olga Shishlyannikova, Deputy Director, Securities Market and Commodity Market Department, Bank of Russia

Larisa Azimova, Vice President, Head of the Depositary Center, Gazprombank

Dmitry Firsov, CEO, Newton Broker

Matvey Gorbachev, Director, Midland Hunt

Roundtable 3.1

New Requirements for Financial Market Specialists

At the beginning of the session, the moderator proposed to discuss how the adoption of Federal Law No. 238-FZ dated 03.07.2016 "On independent assessment of qualifications" (hereinafter referred to as the IQA Law) will combine two approaches to regulation – certification of financial market specialists that has existed for years and the independent qualification assessment system (hereinafter referred to as the IQA).

Olga Shishlyannikova suggested participants focused on the qualification of financial market rank-and-file employees that carry out principal functions at the securities market. She also reminded that on 26 June 2019 the Bank of Russia published the Vision Statement on qualifications requirements for securities market actors' specialists (hereinafter referred to as the Vision Statement). It reveals the plans concerning managerial staff involved in the financial market and plans to develop the law on business reputation. The Vision Statement reviews the list of key functions that is supposed to help identify key specialists and offers an alternative assessment model for specialists when employers carry out qualification tests internally.

Digitalization development resulted in the following situation: regulation in cases when a financial market specialist is replaced with a programme that performs their function needs adapting, which requires additional attention. Also, Olga Shishlyannikova noted that another important matter for the financial market would be the need to assess rank-and-file specialists employed at the internal control, internal audit, and customer investment profiling, as well as the need to make such assessments regular.

Konstantin Korischenko pointed out that it would be important to have a general understanding of the IQA system.

Alexander Murychev, Executive Vice President of the Russian Union of Industrialists and Entrepreneurs started his presentation with the IQA background – its inception and evolvement. He noted that the system was the President's initiative that had been developing over the last four years. Over this time, the IQA Law was passed. Transition time set by the IQA Law expired on 1 July 2019. The Law provides for the following assessment frequency: once every three years.

As Alexander Murychev pointed out, the IQA system cornerstone would be professional standards and qualifications that embrace among others financial market specialists. As of today, Russia has around 40 Qualification Assessment Centres (hereinafter referred to as QAC) and over 40 professional standards. Currently, universities' and colleges' curricula are going through accreditation and compliance audit against employers' requirements.

As for the alternative IQA model (when employers assess qualifications internally) suggested by the Vision Statement, Alexander Murychev expressed the following view: to carry out the IQA and certify their own employees on the corporate level, financial organizations should be able to do independent assessment, therefore authority needs to be transferred from the Presidential National Council for Professional Qualifications.

Larisa Azimova emphasized that the standards for securities market specialists set by the Russian Ministry of Labour in its executive order didn't specify they were mandatory for financial market specialists in particular. In this regard, she suggested going back to the Vision Statement released by the Bank of Russia and expressed her approval of its alternative model when employers did qualifications assessment of their employees internally.

Olga Shishlaynnikova specified that the IQA was introduced only in cases when the IQA Law or other regulations directly prescribed it. As of now, the Bank of Russia imposed the IQA on investment advisers only. At the same time, these market players face problems with obtaining the IQA, that's why the Bank of Russia was forced to make this requirement optional unlike professional experience (employment or transactions record) or international certificates.

As Matvey Gorbachev explained, it was paramount that specialists complied with internal regulations and laws while performing their duties – that would help minimize risks for counterparties. In order to achieve this, the organization needs to invest in personnel training. The role of the IQA is viewed significant mainly for people who are in search of

a job (one can use the IQA as an additional way to prove experience and qualification). HR will play a major role in organizing qualification tests for those already employed.

In his speech, Dmitry Firsov focused on fintech development and role reversal when dealing with customers: personal communication with a client was replaced with a them interacting with a database or a neural network. In this situation, it is not clear which employee must attest their qualification: the one who developed the artificial intelligence, the one who provided training or both. With digitalization, it is important to use new technologies for the customer's qualification and classification, which helps classify the customer by more parameters than the customer can envision and accept.

Vasily Zablotsky, President of the National Finance Association (a self-regulatory organization), spoke about the efforts of the Commission for securities market professional qualifications to prepare a set of assessment tools for the IQA procedure, i.e. assessment tools packages for the IQA procedure were developed and submitted to the Presidential National Council for Professional Qualifications, as well as proposals to update the professional standard for securities market specialist, qualifications register, as well as proposals to define the cost of the IQA services. Vasily Zablotsky confirmed that the National Finance Association was ready to prepare their own programme and set it forward for its members, should the Vision Statement be approved.

Alexander Murychev explained that the IQA Law provided for numerous QACs created at the employers' initiative (companies or corporations). That's why it's expected that large financial institutions and banks (primarily partially of fully state owned) will apply and complete the paperwork package to create QACs, while the Presidential National Council for Professional Qualifications will transfer the authority to assess qualifications. Starting from 2020, qualification assessment will become compulsory for employees of public organizations, while for those employed in private ones (including banks and financial institute) qualification assessment will be initiated by their employers or by employees themselves.

Andrey Afonin, Director of the Bank of Russia Corporate University, shared the roadmap to ensure a transition to the IQA for financial market specialists (published on the Bank of Russia website on 22 May 2019). It contains all the milestones of the IQA transition.

The session also raised the following important issues: high cost of the QAC exams, their frequency, the need for the Bank of Russia requirements and professional standards requirement to be on the same page, as well as the need for the internal qualification test carried out by the employer.

The discussion concluded that the price limit for the QAC exams will be set through the competition among the centres, while internal qualification assessment initiated by the employer will drive employees to go for the IQA in independent QAC.

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ROUNDTABLE 3.2:

Конкуренция за розничного инвестора: брокеры и доверительные управляющие

Moderator:

Catherine Golub, Project Coordinator, Forum Analytical Centre

Speakers:

Ekaterina Andreeva, Vice President, Russian National Association of Securities Market Participants (NAUFOR)

Irina Krivosheeva, CEO, Alfa-Capital Management Company

Vladimir Potapov, CEO, VTB Capital Investments; Senior Vice President, VTB Bank

Larisa Selyutina, Director, Securities Market and Commodity Market Department, Bank of Russia

Roundtable 3.2

Конкуренция за розничного инвестора: брокеры и доверительные управляющие

The moderator proposed main discussion topics: retail investors and competition around them; what is happening on the investment market; where are the customers, how do they invest; where is the competition and how does it reveal itself. Larisa Selyutina noted that the purpose of the discussion was to ease the growing concern of the regulator as the number of retail investors is growing and so does the number of practices around them.

The trust management was never intended for mass investors as it targeted private interests. However, standard strategies have been integrated into trust funds and currently are used when providing investment recommendations. Thus, when speaking about intersectoral competition the talk should be about standardized product competition, rather than individually targeted services competing. In certain cases, making financial products and strategies standardized is as an additional revenue stream for a financial institution. This can be achieved via concealed incentives, frontrunning, and other malevolent practices that aim to extract extra profits at the investor's expense.

Irina Krivosheeva stated that the number of retail clients is on the rise and growth rate over the past 3 years exceeds 40% reaching 25,000 customers. So, who are they? 63% are men, 38 years old on average; 37% are women, 42 years old on average; 40% are from Moscow, the rest of the country accounts for the other 60%; the average investment is RUB 1 million, which runs in stark contrast to High Net segment of trust management that averages around RUB 71 million. Most customers chose moderately conservative strategies, with 70% going for bonds.

Vladislav Kochetkov noted that social networks are not an efficient customer attraction tool. The main growth comes from the large banks that started to convert their depositors to brokerage customers. This transition brings about the main change in the customer base. When it comes to Finam, it was the possibility to open an account remotely that played a significant role: the share of customers who used that feature reached 60%. Currently, the leading age bracket among their customers is 25–35 year-olds, whereas the account replenishment mainly comes from 35–45 year-olds. Three years ago, 45–50 year-olds held top positions on both lists. Evidently, customers are getting younger, the share of women keeps growing, even though it is higher with brokerage rather than trust management. However, the average account size went down by 50% in the past 3 years.

Mr Kochetkov also singled out 3 main segments of customer demand (in popularity order): conservative products (bonds and FLBs), boxed solutions ('Autofollow' service by Finam for instance), and international securities preferred by mature customers with at least a year of experience.

Vladimir Potapov noted that technology changed the very nature of the market. If opening a brokerage account used to be an issue before, today the technology invites the growing number of young people to invest. The second reason for the rise of retail investor is the possibility to make profit. Instruments like FLB help achieve certain tasks and attract people that previously have only been accustomed to deposits.

Ekaterina Andreeva stated that the number of assets trusted to professional managers grows twofold annually. Brokerage customers prefer Russian shares and bonds, whereas trust management clients go for Eurobonds and FLBs. 70% of the time, brokerage accounts are open by men between 25 and 45, and 95% of them make investment decisions on their own without any consultations. More than a half of trust management accounts are initiated by people over 55 years of age.

The discussion proceeded to risks and touched upon main competition points in the aforementioned business models.

Vladimir Potapov shared his opinion that the right choice of a relationship model with the customer guarantees longevity of the interaction. VTB offers customers a survey to establish what type of services they really need.

Speaking about challenges professional trustees face, Irina Krivosheeva noted that nearly 35% of population do not prefer any model but rather need basic guidance in investment. Currently, the fiercest competition goes on between brokers and

management companies to attract these customers, since they both offer similar product. The speaker believes that given challenges have to do with some artificial limitations. Prime example thereof is the limitation for a legal entity to have a few lines of work – brokerage and trust management for instance – which prevents one company from offering the entire range of services and remain competitive.

At the same time, Mr Kochetkov expressed his point of view that competition between brokers and trust managers does not play a key role in market development. He believes it is the matter of competition between different companies. A participant of the discussion offered the classify 3 types of competition:

1) state vs private companies: state companies are trusted more, yet the private ones have far greater product variety;

2) monoliners and companies affiliated with banking groups: banks have large customer bases, whereas other finance players do not have this luxury;

3) Russian brokers vs international players: currently, licensed foreign companies have an advantage over their Russian competitors.

Ekaterina Andreeva believes that in the future trust management will prevail over brokerage as it happened around the world.

Larisa Selutina is cautious that investment consulting happens somewhat as a formality, since the consultants offer exclusively the instruments in the company portfolio, which can contradict the client's interests. When it comes to legislative norms, the aforementioned activity stays within the legal framework, yet can hardly be listed among best practices. The speaker believes the latter relates to behavioral realm, which requires standardizing thereof.

Concluding the discussion, the participants have voiced their ideas on regulatory changes and future of the financial market.

Irina Krivosheeva suggested looking at the unified license for all players in the securities market.

Ekaterina Andreeva reported the upcoming improvement to investment consulting standards and designing standards for financial instrument offerings. Additionally, she talked about the need for legislative amendments to ease the regulatory pressure on independent advisors.

Vladimir Potapov stated that the only growth points for trust management are ETFs and mutual funds. The speaker believes that brokerage is not interesting for customers without tying it to quality investment consulting.

Vladislav Kochetkov suggested that competition will shift from companies to IT products, so many companies will turn into IT services. The revenue will still be split between the broker and the platform, while additional regulation in his opinion is redundant.

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ROUNDTABLE 3.3:

The Derivatives Market: On the Cusp of Change?

Moderator:

Igor Marich, Member of the Board, Managing Director of Money and Derivatives Markets, Moscow Exchange

Speakers:

Olga Shishlyannikova, Deputy Director, Securities Market and Commodity Market Department, Bank of Russia

Igor Golutvin, Head of Commodity Trading and Deputy Head of Global Commodities division, VTB Capital

Roman Lokhov, Member of the Management Board, Deputy CEO for Global Markets and Investment Banking Services, BCS (BrokerCreditService)

Alexander Zozulya, Co-Head of Trading, Global Markets Development, Sberbank

Dmitry Popov, Head of Petroleum Product Sales, Lukoil

The session moderator recommended that the panel discussion begin with the participants looking at global trends in the Russian derivatives market with respect to the instruments that are being used, the products themselves in terms of clients who create demand for specific instruments, and other trends.

For several years, the most popular instrument on the Russian derivatives market has been currency futures, specifically the RUB/USD currency pair. Alexander Zozulya commented on the fact that the currency derivatives sector is relatively developed, and he sees the main trend as being in interest rate derivatives for clients at the key rate. In the United States, for example, more than 5% of GDP is traded in interest rate derivatives every day, while the figure for Russia is less than 0.05% of GDP – the gulf in liquidity between these two markets favours the former by a factor of at least 100. As a whole, market participants are seeing high levels of client interest in these tools.

Igor Marich drew attention to the fact that in recent years it has been possible to create a liquid segment in the money market on a repo basis with a central counterparty, and to begin to calculate a benchmark rate for secured funding, RUSFAR. With this rate, derivatives will be used to manage interest rate risk.

The rapid development of the commodity derivatives market, primarily in Brent futures, was highlighted as yet another trend. Lukoil's Dmitry Popov noted that derivative instruments for commodity assets are of great interest to the company, as they offer additional sales channels. He also expressed his interest in deliverable futures, both for the domestic and export markets.

Looking at the client side, it was noted that the derivatives market has historically been driven by two major categories of client: retail and foreign clients. Roman Lokhov identifies the problem in the fact that many categories of client from the west – that is, from Europe and America – have restricted access to the Russian market. A lack of official recognition of the Russian market on the part of western nations is inhibiting efforts to attract foreign investors, which limits access to the Russian market for a significant proportion of clients. The sanctions policy being pursued by a number of western countries is a factor in restricting the development of the Russian derivatives market, though foreign investors have retained a high level of interest in the Russian market. Lokhov emphasized that even though banks withdraw from the market, trading volumes are on the rise. A financial infrastructure exists, and Russia is still a major player. Olga Shishlyannikova also noted that the sanctions imposed on Russia complicate the issue of recognizing Russian infrastructure as meeting foreign regulation criteria. The Bank of Russia, she believes, is taking fairly major strides on this front, but foreign bodies are prone to being guided by geopolitical factors over financial viability.

Igor Marich articulated the task of attracting institutional investors to the derivatives market, stating that it is necessary to show banks and other institutional clients that the exchange-traded derivatives market is open for business.

Developing the commodity market is not only the responsibility of government – business too has a role to play. Dmitry Popov announced that Lukoil is actively developing a futures contract for diesel fuel based on the FOB Primorsk standard, to be traded on the Saint Petersburg International Mercantile Exchange (SPIMEX). At present, all the company's export flows are pegged to foreign benchmarks (Rotterdam) and so there is a desire to create a new benchmark. It is essential to implement the benchmark at the Russian border, as this will make it possible not only to increase the price of Russian goods for export, but also to ensure transparency in pricing.

Igor Golutvin identified three main asset classes that are of interest in terms of developing the commodity derivatives market:

- oil and everything associated with it. Brent futures have been a big winner, and futures should also be added to the difference between Brent and Dated Brent, or just to Dated Brent;

- gold. If a VAT exemption is made for gold, one can expect a significant new market for everything related to precious metals and gold, instruments for gold/RUB, gold/USD and gold/EUR, and an instrument for managing the gold curve;

- agriculture. The most representative example is grain – Russia is one of the world's major exporters of grain. Its share of global exports stands at around 12–15%, with around 40 million tonnes exported annually. At the same time, for example, around USD 2–3 billion in grain futures is traded every day on the Chicago Stock Exchange, even though the United States exports far less grain.

At present, in export-orientated economic conditions, there is major interest in commodity derivatives using international indices. Foreign indicators, however, do not always allow participants to effectively hedge their positions. Creating Russian representative indicators is an important area of focus and will make it possible to offset the basic risk of hedging with reference to international indices.

Stock quotes given during spot trading, as well as data from registered OTC contracts can be used as indicators of this type, covering petroleum products, wheat, sugar, legumes and any other goods where there is a significant local market.

Today, trades in cash-settled contracts (settled futures for Brent and WTI oil) prevail in the commodity derivatives market, while deliverable instruments account for just 0.1%. Olga Shishlyannikova expressed her desire for the development of the derivatives market to include, among other things, deliverable instruments, and in particular, gasoline delivery futures traded on SPIMEX.

It was noted that the majority of trade in commodities on international global exchanges is conducted not on the spot market, but on the derivatives market. The need to change the format for existing spot trades on exchanges was identified as a promising area for the development of the futures market for petroleum products. Dmitry Popov underlined the fact that the spot market for petroleum products is currently fragmented, with a basis point value for shipment and trade at every factory. As things stand, each producer has the right to sell at their balance point or at the basis point value for the product, meaning that the producer is essentially the only producer and supplier of oil and gas products at this basis point value. A single basis point value should be created for a group of factories supplying the same region, as this will increase liquidity on the spot market and serve as a driver for development of the derivatives market for petroleum products.

Further to this, Olga Shishlyannikova discussed the latest changes to regulation. On 1 July 2019, Bank of Russia Ordinance No. 4928-U dated 8 October 2018 came into force, expanding margin requirements for futures contracts signed by virtue of brokers' clients. The changes will affect futures contracts only where they are included in portfolios of securities positions. The phased introduction of margin requirements calls for reciprocal action on the part of market participants and SROs in terms of regulating the procedure for closing client positions. If the market cannot cope with this task in terms of its own procedures, then new requirements will be introduced in order to protect the rights and interests of clients.

Efforts are currently underway to develop two draft bills on close-out netting and financial provisions. The draft bill on close-out netting is intended to solve the problem of applying statutory regulations concerning insolvency (bankruptcy) to this procedure when challenging the debtor's transactions, which pretty much annuls the close-out netting procedure. It is also specified that when calculating the liquidation amount not only the obligations, but also the security payments provided in the fulfilment of these obligations should be taken into account. The second draft provides for a special type of financial security, which is very similar to a security payment but has certain characteristics specifically concerning the derivatives market. It is proposed that not only the underlying asset be taken as security, but also any other asset as long as it is accepted by general agreement.

Since 2016, the Bank of Russia has been discussing reforms to requirements regarding OTC derivatives with market participants. This work is being carried out as part of the implementation of the Russian side of the resolutions adopted at the G20 summit. The first draft of the regulation makes provisions for centralized clearing of certain financial instruments, including interest rate derivatives. The draft has been published and active discussions are

underway with market participants. Furthermore, a draft concerning the introduction of obligatory margins for OTC derivatives is being developed. The Bank of Russia plans to adopt the legislation in the second half of next year.

At the close of discussions, the participants looked at the future prospects for the development of the derivatives market. Igor Golutvin raised the issue of a strong imbalance between the foreign market and Russian markets. The volume of the market needs to be increased, including by way of foreign currency liquidity. The need to develop interest rate derivatives at the key rate was also noted. Speaking from the audience, Alina Zhilenko (Goldman Sachs) expressed concern regarding the RUSFAR indicator, as a fourth variable rate will reduce market liquidity to a certain degree, thereby making it less effective.

The small size of the derivatives market was named (by Alexander Zozulya) as one of the key systemic threats in the Russian economy. Major companies, which are required to hedge, simply cannot physically source the liquidity they need. Igor Golutvin expressed his desire that foreign investors receive the fullest and most competitive access possible to the Russian stock exchange infrastructure, as it is necessary to offer 'the other side' in order to develop the OTC market. Right now, everything is going 'one way'.

Roman Lokhov mentioned a number of derivative financial instruments that, in his view, would be of interest with respect to the future development of the market.

In addition to this, the participants expressed their desire for a clarification in the legislative definition of a hedging transaction, which is necessary for eliminating tax exposure. To ensure a sustainable market, the future development of the infrastructure as it pertains to risk management at the central counterparty level is essential.

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ROUNDTABLE 3.4:

Identifying Optimal Levels of Regulation and Efficient Oversight in the Securities Market: Theory and Practice

Moderator:

Andrey Zorin, Government Relations Director, Otkritie Bank

Speakers:

Kirill Zverev, Vice President, National Association of Securities Market Participants (NAUFOR)

Larisa Selyutina, Director, Securities Market and Commodity Market Department, Bank of Russia

Tatyana Fedyashina, CEO, REGION Broker Company

Vladimir Yarovoy, Head of Global Markets and Managing Director of Global Markets Department, Sberbank

Andrey Zorin noted that the Bank of Russia issued a 'Concept Paper on Proportional Regulation and Risk-Oriented Oversight of NFOs' in 2018, worked with self-regulatory organizations and market participants to prepare a roadmap for integrating the concept into the securities market, and proceeded to implement this roadmap.

Proportional oversight takes into account organizations' risk levels and the nature and extent of consequences for organizations that fail to meet their obligations to consumers, the industry, and the market as a whole. Accordingly, the Bank of Russia currently emphasizes a risk-based approach and ensuring a transition to proportional supervision in regulatory interactions by establishing uniform ways to determine oversight methods depending on the size, significance, and risk profile of subject organizations. Meanwhile, market participants report that supervisory procedures put a significant burden on financial institutions.

Market participants were in favour of the Bank of Russia's publication of consultative reports, noting that this practice paints a clear and appropriately broad picture of the regulator's approach to regulation and supervision, which helps them know which direction the regulator plans to move and what they will demand of participants ahead of time.

Additionally, Kirill Zverev noted a positive trend: the Bank of Russia has started publishing regulatory forecasts, allowing participants to plan their costs and expenses related to regulatory changes and new regulations.

Kirill Zverev also expressed the opinion that the Bank of Russia must take into account market participants' implementation costs when developing regulations. He reasoned that there are situations in which market participants are saddled with significant costs when implementing regulators' demands. The Bank of Russia's structural subdivisions do not coordinate the dates when regulations enter into effect, leading to situations where global changes are implemented simultaneously.

According to various market participants, the regulatory burden has tripled since 2012, which is incompatible with the market's volume.

Larisa Selyutina noted that, when setting expectations for the activity of professional securities market participants, the Bank of Russia operates under the principles of transparency and openness, i.e.:

each potential new addition is presented for review to the professional community by way of working groups, roundtables, standards committees;

market participants directly take part in developing individual acts (internal accounting act, new margin trading act, financial regulation act);

draft regulations (reports) developed by the Bank of Russia are published on the Bank of Russia website and opened up for opinions, proposals, and comments from market participants.

Accordingly, the professional community is informed of and understands the Bank of Russia's new regulatory measures before they are implemented. It is important to note that the Bank of Russia doesn't just develop regulations to make stricter demands of market participants, but also to develop the market. For example:

the limits on the instruments that settlors' assets can be invested in have been removed from the act regulating securities market activity; the draft legislation on brokerage takes the option of using special broker accounts for trading goods or assets and brokers' rights to close clients' unsecured positions without instruction into account; a number of additions have been made in the margin trading regulations in the interest of reducing excessive requirements.

In reporting, XBRL has been implemented to improve the quality and accessibility of data, expand analytical opportunities, and increase information transparency.

Additionally, participants have expressed complaints about the significant burden of completing various reporting forms.

Larisa Selyutina noted that the Bank of Russia has developed proposals for amendments to reporting requirements, aimed at optimizing reporting and avoiding redundancies. These problems have largely

been addressed in the taxonomy 4.0. Currently, the taxonomy gives market participants a reasonable timeframe for lodging reporting-related protests and for providing the Bank of Russia with feedback on what is and is not acceptable.

The session also considered the development of the Bank of Russia's behavioural surveillance aimed at protecting the rights of consumers. Tatyana Fedyashina noted the issue of duplicate information in the Bank of Russia requests in the course of behavioural surveillance and remote risk-based monitoring. Larisa Selyutina reported that significant work is being done on addressing this issue, including the creation of data warehouses to store information that will be used by all of the Bank of Russia's structural subdivisions in the process of supervision.

Mikhail Mamuta also mentioned the transition to a risk-based approach to behavioural surveillance. Behaviour-based risk profiling, determined by how an organization works to protect consumers' rights, is currently underway. Behavioural risk profiles are compiled based on analyses of complaints, the proportion of substantiated complaints to active agreements, and information from other supervisory subdivisions of the Bank of Russia, law enforcement agencies, and the media. If an organization's behavioural risk profile is average or below-average, then supervisory activity may be performed through the review of citizens' complaints. Preventative behavioural surveillance is focused on organizations with a risk profile that is significantly above average.

Generally, an organization falls into the behavioural surveillance risk zone because of a defect in its sales model, a defect in its claims review model, or an incomplete information model. The Bank of Russia holds working meetings with such organizations in order to determine the causes behind their behavioural risk profile and provides them with recommendations on how to improve it.

The regulator will continue to work with the professional community in implementing the optimal regulatory burden and risk-based monitoring of market participants.

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ROUNDTABLE 3.5:

Investment Consulting: Initial Results

Moderator:

Alexey Timofeev, President, Russian National Association of Securities Market Participants (NAUFOR)

Speakers:

Vasily Zablotsky, President, Self-Regulatory Organization 'National Finance Association'

Vladimir Potapov, Senior Vice President, VTB Bank; CEO, VTB Capital Investments

Vladimir Chistyukhin, Deputy Governor, Bank of Russia

Vladislav Kochetkov, President and Chairman of the Management Board, Finam Group

Mikhail Znamensky, Wealth Management Head, Citi Russia

In his opening comments, Alexey Timofeev mentioned the public's financial illiteracy, identified potential paths for the development of investment consulting, and considered the relation of investment advice to trust in the financial market, asking the speakers: "What do my colleagues think about the role of investment consulting?"

Mikhail Znamensky noted that the development of investment consulting is a mechanism for retaining retail clients in an organization.

All of the speakers agreed that the development of the new investment consulting market must benefit both society and organizations. Vladimir Potapov noted that this market is in its early stages and will thus face many challenges and go through many changes. Vladislav Kochetkov brought up the fact that the legislative changes enacted seven months ago were meant to legalize investment advisors, but resulted in the opposite effect – investment advisors disappeared. As a result, brokers essentially started performing the functions of investment advisors, they were forced to change their activity and double their staff in response to this new legislation. Vladislav Kochetkov agreed with the idea that this legislation is correct and must be developed further. Most likely from the point of view of retail – 'retail' is not a millionaire client, but one with an initial investment starting at RUB 30 thousand. Some sort of platform-ization could help in retail development, maybe in a more offline direction, where a company essentially creates a sort of legislative umbrella for investment advisors, acting as a controller, helping with reporting, and controlling the recommendations they give. But, essentially, the investment advisor works solo, attracting clients and sharing profit with this umbrella company.

During the discussion, speakers identified investment consulting's initial problem: the reduction of market entry costs for small, independent investment advisors.

Summarizing this discussion, Vladimir Chistyukhin noted that there were no obvious gaps in the legislation. The legislation's basic purpose is to protect investors from loss.

The speakers agreed that solutions must allow small independent investment advisors to enter the market en masse: simplifying the issues of risk management, monitoring, and value-added tax (VAT) optimization. Separately, Vladimir Potapov noted that the Bank of Russia is currently providing a lot of support to those involved in providing all participants, both professional and nonprofessional, with the opportunity to shift their operations in line with legislation, without launching a full control regime.

Participants also considered the issue of monitoring compliance with standards. Basic standards are under development at this point, activity is currently regulated by legislation and regulations.

According to Alexey Timofeev, the legislative amendments provisioning the regulation of investment consulting were revolutionary. They resulted in definition of the phrase 'individual investment recommendation' in the basic standards, which is a key part of the concept of 'investment consulting.' In summary, Vasily Zablotsky said that self-regulatory organizations have made much progress and come to a consensus. The basic standards help protect investment consultants from accusations.

Vladimir Chistyukhin noted that over half a year has passed since it was first reported that a draft of the basic standards was complete, but, even now, the standards are far from perfect.

At the end of the session, the speakers discussed automation in investment consulting. Vladislav Kochetkov noted that high-quality individual investment consulting is to some degree analogous to trust management; it is a fairly expensive service. Because an advisor, conventionally, if they work alone, is unlikely to have more than several dozen clients. Accordingly, they must earn money in order to keep their business afloat. Mass investment consulting lies, undoubtedly, in the automation and robotization of the system. Vladimir Chistyukhin noted that it is important to differentiate between digital businesses, digitalization, and automation. In order for an investment advisor to be capable

of consulting 1–2 million investors, our knowledge must be applied within the realm of artificial intelligence, e.g. a robo-advisor. A robo-advisor must be developed: this is a promising avenue, since consultations with doctors, tutors, etc. already exist. Which is why both individual investment advisors and robo-advisors should be taken into consideration.

Summarizing the discussion, Vladimir Chistyukhin noted that the market is in its early stages of development and much work must be put in to get high-quality services.

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ROUNDTABLE 3.6:

The Role of Infrastructure in Building a Trusting Environment and Simplifying Investor Access to the Financial Market in the Era of Digitalization

Moderator:

Eddie Astanin, Chairman of the Executive Board, National Settlement Depository

Speakers:

Maxim Getsman, Deputy Director General for Core Business, VTB Registrar

Maxim Grigoriev, Executive Partner, Gartner

Natalia Smirnova, Independent financial advisor

Elena Chaikovskaya, Advisor to First Deputy Governor Sergey Shvetsov, Bank of Russia

Roundtable 3.5

The Role of Infrastructure in Building a Trusting Environment and Simplifying Investor Access to the Financial Market in the Era of Digitalization

In his opening comments, Eddie Astanin said that one of the signs of a market's quality is the number of national investors operating within it. For example, in countries with emerging markets (India, China, Brazil), investors make up 10 to 20% of the population. This is a figure to work towards (approximately 2 million investors have accounts in the Moscow stock exchange, which is just over 1% of the population).

Natalia Smirnova proposed splitting investors into four groups: 1) Inexperienced investors, ages 30–35 and over, ready to invest up to 300,000 roubles, with a low level of trust in banks, brokers, and exchanges; 2) Investors around ages 30–35, well-versed in gadgets, that see investment as a type of game, and not as an instrument for achieving long-term financial goals; 3) Middle-aged investors with little experience in investing, ready to invest starting at 1–2 million roubles, but lacking sufficient experience and knowledge to manage their own investment portfolio and evaluate levels of risk; 4) More experienced investors, ready to invest starting at RUB 10 million. The aforementioned groups make up a 5/5/60/30% percent share of the whole, respectively. All of these groups face the following issues to some extent: 1) Lack of trust in financial consultants; 2) Among brokers: the absence of an easy to use interface, lack of features in personal accounts, lack of a unified information portal that simultaneously allows for asset management; 3) Frequent legislative changes; 4) The exchange difference tax (especially for investors from the third and fourth groups).

Continuing the discussion, Maxim Grigoriev noted that currently over 60% of financial organizations are in the process of transforming their business models. The opinion was expressed that business models must be able to quickly adapt in accordance with clients' needs.

Natalia Smirnova noted that, given the active online development of infrastructure abroad, technologies capable of attracting Russian clients to the Russian market must be developed.

Maxim Getsman added that professional participants lack access to existing state platforms (e.g. government services); such access would significantly simplify the process of asset management by clients and/or their inheritors.

Elena Chaikovskaya noted that, today, clients prefer to consult various aggregators in their search for a certain good or service. One of them will be the Marketplace project, which is ready to launch on the technical end, but lacks a regulatory framework. This project solves two problems: 1) Presence of a trusting environment. If a potential client does not trust an internet resource, they will not use it to make investments; 2) Client convenience. If a client finds it inconvenient to use an interface, they will not use it, as such, delegated identification is planned, i.e. the platform will take clients seeking services, and then transfer them to financial institutions connected to the platform.

On the topic of crossing an ID-less electronic wallet with a traditional account, Elena Chaikovskaya noted that Russia has legislation that regulates e-wallets. They may hold up to RUB 15,000 without identification and are capped at RUB 600,000 with identification. On the topic of electronic wallets abroad, transborder services are a huge challenge for both Russian and foreign regulators; regulators have already started discussing this issue.

Eddie Astanin proposed a possible solution to the aforementioned problem: the creation of a global blockchain project, where a wallet will be divided between jurisdictions and access to various assets.

The discussion participants understand the term 'trusting environment' to mean:

- an unburdensome environment, within the legal framework (member of the audience);

- complete relaxation, when you don't need to read the fine print or pay attention to asterisks (Elena Chaikovskaya);

- when it's convenient, transparent, with stable rules, and is legal (Natalia Smirnova);

- technology can help solve the issue of trust in an environment with a decentralized population (member of the audience);

- an environment that it is not stressful to work in (member of the audience).

Summarizing the discussion, Eddie Astanin noted the presence of investors, technologies, active regulators with initiatives who are ready to create regulations that are convenient for the market, and, accordingly, there are prospects for development.

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ROUNDTABLE 3.7

Fair Pricing on the Securities Market

Moderator:

Alexander Afanasiev

Speakers:

Sergey Shvetsov, First Deputy Governor, Bank of Russia

Anna Kuznetsova, Member of the Executive Board, Managing Director of Securities Market, Moscow Exchange

Anton Malkov, Managing Director, Corporate Finance, Sberbank CIB Sberbank

Andrey Kuznetsov, Partner, KPMG

Key conclusions:

Alexander Afanasiev:

- We are discussing this topic because now there are over 3 million market participants with a 100 thousand Russian citizens joining every month. To a large extent, this trust comes from the prices they get. They invest in retirement funds and mutual funds, they trust their savings to wealth managers and follow the return rates. It is important for them to see if the profitability levels are fair.

- We keep talking, albeit in different contexts, about 'fair value, 'fair estimate', 'fair price', and then 'exchange price', 'market price', 'fundamental value' – those are not the same. Presence of market price in itself is not enough to talk about fairness.

- I have questions about IFRC 13. I do not believe it covers 'fair value'. I believe it means the value outcome and should be called a fair evaluation.

- The role of the regulator is similar to that of a doctor who diagnoses and then usually suggests a treatment combined with a lifestyle improvement. Sometimes they may suggest a varying degree of physical activity. And sometimes there are cases when a doctor has to perform a surgery. Yet, as every doctor does, regulator remembers the 'do no harm' oath.

- Reputation is important in our market: it matters who quotes, it matters who analyzes. Our regulator is very well-reputed, the exchange is trusted. However, it is not enough until we have a reputation for the mutual funds and individual market players. I think it is the main problem.

- The exchange is never perfect. It is a complex organization that does not always reflect the truly fair value. Yet, nobody has come up with a better solution so far.

Anton Malkov:

- The problem with the fundamental value lies in its sensitivity to the parameter on which it is based. Fundamental evaluation is important, yet it cannot be used to verify the results based on comparisons and multipliers, as often times it gives funny results that have very little to do with real life.

- Liquidity is a relative matter. It has to be taken in a given time, not as an absolute value. Liquidity attracts investors on one hand, and, naturally, investment banks on the other. Thus, the more investment banks cover a company and provide it with value forecast, the more a company can rely on those forecasts. Yet, the liquidity is primary: when a liquid security appears, it automatically attracts investor's interest.

- Our humble primary profitability indices come from greed on one hand, and on shallowness of the market on the other. Those who buy and define the price are a small circle.

Sergei Shvetsov:

- Price is a utility that balances a number of interests: mutual fund owners, those insured in retirement funds, issuers, and private investors. It matters who is the first to say 'I want to buy or sell'.

- If you read between the lines, IFRC 13 defines the active market as something that averages the prices established by independent professional players. According to IFRC 13, the price of an asset defined by 10 or even 3 small players is not going to be considered relevant.

- IFRC 13 principles fail to answer the question how this value should be calculated to be reflected by accounting. The main problem is that the rules are written for prudent market participants. Unfortunately, we took these same principles that are just principles, and converted them into rules. Then the imitation follows because any publicly announced strict rules can be used head-on to create a price.

- It is a disaster that the involvement in drawing up a price exceeds any acceptable social costs in terms of deviating from fairness and legitimacy. Generally speaking, fair and legitimate are not the same. We should make abusing the rules too expensive.

- We created a special working group with auditors and market participants (Working group on forming and applying the criteria of market activity and liquidity). For months we have been discussing something that seemingly is rather self-explanatory. There are indicators that show when something is off. One of those indices is ISIN support by local analysts. A public bank brings trusts, so does a local one. Free-float is another scenario. If there is no free-float, then no matter what transaction is happening any price can just be slapped on it. There is two or three factor combination, but we can see some alerts when those elements are taken into account.

- An exchange cannot dictate what is considers to be good or suspicious securities. Exchange price is a product of an exchange and not that of a regulator. If we agree that the participants are motivated to use the exchange prices as the best evaluation of a fair value according to the first IFRC 13 level, then those who make the product should be held accountable for it. Otherwise, the exchange gets the commission while the Bank of Russia bears all the responsibility.

- We are against forming a white list. All securities by default belong on a white list. However, if establishing a price per share looks suspicious or the information is incomplete to consider the price fair, then it automatically goes down to the second evaluation level. Formally, every participant of this policy should define this for themselves. However, due to the lapses in information the participant has no idea who is trading, they only see the overall volume. Both the exchange and regulator see deeper and are allowed to do it. So, I believe in order to keep it cheap and simple, the exchange should analyze the cases where pricing alerts come up. These alerts can be mechanical in nature caused by some built-in robotic mechanism. They can come from claims by discontent brokers, who think the price is distorted. They can come from claims by discontent issuers, since the price is not only going upwards. However, an issuer should be unhappy anyway, since it carries reputational risks. Then the decision can be made: we cannot accept the exchange price as the first evaluation level. It goes down to second, third – and so on, depending on circumstances. That is it. It is complex, but we need to go down this path otherwise we will undermine the exchange pricing. Maintaining this trust to exchange price by excluding a couple of, so to speak, bad apples, is the way we will probably want to take.

- Our basic approach is that there will be a set of criteria that will sound the alerts for security prices that act out of the ordinary. They will be evaluated by experts and a blacklist of sorts will be formed for prices that cannot be applied in accounting. Then we monitor and see what happens and if a security can be taken off that list once it behaves normally.

- Do not pour enormous volumes through an anonymous stack, it is only designed for regular trade volumes.

Anna Kuznetsova:

- I see a problem in analytics volumes. Our market is shrinking, yet it is become highly concentrated. High concentration trend is global, markets are filled with HFT, and they trade primarily in the most liquid papers.

- In terms of analytics, I think the analytics are being washed off the market throughout the past 7 years. Last year, Russian market participants provided their customers with ideas only on 78 shares out of the 272 available. It illustrates that in terms of idea coverage we cannot talk about a variety. Moreover, after seeing this tendency we switched over to free-flowing securities in the main index, now it is just 40.

- Speaking of liquidity. We took all of the 272 shares and studied how many of them go through our first filter for potential inclusion into the wide market index with 100 shares. Today it is only 110, five years ago it was 130. The first stack

is 5 securities, with 40% free-float, average daily volume of RUB 4.3 billion, 31 participant, 52 clients. Take the next stack: 13 securities, 573 million daily, 18 participants, 31 thousand clients. Third stack: 20 securities, 115 million on average, just 10 participants and 18 thousand clients. And the last stack with volumes under RUB 3 million with 700,000 daily average, one participant and 1200 clients. In the latter case, the price can be calculated – better some price than none – but we should apply the market criterion to it. Liquidity is in high concentration. When it comes to representative prices, for me it is 70 to 80 securities.

- I see a problem in free-float, because Russian companies and corporators hide free-float over 5%. They disclose 1% to the Bank of Russia, and the latter spreads it on the market. No free-float – no volumes.

- In terms of potential reactions on irregularities during trade the exchange has the following options. First: trading within the corridor, whether it is dynamic or not, it is already set. Second: cool the market if the movement is significant. Markets can be cooled two ways: either discreet auctions or temporary trade halt. If these tools do not help, exchanges sometimes close until the following day. We have this mechanism in place, two series of discreet auctions, three by ten minutes. Another option is addressing the experts to evaluate the irregularities. It happens for a variety of situations, for instance significant deviations are looked at by a special commission created by the SRO. Expert council on listing can discuss a particular company, its evaluation, its relation to free-float, and liquidity of its securities. Finally, there is a way to work with a market-maker. However, it is not totally straightforward, since market-making should be as fair and prudent as all other mechanisms.

- I can say for sure that various approaches should be applied to various instruments. And in the ever-changing world, these approaches should be reviewed every now and again.

- Price centre difference from the exchange price: according to first method gives you 0.1%, second – 0.5%, and in the absence of quotes the exchange can give a price by indication, it is 2%. So, in the end, we have 70% of prices generated by the price centre, and deviation from the closing price is about 1%. I would like to promote this price, we discussed it with the users committee, but they rejected this idea twice already.

Andrey Kuznetsov:

- All participants are aware of IFRC 13, it has been in operation since 2013. It outlines three levels of defining fair value, in other words quoting on the active market, inactive market, and then we have some quoting, yet there are none in the observed data. Labeling them better or worse should be done in regard to a particular asset.

- IFRC 13 sees it in a way that if you have an accountable unit and that unit is liquid, it does not matter what is on your balance sheet, you are not accounting for this volume.

- It would be ideal if a regulator or an exchange would outline the criteria of the first level, in other words when we can simply take the price.

- Generally speaking, there are many examples of criteria usage: spread, trade volume, number of participants, selected period – the criteria set is fairly evident.

- If we look at bonds, MIFIT in their transparent reporting programme listed the criteria: the security should trade twice a day, at least 80% of the 90 days within the selected period and no fewer than EUR 100,000.

- Auditor will always have an opinion, but the participant still comes first.

Alexei Buzdalin:

- NSD price centre is currently the only price centre

that has been accredited by the Bank of Russia for the ruble bond fair price defining method. Now there are other methods in place and hopefully by the end of the year we will start pricing pretty much all the bonds, including Russian-issued Eurobonds.

- We evaluate nearly half the bonds market and what we publish we call fair value. Apart from the estimated fair value, price centre releases the trusted interval for the price and characterizes the trade activity with an appropriate security.

- If there are no transactions with a given security, no quotes, it will be evaluated with a third method. However, if there are one or two transactions and the price jumped up, the high volatility will illustrate that the market is inactive. In actuality, to define the activity, volatility must be taken into account. If it goes up and down with the same number of transactions, if yesterday volatility was low, then with this number of transactions the market may be active. If we say the same scenario, but the volatility has spiked, it shows that these transactions are not enough to estimate the fair value of a security.

- Liquidity and activity are slightly different, we can tell them apart.

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ROUNDTABLE 4.1

The Investment Fund Market: A Reset

Moderator:

Vladimir Potapov, CEO, VTB Capital Investment Management

Speakers:

Anna Kuznetsova, Managing Director, Securities Market, Member of the Management Board, Moscow Exchange

Alexey Timofeev, President, National Association of Securities Market Participants (NAUFOR)

Oleg Yankelev, CEO, FinEx Plus Asset Management; Senior Partner, FinEx Capital Management LLP

Irina Krivosheeva, CEO, Alfa-Capital Management Company

Kirill Pronin, Director, Collective Investments and Trust Management Department, Bank of Russia

Steffen Scheuble, CEO, Solactive German Index Engineering

Roundtable 4.1

The Investment Fund Market: A Reset

The session was devoted to the main areas of development and role of investment funds in Russia with regards to their operation in Russia and globally. The speakers discussed issues related to the operation of retail and exchange-traded investment funds, and open and closed-end mutual funds.

Vladimir Potapov kicked off the session with a question about the main factors contributing to and hindering the development of the investment funds market and gave the floor to Irina Krivosheeva.

Irina Krivosheeva:

Irina Krivosheeva commented onч the falling number of retail investment funds (open-end and interval) from year to year, attributing this trend to industry consolidation and consequent rejection of unnecessary and risky products.

Irina also referred to international experience, drawing the attention of the session participants to the modest success of the investment funds market in Russia (she commented that in the ranking of countries by assets Russia was placed between Slovakia and Romania). She also commented on the growth potential of the Russian market.

Irina said that for the investment funds market to grow all participants in the collective investment market need to be involved in the long-term savings process (including pension savings), and that digitalization is required with the emergence of new sales and communication channels.

Oleg Yankelev referred to Irina's statistics on the investment funds market and emphasized that the large number of funds in Europe is a consequence of successful marketing programmes. He commented that the Russian investment funds market is the largest in Eastern Europe, and in the coming years we can expect an increase in demand for index instruments, whose main drivers are the quality of the proposed financial products and solutions to the problem of misselling.

The next speaker was Anna Kuznetsova, who at the beginning of her speech commented that the ETF market leaders are the USA, Japan and China. She highlighted that in the Russian stock exchange market there are only 104 funds out of 1,400 registered deeds of trust. Anna also drew attention to the fact that in Russia there is a huge gap in the product line and provided the example of a review by JP Morgan regarding the medical industry, in which there are more than 100 different ETFs.

The second gap, according to Anna, is investor demand. The state generously incentivized retail investors to enter the market, as a result of which 100 thousand new clients have been registered per month on the Moscow Exchange in 2019, with more than 25% of these clients being served by brokerage companies and 75% by banks. Given the wide array of instruments, exchange-traded funds are the product most required by retail investors.

Then the floor was given to Alexey Timofeev, who commented on the increased demand for asset management products with the arrival on the market of the conservative investor. Alexey believes that in the future we can expect an increased level of interest in the mutual fund industry, especially in exchange-traded shares.

Kirill Pronin was given the opportunity to respond to questions related to the regulation and growth prospects of retail funds.

Kirill Pronin commented on the growth prospects of retail funds and identified two main trends: fintech and the development of IT. According to Kirill Pronin, the emergence of the marketplace will contribute to the growth of both large and small asset management companies ('asset management companies'). The marketplace is especially important when there is high concentration in the retail funds market (6 to 7 companies have up to 70% of the market), which will allow small companies to maintain their market position.

Kirill Pronin also shared his plans for amending key law 156-FZ. He stated that an agreement has already been reached with market participants on key issues and there is a high probability that the amendments will be approved in the spring of 2020 and the open-end fund market will obtain new growth drivers, such as the ability to pay income

derived from coupons and dividends on bonds and shares included in the fund's assets. In addition, it is planned to significantly reduce the amount of reporting provided by asset management companies and to amend regulations regarding the disclosure of information. It is planned for funds to transition from annual audits to standardized reports.

At the end of his speech, Kirill Pronin emphasized that the Bank of Russia associates the growth of the retail fund market with the growth of funds with passive index strategies that involve the widespread use of exchange-traded funds. The regulator plans to gradually allow the investment of pension reserves and, subsequently, pension savings in this product, which will drive the growth of exchange-traded funds. After Kirill Pronin's speech, Vladimir Potapov asked Alexey Timofeev to talk about the work of NAUFOR and its development plans.

Alexey said that he believes that self-regulatory organizations should focus on finding common solutions for two industries – the individual portfolio management industry and the collective investment industry for asset management companies of mutual and non-state pension funds. Alexey also explained that the 46% growth in the open-end mutual funds industry in 2018 is a reflection of the efforts made to attract retail investors. For the entire collective investment industry to experience positive change, the costs associated with acquiring shares of investment funds need to be reduced and simplified, and the regulatory divergence between the broker industry and collective investment industry needs to be reduced. The session participants then proceeded to discuss competition between asset management companies and the entry of new products to the market.

Irina Krivosheeva commented that as a result of online sales channels, new products are being developed such as exchange-traded mutual funds, which are highly rated by investors due to their liquidity, speed and flexibility.

Oleg Yankelev added that asset management companies are focused on the following three main areas: rebundling existing funds in ETFs, creating smart beta products that are easier to market due to the lack of direct competition with providers of index funds, and creating index products. Regarding competition, Oleg Yankelev added that the products which will compete with collective investments include structured notes, standard investment strategies, and brokerage products implemented under the legislation on investment advisers.

Discussing ETFs and their future prospects, Vladimir Potapov gave the floor to Steffen Scheuble.

Steffen Scheuble noted that at present ETFs are only at the beginning of their development path. In the developed markets of the USA and Europe, passive investments have overtaken active ones. Studies show that in developed markets, 80% of active managers do not meet the benchmarks.

Scheuble emphasized that when electing a strategy, it is very important to give the consumer the choice, and for this reason the need has arisen to develop and tailor strategies to the consumer and to optimize the distribution of products. With regard to the distribution of products, Scheuble believes that it is necessary to compare the income received, from which it is necessary to pay distributor costs, with the sales volume. For distribution to be successful, you need to pay particular attention to this process, and use the available digitalization tools.

Irina Krivosheeva agreed with the argument about developing distribution and said that about 70% of Alfa Capital clients acquire mutual funds online using mobile apps. In addition, it is important to think about the development of multi-channel sales, including through mobile operators and partnership programmes with banks and retailers.

Oleg Yankelev also touched on the topic of robo-advising, arguing that many clients also want to be able to obtain personalized advice from so-called quasi-robo advising.

To wrap up the session, Anna Kuznetsova talked about her plans to implement a marketplace project and spoke about the prevailing problems, including those related to taxation when acquiring mutual investment funds from different assert management companies.

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ROUNDTABLE 4.2

Private Pension Funds: Expanding Investment Opportunities vs. Managing Risk – Earn or Save

Moderator:

Sergei Belyakov, President, Association of Non-State Pension Funds; Chairman of the Management Board, National Association of Investment and Development Agencies; Chairman of the Presidium, The Retail Companies Association, InfraONE Managing Director

Experts:

Arseniy Glazkov, Director, Head of Derivatives Market Department, Moscow Exchange

Andrey Zhurikhin, Director, Risk Management Department, NPF BUDUSHCHEYE

Igor Zelezetsky, Chief Executive Officer, Analytical Credit Rating Agency (ACRA)

Kirill Pronin, Director, Collective Investments and Trust Management Department, Bank of Russia

Roundtable 4.2

Private Pension Funds: Expanding Investment Opportunities vs. Managing Risk – Earn or Save

This session focused on the main areas of development in investment processes for private pension funds (PPF).

Sergei Belyakov outlining the scale of the discussion noted that currently, PPFs manage assets worth RUB 4.172 trillion, which is about 6% of the country's GDP. It is significantly less than of many other countries, where it reaches 100% and more. Thus there is a vast investment growth potential for domestic PPFs.

The private pension funds' investment portfolio structure reveals a mostly conservative investment strategy, with 41% of corporate bonds and 35.7% of government bonds. Pension funds started flowing in the real sector of the economy, leaving the financial industry. At that, there is still a reduction of the stock investments' share. Private pension funds direct resources to less profitable but also less risky securities. It can be attributed to both internal (PPFs are curbing the appetite for risks and reluctant to develop the competencies necessary to invest in riskier but more profitable instruments confidently) and external (the policy of regulating the PPFs'investment operations, the structure and scale of the Russian stock market, which stands in contrast to the European and US markets) factors.

Within this context, the main issues of discussion were identified:

- How effective are PPFs as financial investors with their investment opportunities?
- Is there a balance between PPFs' risks and investment opportunities?
- What are the PPFs' investment interest trends?

According to Andrey Zhurikhin, savings or profit are not the PPFs' objectives. To succeed in their core business operations, i.e. pay pensions, they need a budget generated by a steady return on investment. In this case, the share of high-quality fixed-income tools in the PPFs' investment portfolio should be at about 85%. Then the interest income would cover the volatility of the remaining high-risk instruments. Therefore, a PPF must earn before it can save. Also, Andrey Zhurikhin noted that volatility plays a vital role in the investment process. Just so, 95–98% of return is gained through a competent allocation of assets.

In contrast, manual portfolio management has little impact on investment results. Mr Zhurikhin emphasized that stock investments are mostly for investment funds rather than pension funds. In his opinion, the volume of the Russian stock market and the number of issuers limit sufficient diversification of PPFs'investment portfolios although the legislation yields such opportunity.

During the discussion, Arseniy Glazkov passed his remark on PPFs' interest in stock exchange transactions, the potential for using various tools to diversify the current investment portfolio and eliminating the risks involved.

The Russian PPFs' portfolio features an overwhelming share of about 85% of bonds, the declining proportion of deposits, about 7% of shares and lacking derivatives. Only a few PPFs are hedging either a portfolio share or interest rate risks. If such structure remains, it would be problematic to ensure a return above inflation.

With the current Russian PPFs' asset structure, interest rate hedging is necessary to eliminate the built-in risks. The PPFs can use the following portfolio diversification tools: increase the share of stocks, tap into derivatives as both the replacement of underlying assets and a hedging instrument, ETF, structural bonds, precious metals, securitized assets, real estate. The legislation provides for using these instruments, but PPFs make little use of them. For most of the listed tools, PPFs do not come close to exhausting the quota.

The speaker cited the Norwegian State Pension Fund as an example with 63.49% of stock shares, 30.78% of bonds and 2.82% in real estate. Over time, the fund had demonstrated a steady growth except for 2018 when the fund reported stock losses (about 6%). The fund extensively hedges currency risks and does not hedge stocks at all.

Besides, Arseniy Glazkov emphasized that foreign participants represent almost half of the RTS index open interest, institutional investors in particular.

There are only a few Russian companies in open interest. To this end, it is necessary to determine:

- What is the PPFs' priority, posting a certain level of the annual profit or long-term investment planning?

- What factors would contribute to the PPFs' capital leverage?

- Does the Russian market have enough tools to diversify an investment portfolio and manage its risks?

Further to the discussion, Sergei Belyakov noted that the rating agency, evaluating the quality of the issuer, is a practical investment decision-making indicator for both the Bank of Russia and investors. The moderator asked Igor Zelezetsky to assess the structure of the PPFs'portfolios and whether there are a safety margin and opportunities for PPFs to apply long-term instruments.

According to Igor Zelezetsky, the criteria for a PPF portfolio may include a balance between risk and return on investment, the country's economy benefits from the PPFs' investment operations, and portfolio diversification. The tools must be Russian to optimize a PPFs' investment portfolio in the country's circumstances; they must be transparent and high-quality, with detailed analytics.

Project and structured financing tools meet these criteria and allow investing in the real sector of the economy. They are underdeveloped in Russia, but utilizing them affords a different ratio between risk and investment return through trenching. A team must have specific skills and competencies to work with these tools, despite the fact they will be rated, and a public report will be issued.

Then Sergei Belyakov gave the floor to the Bank of Russia representative, noting that, from the PPFs' perspective the reason for their limited investment operations is the lack of appetite for risk due to the current regulatory policy. Questions were raised regarding the PPFs' investment operations regulatory policy trends.

Kirill Pronin highlighted the fact the PPFs' appetite for risks is not among the Bank of Russia's objectives. It is the funds' competence. In his opinion, the factors limiting the PPFs' freedoms and shaping their attitude towards various investment instruments are:

- Current macroeconomic factors and the Russian market tightness. PPFs must invest in Russia and form long-term investments in the country's economy, while foreign countries allow for international investments anywhere in the world.

- The PPFs appetite for risks. The Bank of Russia conducted a model stress test of major PPF market participants to determine how the portfolio stock shares increase is to affect the financial stability of funds. Several large PPFs did not take up a stock limit, which is the indicator of risk appetite and inner-directed investment policies. Perhaps the current economic situation shapes the PPFs' risk appetite when the difference between the yield on federal loan bonds and corporate securities is insignificant. With comparable profitability, it is easier to invest in securities with the lowest risk.

According to Kirill Pronin, international practices have shown that debt market instruments are the foundation of investment portfolios. The decade long upward trend in equity investments in the European market associates with reduced interest rates. It is possible that if interest rates continue to drop in Russia, then the share of stocks in the structure of PPFs' investment portfolios is to grow.

- PPFs' investment in concession, venture and other projects. The share of high-risk assets in the investment portfolio is 3.4%, which is below the established 10% threshold. PPFs do not enter such projects, probably due to their non-public nature. Besides, with few exceptions, PPFs lack the necessary competencies to invest in such projects. PPFs have limited interest in such projects, just as it is in European countries, because of an insufficient number of large-scale projects to enter. It does not make sense to participate in small projects at high costs and a long implementation period. As a result, it is necessary to build an infrastructure that would make projects more transparent with publicly available information about risks, stages of implementation, success rate to make them attractive for all the collective investment market

participants.

Concluding the discussion, Sergei Belyakov noted that the Russian economy is crunched for long-term investments. Limited and inefficient budget investments compensate for the lack of funds. Domestic legislation calls for improvements on pension market operations to motivate PPFs to invest in long-term instruments. Global best practices show that pension funds invest in high-performing tools worldwide while honouring the regulatory policies of their home countries. Almost always, there is an opportunity to purchase foreign securities not traded in the primary market. Perhaps it is necessary to lift restrictions on investing in the Russian economy only. The Russian market has a limited number of quality issuers, market participants and the amount of finance, as well as the quality of investors they turn for money.

In turn, Igor Zelezetsky, citing the research emphasized that the potential for investing in Russian well-structured securities has not been exhausted yet.

Experts answered questions regarding the principles of regulatory mechanisms for PPFs operations, the introduction of legal requirements for public disclosure of information on the structure of the PPFs investment portfolio, the fiduciary responsibility and the feasibility of the Bank of Russia's expert judgement on investing in specific instruments.

Kirill Pronin noted the industry itself partially fuels the introduction of some changes to the PPFs'regulatory policy. PPFs portfolio diversification requirements shall not be lifted as an excessive focus of certain assets entails high risks. In contrast with Russian pension funds, foreign funds invest in assets all over the world, which yields diversified portfolios.

Legal requirements to disclose information on the structure of the investment portfolio are being prepared for a phased introduction. Initially, class information shall be revealed, proceeding on to every investment instrument.

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ROUNDTABLE 4.3

The Special Depository: Keeping in Step with the Times; What Does an Investor Pay for?

Moderator:

Catherine Golub, Project Coordinator, Forum Analytical Centre

Speakers:

Michael Boboshko, Head, NAIMA Hedge Fund Committee

Jean-Pierre Gomez, Head of Regulatory & Public Affairs, Société Générale Securities Services in Luxembourg

Tatiana Esaulkova, General Director, SDK Garant

Vladimir Kirillov, CEO, TKB Investment Partners

Pavel Prass, Managing Director, INFINITUM Asset Services

Roundtable 4.3

The Special Depository: Keeping in Step with the Times; What Does an Investor Pay for?

This session focused on the main areas of growth for specialized depositories, as well as the current technological infrastructure needs as dictated by the market. The speakers discussed new functions that specialized depositories may potentially provide, activities of fund administrators, and the question of what exactly an investor pays for.

Catherine Golub, Project Coordinator, Forum Analytical Centre:

Catherine Golub emphasized that the announcement that the Bank of Russia was designing the Advisory Report on changing regulation in this area made the activities of specialized depositaries a pressing issue.

In this regard, the main questions were determined:

- What is the role of specialized depositories?
- What is going on with specialized depositories? How is the regulation changing?
- What does an investor pay for?

Catherine Golub asked Pavel Prass, a representative of a specialized depository, to point out the specifics of the activities of this institution in Russia.

Pavel Prass noted that the specialized depository, as an institution, was established, in the first place, as an infrastructure organization, as an institution for accounting and control. This role has been fulfilled until now. Preferably, this infrastructure should be useful, it should contribute to market development, unload market participants, and provide services. Due to existing regulatory requirements, the functions of various market players overlap. Now, there is a situation when business processes have become too complex and the costs – too high, therefore, efficient assignment of roles to collective investment market players is required.

As for now, the investor pays for complicated paperwork and accounting that are mostly aimed at meeting the needs of the Bank of Russia. The costs of these processes should be cut. The investors do not understand what portion of their expenses the costs of accounting and control account for. That is why it is hard to offer the investor a product that would interest them as profitable. The main thing is potential for development. Pavel Prass suggested an option of establishing centres of competence and develop specialisation on the collective investment market.

After that, Catherine Golub gave the floor to Michael Boboshko (representative of the Apex Fund Services Administrator), saying that there was no internationally recognized institution of specialized depository, but there was the institute of the Fund Administrator.

Michael Boboshko commented that there was a Group of Five of fund administrators in the West, and APEX was number 6. Administrators do not provide depositary services. It is important to know that alternative investments that require more complex expertise are not as common in Russia. APEX works with alternative investments: direct investment hedge funds, venture funds, arts wine, etc.

Traditionally, the administrator's function is accounting, financial reporting to the investor. Alternative investments must be clearly distinguished from the traditional. As for outsourcing, almost all functions in the direct investment area can be outsourced. It is important to understand that in case of alternative investment it is about qualified investors rather than retail. According to Michael Boboshko, qualified investors do not require strict regulations – they understand the risks they undertake.

Speaking of relevant trends, the APEX representative noted that the past five or six years had seen a huge market transformation: a lot of large banks got rid of their units involved in this area – they sold the units responsible for alternative investments. For example, Deutsche Bank retained its traditional investments business, but sold its alternative investments unit to the APEX Administrator.

To continue the discussion of international experience, Catherine Golub asked Jean-Pierre Gomez about the functions of a depositary within a large group.

According to Jean-Pierre Gomez, understanding the

role of depositaries is impossible without knowing the background. The first EU directive of 1985 was on investments in blue chips. It suggested that a fund bought in one country can be sold in another country. This feature of the business had to be taken into account somehow, therefore, a requirement on the depositary came in.

The 2008 financial crisis made the EU take a few measures. The surveys on investors' confidence in banks were conducted 3 years before and after the 2008 financial crisis. According to the results, the investors' confidence dramatically decreased after the crisis as compared to before the crisis (53% were confident in banks before the crisis, and only 21% – after). Shadow banking (hedge funds and banks that gave out loans secured by stocks) was said to have caused crisis, which lead to new directives at the EU level. A new mindset was suggested in regard to alternative investments: if you want to do business in Europe, you have to find a manager in Europe and incorporate a fund in Europe. The position of the UK was different: how can you be responsible for investments if you do not see them? Alternative investment objects (e.g., paintings) that are somewhere in other jurisdictions are very hard to be evaluated. The directive, however, passed.

In Europe, the depositary, doesn't have to be a bank, however, in 95% of the cases they are banks. If you want to become a depositary, you must be a bank. In Luxembourg and England, it is different. Supposedly, there will be ever fewer banks that provide depositary services.

Answering the question about 'challenges and regulatory issues in European regulations' Jean-Pierre Gomez said that in the current circumstances the regulations are required but they should be reasonable. If there is 2,000 pages of documentation, it can hardly be efficient. "The major challenge is HOW you respond."

Vladimir Kirillov, as a representative of the specialized depository services consumer, noted that while preparing the Advisory Report, the Bank of Russia was carrying out an extensive discussion that allowed collecting opinions of a large number of participants. The changes that will be implemented may present new growth opportunities to the market. Vladimir Kirillov emphasized that during the massive digitalization of all workflows, society needed standardization of operations to enhance processing of various transactions. He thinks, the accounting process must be reconsidered. Thus, the unit cost, the cost of net assets of the fund is based on stock accounting of a large number of market participants, that is the four-eyes principle is used. All this makes an open-end fund a very complicated instrument for investors. Money transfers and withdrawals take days, which prevents a massive flow of investors to the open-end fund market. The Advisory Report may include the right of professional participants to make their own decisions on how to the accounting and whether to hand over these functions to specialized depositories.

Tatiana Esaulkova, in her turn, focused on the control function that makes a specialized depository different from a regular depository. This function is meant for the end user (shareholder, depositor, insured individual, etc.) rather than for the client. There are two types of control in specialized depositories: post-control (calculation of net asset value based on the results of the transaction day) and control of the structure and the content of assets. Every day, the reports are sent to the Bank of Russia where they undergo comparative checks with management companies.

Tatiana Esaulkova also talked about challenges arising from preliminary control – control during transactions. As a specialized depository agrees on a transaction, it assumes joint responsibility shared 50/50 with the management company. According to the speaker, the specialized depository does not have to be held responsible for the economic essence of transactions – it is a prerogative of the management company. Besides, the specialized depository that accepts the valuator's report shouldn't question it. Otherwise, the specialized depository develops serious financial risks that slow down its operations.

Thus, based on the results of the discussion, a conclusion was made that there is a need in changing the functions of specialized depositories, which was confirmed by the vote held during the session (85% of for votes).

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ROUNDTABLE 4.4

Private Pension Funds: Competition and Factors Hindering Business Development

Moderator:

Yury Voronin, Chief Financial Commissioner for Consumer Rights, Financial Ombudsman Administration

Speakers:

Sergey Belyakov, President, Association of Non-State Pension Funds; Chairman of the Presidium, Retail Companies Association; Chairman of the Management Board, National Association of Investment and Development Agencies; Managing Director, InfraONE

Viktor Kitaev, President, Atomgarant Private Pension Fund

Galina Morozova, Deputy General Director, Region Investment Company

Olga Sergeeva, Head, Financial Markets Control Department, Federal Antimonopoly Service (FAS Russia)

Vladimir Chistyukhin, Deputy Governor, Bank of Russia

Roundtable 4.4

Private Pension Funds: Competition and Factors Hindering Business Development

The session discussed issues concerning the development of competition in the market of non-state pension funds (NSPFs).

While framing the problem, Yury Voronin noted that there are two reasons for discussing competition in the NSPF market and its impact on the development of non-state pension provisions (NSPP): competition between different NSPFs and competition between NSPFs with other financial institutions. Voronin said there was little reason to discuss competition between NSPFs in terms of compulsory pension insurance (CPI), because, under present conditions, NSPFs have no reason to compete in terms of CPIs, since this activity is regulated by law. The CPI system ceased to exist as an environment for the formation of pension savings but continues to have a formal function. It is expected that it will be relaunched in the NSPP regime, which should occur when the individual pension capital (IPC) law is ratified. However, since the law has yet to be enacted, in the near future pension savings can only be created within the framework of NSPPs. In connection with this, the participants were asked to discuss the development of the competitive environment of NSPFs within the framework of NSPPs and answer the question of whether NSPFs can compete with each other, for instance, via NSPP contracts that offer clients different age groups of assigning non-state pensions; via specific periods in which non-state pensions will be assigned (for life, for a specific period, or a single payment); via specific investment conditions, given that the investment is managed by a trust company (TCs); or via a variable date of fixed profitability.

According to Sergey Belyakov, NSPFs have a lower level of competition compared with the banking and insurance markets. This is due to the following factors:

- the culture of using specific NSPP products is weak;
- the NSPF market lacks competition for clients in the form of NSPP contracts. Most competition is focused on how to use the existing client base already created in the CPI system.
- the low incomes of citizens prevent the development of a culture oriented toward future pensions, toward postponing payments in favor of long-term consumption. The population lacks the resources for which NSPFs would compete.

To develop a competitive environment, the following is necessary:

- raise incomes for citizens and develop a system of all financial instruments, thereby creating conditions for competition;
- improve the regulation of NSPFs;
- develop the investment instruments of NSPFs to ensure their ability to compete for clients by way of profitability.

Viktor Kitaev noted that the top 10 NSPFs provide approximately 90% of all market revenue. To develop competition between NSPFs, it is necessary to clearly define the responsibility of all participants and ensure that the market is open and transparent, which would allow NSPFs to compete via different contract terms, infrastructure, profitability, and additional services.

Galina Morozova emphasized that the market is not saturated to the point where NSPFs would compete among themselves for customers. It is necessary to make NSPP products more attractive and flexible. This can be facilitated by increasing the amount of social tax deductions and eliminating the tax on payments used to finance pensions for close relatives. To increase the flexibility of NSPF products, it is advisable to move away from licensing NSPFs as a legal entity and instead license the type of activity. NSPF activity should be more inclusive, which would create the opportunity to provide additional services and to improve the quality of pension products. In addition, the postulates of determining the obligations of investment activity should be reformed, because NSPFs cannot offer different investment strategies for different age groups, since all investment strategies should end with a positive return, and the lack of an actuarial deficit.

According to Vladimir Chistyukhin, NSPFs can compete by providing additional services that are

maintained throughout the client's financial life. The NSPFs that maintain an online relationship with the client will have the greatest success, even though the retirement age may be in the distant future. In addition, the diversity of pension products should increase both in terms of duration and exposure to risk. It is important to recognize that NSPFs will eventually need to profile the risk of their clients and to introduce specialized investment consulting, which will make NSPFs more similar to trust management products.

With regard to investment conditions, the Bank of Russia's position is that it will be possible to introduce the free investment of NSPFs if the following conditions are met: NSPFs undergo stress testing to ensure solvency over a certain period of time, and NSPFs have a developed risk management system.

Also, if the concept of individual pension capital is implemented in the market, the created conditions will encourage NSPFs to compete for employers.

Yury Voronin noted that the NSPFs in the market vary according to size, participation of the government in the capital of the fund, and the presence of agents representing monopoly networks of population coverage. With this in mind, he asked the experts to assess the market trend that NSPFs tend to grow in size and to consider the market prospects of small NSPFs.

Sergey Belyakov emphasized that a high level of concentration is characteristic of all segments of the financial market, including the pension market. There are significant limitations surrounding the opportunities to diversify the product and compete via services, when everything is concentrated around several large NSPFs. However, one must understand that large NSPFs can offer a qualitatively different level of services due to the intrinsic advantages of monopolies. The regulator, in turn, restrains the monopoly advantage by establishing requirements that are mandatory for all funds. In Russia, however, there is a place for small regional NSPFs, which should be subject to proportional regulation.

Olga Sergeeva noted that three key players represent 72.8% of the market and this requires the Federal Antimonopoly Service (FAS) to monitor the processes of concentration. If significant transactions are performed in the market, they will be carefully monitored and analyzed in terms of restricting competition. A reduction in the number of players is a sign of limited competition, but a dominant position alone does not constitute a violation of the law. It is important that dominant NSPFs do not violate the law.

Viktor Kitaev acknowledged that large funds have an advantage due to the high-quality of their services, IT programmes, qualified personnel, and population coverage through wide affiliated networks. At the same time, small NSPFs can occupy niche markets, offering products and services that accommodate certain territorial features.

According to Galina Morozova, the growing size of NSPFs is a natural process. Small NSPFs can compete only if their overall strategy is to grow larger. Otherwise, they will lose out both technically and economically. Nevertheless, the reduction in the number of funds is cause for concern.

Vladimir Chistyukhin noted that the larger the NSPF, the more data it has, which allows it to improve its investment model. The smaller the NSPF, the higher the impact of incorrect investment decisions. NSPFs are classified as systemically important financial institutions, which necessitates regulating and restricting their growth. The more assets carried by an NSPF, the more it should be regulated. In his opinion, in the medium term, NSPFs working with compulsory pension insurance can join in the competition in the NSPP market. For NSPFs market still has room for more NSPP participants (the workforce has approximately 75 million people, while the number of participants in the NSPP system is six million, and the number of insured is 37 million).

As part of the discussion, Yury Voronin invited the experts to assess how the competitiveness of NSPFs is affected by the legal restrictions on asset allocation. Is it possible that increasing the risk of the portfolio will become a competitive advantage

for NSPFs? What is the main priority for NSPFs: ensuring long-term investment in the economy or maintaining the highest return for the client?

Sergey Belyakov said that in his opinion ensuring profitability for customers and the formation of long-term investment in the Russian economy are not factors in the competitive behavior of NSPFs. The economy has limited demand for pension market resources. The structure of the market is such that there is a limited number of issuers that meet the Bank of Russia's requirements and in which NSPFs can invest. Therefore, it is necessary to allow NSPFs to invest in the securities of foreign issuers that are not even traded on the Russian market.

Viktor Kitaev noted that profitability is a competing factor. Therefore, the investment policy statement of NSPFs is basically conservative and is designed to systematically save and earn. In accordance with the legislation, NSPFs invest through TCs; for these funds, a conservative portfolio that provides stable profits is more important.

Galina Morozova suggested that the investment strategy of NSPFs will become a competing factor only in the absence of restrictions on the composition and structure of assets and the effective operation of the stress testing mechanism of NSPFs. The stress test should be an indicator that regulates the risk propensity of NSPFs and reflects their financial stability as part of their obligations and investment strategies. Increasing the risk of NSPF portfolios will contribute to higher competition between NSPFs, but this requires adapting the legislation to the new generation. The investment strategy of the NSPF should be consistent with the structure of the fund's liabilities.

Vladimir Chistyukhin commented that the longer the investment horizon, the more profitability becomes a factor. NSPFs have the opportunity to invest in long-term projects. The withdrawal of NSPFs from the market can have serious social consequences and, therefore, it is difficult to not restrict their activities.

Next, the experts discussed the competition of NSPFs with other financial institutions. Yury Voronin raised the topic of the competition of NSPFs with TCs, insurance companies (ICs), and the banks. He asked the speakers to consider whether NSPFs and ICs can become equal players in the pension market and whether it is advisable to give NSPFs the opportunity to invest independently.

Sergey Belyakov noted that the adoption of the law on management fees made the interaction of NSPFs and TCs more transparent, reducing the cost of TC services, which in general has had a positive effect on the industry and its customers. With regard to the activities of ICs in the pension market, NSPFs are not ready to unify licenses allowing them to provide both pension products and insurance products.

According to Viktor Kitaev, the relationship between NSPFs and the TCs is not competitive, but dictated by economic feasibility. An NSPF does not need to create its own unit with IT support and specialists; however, it has a fiduciary responsibility and the desire to shift some of its functions to the TCs, which now have a wide range of powers. If TCs are allowed to enter the pension market, it should be on equal terms, which means that NSPFs should have the right to sell insurance products. Ultimately, this can lead to an increase in the number of market entities. If we are talking about new NSPP products for the younger generation, then NSPFs will compete more with banks, mutual funds, and individual investment accounts.

Galina Morozova said that compared with NSPFs, TCs are more competitive, because they can offer additional services and benefits. In addition, the long-term products of NSPFs do not compete with short-term bank deposits. It is necessary to balance relations between NSPFs and other financial institutions allowing the NSPFs in these partnerships to offer additional services to their clients.

Vladimir Chistyukhin said that the TCs, although not mandatory, should be able to work in the pension market and offer their services while competing for access to NSPFs. IC products are the most similar to pension products (e.g. they use similar actuarial calculations in determining liabilities). Therefore, if legislative steps are taken to combine licenses, then

NSPFs should also be given the right to manage insurance risks.

In conclusion, the participants summed up the session and formulated its main points:

1. In the pension market, there is opportunity for developing normal market competition for NSPFs.

2. Both employers and the government, as well as citizens, could be the drivers of this competitive environment.

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ROUNDTABLE 4.5

Growth of Non-State Pensions

Moderator:

Konstantin Ugryumov, President of the National Association of Non-State Pension Funds

Experts:

Larisa Gorchakovskaya, General Director, VTB Pension Fund

Anatoly Milyukov, General Director, Blagosostoyanie Pension Fund

Dmitry Scrivanov, Deputy, State Duma of the Federal Assembly of the Russian Federation, Head of the Working Group on legislative support of the Pension System and Investment Pension Savings (non-state pension funds)

Anton Shpilev, First Deputy General Director, NPF GAZFOND Pensionnyye Nakolpeniya

Yury Voronin, Chief Financial Commissioner for Consumer Rights, Financial Ombudsman Administration

Speakers:

Aleksey Okhlopkov, Deputy Chairman of the Board of Directors, Khanty-Mansiysk Non-State Pension Fund JSC

Alexander Zaretskiy, General Director, Non-State Pension Fund of Sberbank JSC

Roundtable 4.5

Growth of Non-State Pensions

The session discussed the practical issues of non-state pension funds (NSPFs) within the framework of non-state pension provisions (NSPPs). While considering the practical experience of NSPFs in promoting individual and corporate NSPP programmes, the participants assessed the trends in the NSPP market and identified a number of key problems in its development in Russia.

Stagnation of the NSPP market, including its corporate segment.

According to Konstantin Ugryumov, the stagnation of the NSPP market is associated with the active work of NPSFs, primarily in the compulsory pension insurance (CPI) market, where NPSFs have insured over 30 million people.

Anton Shpilev noted that the NSPP market provides no opportunities for substantial growth of the corporate segment. Most large companies already have corporate pension plans. This is also true for Western companies operating in Russia, which "must have" corporate pension plans. Small and medium-sized businesses do not actively use the NSPP as an instrument of long-term motivation, since they consider it uncertain and impractical. This is occurring against the background of reduced bank rates on deposits, a fall in public interest in life insurance (due to unsatisfactory profitability), and the popularization of interest-bearing products.

At the same time, the activities of NSPFs within the framework of compulsory pension insurance is unpromising, because pension accumulations are not replenished, the awareness of clients is low, and launching a programme for individual pension capital has been postponed.

Low living standards and purchasing power of the population.

Yury Voronin emphasized that this is a national problem that is being addressed by national projects to overcome poverty. As the purchasing power of the population changes, all products offered on the financial market will improve.

NSPP products are very difficult to promote, because people tend to be shortsighted. The demand for NSPP products is determined by the fact that the state pension system cannot offer high-quality pensions. The demand for NSPP products is low, because most people rely on state pensions with the understanding that a larger pension is beyond their level of income. Only a minority of individuals (earning high and middle incomes) demands high compensation after retirement. The NSPPs system should meet this demand.

Lack of public confidence in the activities of NSPFs.

Dmitry Scrivanov believes the main problem for developing the NSPP market is the lack of popular initiative. Citizens see little benefit and remain unconvinced by the products offered by NSPFs.

A high level of concentration in the NSPP market.

Larisa Gorchakovskaya emphasized that three key players represent 69.2% of the pension reserves of the NSPP system. At the same time, pension reserves for corporate programmes exceed the reserves of individual pension plans by 7.5 times.

Experts and discussion participants see the development of non-state pension provisions within the following framework:

- improving tax incentives for participation in the NSPP system;

According to Yury Voronin, the growth of the NPSF market can be accelerated by providing individuals with substantial tax benefits, which will be more effective if they are provided not in the form of exemptions from personal income tax, but as a person's pension contribution to the NSPP on account of the payment of their personal income tax.

Anton Shpilev added that increasing the tax deduction rate could increase the attractiveness of NSPP products. The existing tax deduction of RUB 120 thousand does not provide substantial pension reserves to citizens who are actively saving during pre-retirement.

Alexander Zaretskiy, General Director of NPSF Sberbank, expressed the view that the development of the NSPP market can be positively affected by an increase in the size of social tax deductions to the size of investment tax deduction, as well as the deduction of pension contributions as an independent type of tax deduction.

Larisa Gorchakovskaya and Dmitry Scrivanov said the tax incentive system can be supplemented

for individuals:

- exempt pensions from personal income taxes regardless of their source of financing;

- in cases of emergency (in exceptional cases), permit individuals to withdraw a surrender value, while allowing the participant and depositor to avoid paying taxes on this amount;

for legal entities:

- increase the amount of pension contributions that can be included in the employer's labour costs;

- make the employer's pension contributions to former employees exempt from income tax.

- develop and promote new individual pension plans (IPPs) for consumers with high and middle incomes.

According to Anton Shpilev, the market has the potential to develop individual pension plans with the advantages of digital technology. The potential size of the NSPP market can be an annual RUB 150–200 billion with a potential client base of 15 million people with incomes over RUB 60 thousand.

Currently, only five of the 49 NSPFs operating in the market are developing new services and IPPs, and only two NSPFs are actively promoting IPPs, which they sell via networks of parent and partner banks, as well as their own offices. These funds created technological solutions for concluding and supporting contracts. They perform marketing activities (including online) and develop payment services and IPP replenishment methods, including through loyalty programmes with partner banks. A system of personal accounts is being formed and mobile applications are being launched.

- increase the working population's trust in NSPFs;

Dmitry Scrivanov said that it is necessary to change the belief that "NSPFs are for the elderly" to "NSPF are the mechanisms for managing the investment capital of life." To this end, the pension funds already accumulated should be transferred to private citizens, which could contribute to the funds informed and effective management.

- ensuring the safety of NSPP resources;

According to Larisa Gorchakovskaya, the creation of a state programme to protect the rights of depositors and participants in NSPPs (analogous with the system protecting the rights of insured persons participating in the compulsory pension insurance system) will increase the attractiveness of the NSPP market. Such a system can be created on the basis of the Deposit Insurance Agency.

- expanding the licensing of NSPFs;

Anton Shpilev suggested that NSPPs could become the basis for the cross-selling of other financial products. For this, NSPFs need to make their activity more inclusive and make joint product combinations for clients or use an agent scheme.

Larisa Gorchakovskaya noted that NSPFs should increase their activity by working with accident and health insurance and providing voluntary medical insurance policies to participants. NSPFs could participate in special federal pension programmes for certain categories of employees, considering the unique characteristics of different regions and industries.

- increase the financial literacy of the population;

Dmitry Scrivanov noted that a monetary policy report produced by the Bank of Russia provided information on conducting 2,000 financial literacy classes, which could increase the initiative of citizens to participate in the pension market. However, according to Larisa Gorchakovskaya, this is not enough. Both employers and NSPFs must be involved in this issue, while incorporating the best world practices.

Dmitry Scrivanov highlighted the positive aspects of newly implemented legislation concerning fiduciary responsibilities, stress testing, management fees, and the transition from NSPFs to NSPPs. He made the following prescriptions for the development of the NSPP market:

- eliminate the penalties' associated with transferring from NSPFs;

- reduce the age limit for retirement benefits to 55/60 years;

- introduce electronic services for managing pension savings and fund investing;

- increase the statute of limitations for violating legislation concerning NSPFs;

- provide the Deposit Insurance Agency with access to a unified registry of vital records in the event an NSPF files for bankruptcy;

- reduce the management fees resulting from negative profitability.

Anton Shpilev added the need to reduce fees to a level commensurate with social payments, taxes, and fines.

According to Alexander Zaretskiy, an NSPP is a complex product that is difficult to sell. It is necessary to ensure that NSPP products have margins that supports retail distribution, for instance, by introducing management fees for NSPPs. This proposal was actively supported by Larisa Gorchakovskaya.

Aleksey Okhlopkov noted that the cost of attracting customers is lower for NSPFs compared to insurance companies. If insurance companies are allowed to work in the NSPP market, the conditions for market access should be equal.

Anatoly Milyukov also stressed the difficulties associated with developing NSPP programmes. The practical experience of the Blagosostoyanie Non-State Pension Fund indicates that participation in NSPP programmes provides a general replacement rate for lost labour income during retirement at 41–42%. According to official data, in order to raise the replacement rate to 50%, an employee needs to allocate 5% of their salary to the NSPP system for 40 years, which is a tremendous burden. It is necessary to gradually introduce parity participation in NSPP programmes for employees, employers, and the government.

In light of the absence of effective regulation, participants and experts noted the difficulty of assessing the impact that introducing individual pension capital (IPC) would have on the NSPP market. According to Yury Voronin, IPC is a kind of NSPP. It is different from the classic NSPP, when the contract is concluded by a signatory, consists of a service form of inclusion in the programme and in the universality of the programme, regardless of the place of work, while the classic NSPP takes into account the specific characteristics of corporations.

According to Anton Shpilev, the idea of IPCs will be effective if all the elements of foreign practice are taken into account, including the introduction of a system that has automatic opting in. The foreign practice of such programmes shows the presence of various types of services, which are characterized by automatic opting in (with the option of leaving the pension plan at any time), co-financing, benefits, various types of incentives to encourage the activity of citizens, the option of partially using pension funds, and the choice of investment strategy. Together, all this allows a large number of citizens to participate in these pension plans.

Yury Voronin added that when a competent NSPF policy is implemented, a socially significant element of the development and growth of NSPPs could be the inclusion into NSPP programmes a category of citizens who have a regular official job, but in addition provide a variety of services that go unrecorded. This category of workers is not currently included in the welfare system.

Konstantin Ugryumov ended the session by summarizing its main points and formulating the following conclusions:

1. The main driver of growth in the NSPP market is the market of individual pension plans (IPPs), which, on the one hand, requires increasing trust in the NSPF system among the younger generation, and, on the other hand, developing new pension programmes that account for digital technologies.

2. The growth of the corporate segment of NSPPs is significantly limited. Enterprises seriously lack the ability to purchase NSPP products.

3. NSPFs expect that the Bank of Russia will soon give greater attention to NSPP products.

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ROUNDTABLE 4.6

Risk-Management Tools in Collective Investments: The Abilities of Managers and Expectations of Investors

Moderator:

Vadim Khrapun, Partner, PwCoopers Consulting

Speakers:

Vitaliy Balanovich, Managing Director, TRINFICO Investment Group

Edward Golosov, Head, BCS Capital, Board Member, Deputy President – Chairman of the Board for Investment and Insurance Business, FG BCS

Evgeny Postnikov, Head of the Real Estate and Structured Funds Department, VTB Capital Investment Management

Ekaterina Chernykh, Deputy CEO, Managing Director, Sberbank Asset Management

Roundtable 4.6

Risk-Management Tools in Collective Investments: The Abilities of Managers and Expectations of Investors

The session played host to a discussion on the changes to client preferences in respect of the collective investment market in the closed-end investment funds segment ('closed-end investment funds'), which have occurred since 2014. The session participants touched upon issues such as investor willingness to take risky strategies in closed-end investment funds, enabling funds to act as a universal platform for project financing, and the opportunities for closed-end investment funds in development projects.

Vadim Khrapun:

At the beginning of the session Vadim Khrapun commented on the rich history of trust management in Russia, including closed-end investment funds. Noting that many legislative changes have been introduced since closed-end investment funds were established, Vadim Khrapun drew the attention of session participants to the new economic environment and respective economic challenges, and in doing so focused in on the importance of this form of trust management for boosting investment activity.

Vadim Khrapun kicked off the speaker presentations with the question: "For what reasons could closed-end investment funds not become a widely-used mass product?" and gave the floor to Edward Golosov.

Edward Golosov:

At the beginning of his speech, Edward Golosov commented on the need to expand the range of financial instruments for investors and at the same time drew attention to how certain products are not widely-used, and in particular closed-end investment funds. One of the reasons, in his opinion, is the level of investor training. A closed-end investment fund is a financial product that does not guarantee a certain level of profitability and is not liquid, and also involves the long-term investment of funds.

Talking about combined closed-end investment funds, which, in addition to real estate, may include precious metals, securities and other assets, Edward emphasized that such a financial product will most likely not become widely-used, since by its nature it is more appealing to wealthy clients.

Vadim Khrapun then took up the point of the financing of construction and the possible role of closed-end investment funds in this segment.

Evgeny Postnikov:

Kicking off his speech, Evgeny Postnikov shared his experience in managing residential real estate funds, in which have more than RUB 5 billion have been raised, noting that they, in his opinion, are only at the beginning of their journey. Evgeny shared his opinion regarding changes in attitudes towards this financial product both on the part of investors and sales managers and shared his experience in promoting closed-end investment funds.

In his speech, Evgeny emphasized that the remote customer identification procedure can help attract more customers.

According to Evgeny, the factors limiting the growth of closed-end investment funds include the rather cautious attitude of investors to assets such as real estate, which, by the way, can be mitigated if the management company ('asset management company') undertakes certain actions: the ability to repurchase rights under a trust agreement, the existence of an independent guarantee from beneficiaries or a parent company, the ability to obtain excess returns and others.

In conclusion, Evgeny mentioned the escrow accounts that became operative on 1 July 2019, after which Ekaterina Chernykh made her speech.

Ekaterina Chernykh:

Ekaterina Chernykh noted that first of all it is necessary to understand what instrument we want to develop, what we are selling and how investors perceive the product. Ekaterina also drew the attention of the session participants to the large share of funds in the name of one shareholder. She believes that closed-end investment funds are not only a unique tool for implementing all kinds of investment projects, but also for fostering joint

collaboration in projects, citing the project of the TRINFICO group involving collaboration with PIK Group and JSC NPF BLAGOSOSTOYANIE.

During her speech, she commented on one of the most anticipated legislative amendments on the market, which will allow qualified investors to withdraw from funds with property, and in doing so drive growth in the hereditary funds market.

To wrap up her speech, Ekaterina spoke about the experience of asset management companies in Germany, emphasizing its special importance in the growth of the funds market in the regions.

Vitaliy Balanovich:

Vitaliy Balanovich began his speech with a description of two large business lines in TRINFICO Group – real estate and the acquisition of overdue consumer loans and commented on the risks inherent in these areas. He also compared the sales strategy of the TRINFICO Group funds with the large ecosystems of Sberbank and VTB.

Vitaliy noted that, in his opinion, closed-end investment funds are not a suitable instrument for retail investors, and for large investors they often even lose out to structured bonds due to the fact that investors do not need to pay personal income tax on the coupon of such debt instruments. Edward Golosov added that despite structural bonds currently being available only to qualified investors, he does not exclude the possibility that in the future this type of financial instrument will become available to unqualified investors.

Vitaliy also agreed with the position of the regulator that an unqualified investor should not be able to assume a high level of risk.

A key issue discussed at the session was the possibility and necessity of outsourcing certain asset management company competencies. Most experts agreed that if an asset management company is not able to correctly and adequately analyze an investment instrument or if it has insufficient expertise in collaborating with contractors, then this will lead to the transfer of significant risks to their clients.

Following the speech by Vitaliy Balanovich, Evgeny Postnikov spoke about the new instrument of VTB Capital Asset Management – the pre-IP fund, with the primary objective of investing in companies that intend to make an initial public offering within 2–3 years.

Ekaterina Chernykh then commented on the prospects for the overdue consumer loans fund segment.

Wrapping up the session, Vadim Khrapun mentioned that historically real estate was bundled into funds primarily in order to obtain tax breaks and stated that we now need to look for new sources, emphasizing the importance of mutual funds that include non-real estate assets. Vadim also noted that in order for an asset management fund to obtain high returns, it needs to develop its expertise.

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ROUNDTABLE 5.1:

Credit Cooperation: Pathways to Gaining Trust and Raising Popularity

Moderator:

Galina Sharybkina, Advisor to the Director, Microfinance Market Department, Bank of Russia

Speakers:

Igor Baginsky, Deputy Director, Department of Economics and Public Support for Agribusiness, Ministry of Agriculture of the Russian Federation

Tatiana Ivashkina, Chief Executive Officer, League of Credit Unions – National Union of Credit Cooperatives and Their Associations

Yury Marinichev, Member of the Board, Association of Credit Consumer Cooperatives 'Gardarika'

Ulyana Mikhailova, Chairman, Pskov Regional Union of Trade Union Organizations 'Pskov Regional Council of Trade Unions'

Galina Sharybkina:

In her opening remarks, the session moderator highlighted the fact that the regulating bodies consider credit cooperation market as a unique part of the country's financial system, since credit unions, being financial organizations that they are, also serve as mutual financial assistance institutions, and, as such, have the potential to tackle societal issue and ensure access to financial services for those citizens who, for one reason or another, are not customers of banks or micro finance organizations.

The Bank of Russia makes notice of this segment: the 'Main directions of the development of the financial market of the Russian Federation for the period 2019–2021' includes a number of measures aimed at strengthening the credit unions' market. These measures include enhancing credit unions' operational stability, accounting for a wider scope of risk factors, upholding the cooperative community principles, increasing credit union members' responsibility, as well as introducing a special procedure of granting credit unions access to the financial market. Implementation of these measures is expected to help minimize unfair practices in the credit union market, increase shareholders protection levels, encourage their larger involvement in the union's activities, and optimize the regulatory burden on market participants.

As of early July 2019, the State Register of Credit Unions lists 2,114 unions, with a total of approximately 860 thousand shareholders. According to the results of the first quarter, the portfolio of loans provided by credit unions amounted to 53 billion roubles, of which 85% are loans to individual shareholders (approximately 45 billion roubles). Against the backdrop of decreasing numbers of market participants, the loan portfolio values do not fall, and neither does the number of shareholders, i.e. we are seeing a market concentration, which is in line with global trends.

The regulator applied a credit union business models classification and deemed about 184 unions as unscrupulous agents (data on these agents has been submitted to law enforcement agencies and measures are being taken to remove them from the market); 1,213 unions were labelled as non-active (in relation to such unions, measures are being taken to exclude them from the register). It is worth mentioning that of the remaining unions operating on the market, the most stable and most efficient are the unions based on cooperative community principles. The efforts of the Bank of Russia are planned to be directed at promoting precisely such cooperatives. It was noted that the regulator will only be able to embark on large-scale market development endeavours when the market is cleared of unscrupulous and inactive players. Despite the fact that credit unions are capable of addressing social problems, the population is not much involved in the cooperative movement – it covers less than 1% of the population, whereas the global average is at 5–8%. On the one hand, credit unions have large potential for tackling social issues, and their rise is quite promising for the economy and the society as a whole. On the other hand, this segment of the financial market is not showing active growth.

During the session panellists assessed the state of credit union industry, identified existing challenges faced by cooperative movement in terms of development, and indicated possible ways to promote the industry.

Tatiana Ivashkina:

The study conducted by the professional community in the lead-up to preparation of the Strategic Plan for the Development of Credit Cooperation in Russia for the period 2019–2022 shows that many of the existing credit unions are stagnating or demonstrating low growth. The advance of the credit cooperation market is influenced by external factors, such as dropping household incomes, increasing debt loads, and loss of trust in credit cooperatives as institutions of mutual financial assistance. However, internal difficulties also suffice. A large-scale advance of the cooperative movement would require more than just drawing from the experience of the 90s and focusing primarily on the fact that credit unions are democratic institutions of mutual financial assistance, founded solely on community features. What is needed today is digitalization, additional services, and infrastructure. It is crucially important to create service structures for credit

cooperation to ensure that small credit unions have access to essential programme, consulting and legal services. We need systematic work to popularize the movement, to communicate the positive experiences of credit cooperation. The entire corporate community should partake in creating a positive image of credit cooperatives, making it possible for the public to regain their faith in the cooperative movement, and helping shareholders commit to their ownership of the cooperative and to realise that it is up to them to decide what kind of cooperative they want to have and on what principles it should work.

Another hindrance to sector's growth, both in terms of numbers and overall quantities, is excessive regulation, which is not always justified in relation to small cooperatives that cannot withstand the existing regulatory and supervisory burden. The industry needs incentive regulation.

Today it's easy enough to open a credit cooperative and enter the market. Promoting the credit cooperation system will require legislative measures – a special accreditation system; measures ensuring systematic entry of new cooperatives into the market; a certain admission procedure, providing for a larger role for self-regulatory organizations in this matter.

Yuri Marinichev:

The panellist suggested that cooperation is now close to the highest point of its 'early journey' and is about to enter the next stage. Looking at the twenty-five-year period since credit cooperation emerged in Russia, we can say that the pawnbroker's relations model inside the cooperative is being gradually phased out; the model dominated by the shareholder – borrower paradigm, where shareholders do not feel any ownership of the cooperative, but position themselves as a creditors to their cooperative. Methodological and legal aspects concerning trading and evaluation of shares, payment procedures, opting out, etc., require further elaboration. Increasing shareholders' engagement in managerial matters is only possible when shareholders grasp the fact that they are not creditors to the cooperative, they are its owners, the ones forming its resource base and in charge of its progress. Since the current model has exhausted its potential, a shift towards a new paradigm is required. And in the coming five–ten years the domestic industry will begin embarking on this new path.

The fact that cooperatives are becoming larger and more consolidated, that shareholders no longer know each other, poses a threat to the progress of cooperative movement, even though it is a global trend. A different way to move forward, alternative to consolidation, can be found in localizing standard small cooperatives at the first level, and even in seamlessly parcelling larger cooperatives, for instance, by placing them under the second level cooperatives regime. Consolidation at the second level will create opportunity for infrastructural development, while also reducing the pressure put on the first level through second level service support (second level cooperatives, associations, support funds, service organizations).

The panellist highlighted that introduction of technology will further reduce the human role in communications and decision-making, which can lead to an even greater deterioration in terms of members' engagement in cooperative's activities. Credit cooperation probably rather shouldn't follow in the tracks of fin-tech. To the contrary, what is needed is some sort of mechanisms that would allow people to meet face to face, communicate, and be a community.

Moreover, there is a need for a concept of unincorporated credit cooperatives operated via management companies, trade unions or public organizations (analogical to incorporated mutual aid funds or benefit funds under trade union organizations during the Soviet period).

Ulyana Mikhailova:

The panellist made mention of the fact that the Federation of Independent Trade Unions of Russia

brings together about 20 million individuals. However, the share of union members involved in cooperative movement is insignificant (for example, in the northwest it is about 5–7%). Notably, credit cooperatives contribute to a better social protection for union members. Credit unions, comprised of trade union members, are financially stable, due to the support they receive from trade unions and additional mechanisms of control and selection of participants they enjoy (all shareholders are employed and unionized). The trade union movement already has the infrastructure in place, so it can effectively accommodate credit cooperatives based on the principle of professional unity. However, cooperatives aren't always eagerly embraced even within trade union movement, because workers tend to stereotypically associate credit cooperatives with pawnbrokers. And it's very difficult to break through this long-held belief. To develop an across-industry credit cooperation under trade union associations, a proper ideology needs to be elaborated, as well as proper motivation, proper relationship with every chairperson of each primary trade union organization.

An increased supervisory burden for cooperatives, on the one hand, can help prevent fraudsters, disguised as credit cooperatives, from entering the market and thus improve the industry's public image. For small credit unions, however, such an increase will result in much higher operational costs. To have professional community based cooperatives advance in a significant way and to see a greater involvement with the cooperative movement among trade union members, a special set of laws needs to be introduced, regulating the activities of such cooperatives, that already have their own controlling bodies in the form of trade unions.

The society's confidence can't be gained by means of any sort ideological persuasion, if there is no transparency, clarity and integrity to each and every process. Given the vast capacity of already existing trade union infrastructure, union members' credit cooperatives can become a fast-growing model of credit cooperation, if favourable conditions, including reduction of the regulatory and supervisory burden, are set in place.

Igor Baginsky:

In his contribution, the participant stated that larger market players and lower numbers of cooperatives against same loan portfolios volumes and numbers of shareholders indicate that small players, the true backbone of cooperative community values, are leaving the market. Thus, the market consolidation wreaks havoc on the unity itself. Besides, the general economic situation is not conducive to growth in the industry, as household incomes are not growing. Those are the setbacks faced by credit cooperation.

There is an advantage to current state of affairs – the increased demand for credit cooperatives in rural and remote settlements, faced with the departure of banks, after they lost their bet on remote services as substitute for having physically present local personnel and failed to obtain desired results from this channel of sales. There's one more significant advantage – when dealing with micro-businesses, cooperation is indispensable for the economy, since banks are unable to cater to this segment of consumers (banking technologies do not allow a significant reduction in operational expenses), and this is where great opportunities arise for credit cooperatives.

Another great promise for this industry lies in the fact that the regulator is announcing policies of proportional regulation and risk-oriented supervision. The downside, however, is that the professional community and the regulator are still struggling to come to a consensus on how the principles of proportional regulation and risk-based supervision should be implemented. A more detailed system of regulation and control needs to be set in place for large cooperatives, operating almost like banks with a basic license, while 'baby' cooperatives should be partly relieved of the existing supervisory and regulatory burden.

Because they, the 'baby' cooperatives, are to become the mainstay of progress in credit cooperation. And, if the proposed measure of parcelling large cooperatives appears too radical, the evolutionary scenario is also possible, where large cooperatives themselves will steer in that direction of their own good will, if properly incentivised to do so, including through regulation.

There are so many facets to the issue of trust. Trust needs to be gained both externally (the public, the regulator, creditors) and internally (shareholders, professional community). Interacting with development institutions on matters concerning support measures for small and micro-businesses, market agents should be aware of the extremely high role of credit history, which is being shaped daily by existing cooperatives through execution of their obligations. Another matter to be aware of is the issue of subsidiary liability that arises in this form of organization of shareholders.

Galina Sharybkina:

Concluding the session, the moderator gave a summary of the dialogue and underscored that all the speakers were unanimous in agreeing that it is extremely important to cultivate community spirit within the cooperatives, and that future lies with cooperatives based on this principle. This issue is quite high on the agenda of regulatory bodies. At the end of 2017, basic corporate governance standard for credit unions was adopted, enshrining the community principle-based approach to operating credit unions. Moreover, a bill is being prepared to be submitted to the State Duma, which also provides for entrenching of this principle. Another highlighted topic was the need for coordinated efforts across the professional community – associations, self-regulatory organizations, market participants, and the Bank of Russia as regulator of this segment of the financial market – to formulate a unified concept for the development of the credit union market and take coordinated actions to implement it.

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ROUNDTABLE 5.2:

The Socialisation of Microfinance Organisations: Transforming Business Models through Regulatory Action

Moderator:

Vladimir Chistyukhin, Deputy Governor, Bank of Russia

Speakers:

Nikolay Zhuravlev, Member of the Federation Council of the Federal Assembly of the Russian Federation, First Deputy Chair, Federation Council Committee on Budget and Financial Markets

Andrey Kleymenov, CEO, EQVANTA

Evgeniya Lazareva, Project Manager, All-Russian People's Front 'For Borrowers' Rights'

Alexei Savatyugin, Assistant Chairman, Accounts Chamber of the Russian Federation

Muhammad Yunus, Professor, Founder of the Grameen Bank, Nobel Peace Prize Laureate of 2006

Vladimir Chistyukhin:

The moderator noted that socialisation of microfinance organizations, movement of microfinance organizations towards the consumer, towards providing high-quality services is one of the key subjects associated with the development of the microfinance market, he reminded about the discussion of the place and role of microfinance in the Russian financial market.

After introducing the speakers and delivering the introductory speech, the moderator invited Yunus Muhammad to talk about progress and challenges of the microfinance industry in Bangladesh.

Yunus Muhammad:

The foreign guest said that, among other things, it was devastating consequences of the war against Pakistan that fostered development of microfinance. Following changes in legislation in 1983, the Grameen Bank was established. Each time a problem is uncovered, a new financial product is introduced to the market to help ordinary people handle this problem. Over time, the Bank became world-renowned and is seen as a microfinance organization.

The borrower-lender relationships are based on trust, the percentage of repaid loans is about 98%.

Banks like this are currently operating in almost 40 countries.

Vladimir Chistyukhin:

The moderator emphasised different approaches to work at the Grameen Bank and Russian financial organizations (both banks and microfinance organizations).

In continuation of the dialogue, the moderator said that the balance between availability of financial services and debt load of the population was being sought, he mentioned additional limitations to be introduced and the forthcoming changes in legislation to be made at the Russian President's instruction.

The moderator asked Nikolay Zhuravlev, who oversees further socialization of microfinance organizations, about the place of microfinance organizations in the Russian financial market and about potential ways of further development of the industry.

Nikolay Zhuravlev:

The speaker mentioned that microfinance became stricter and that large microfinance organizations were becoming increasingly similar to banks with a basic license, the only difference being that they cannot attract deposits from individuals.

Banning microfinance would be a wrong step, however, excess debt load of the population must be avoided. The Federal Council supports the Central Bank's effort to introduce debt burden value to the legislation.

Moving towards regulation based on types of activities, not on types of lenders is preferable. The same products must have the same price and be regulated in the same manner.

The speaker concluded by saying that the social position of a lender must include a comprehensive assessment of the borrower, which would result in lower borrowing costs.

Vladimir Chistyukhin:

The moderator noted that many aspects of operations of microfinance organization were even more regulated than operations of banks. Saying that he gave the floor to Alexei Savatyugin.

Alexei Savatyugin:

The speaker noted that the regulator's position towards the financial market in general and microfinance segment in particular was too conservative. The consumer themselves must be the main consumer rights defender, although they don't always have a chance to do so.

The microfinance market is even more regulated than the banking market. It includes a necessary membership in self-regulatory organizations and an obligation to comply with basic standards of self-regulatory organizations.

Finishing his speech, Alexei Savatyugin expressed his disagreement with Nikolay Zhuravlev saying that the same products must have the same price, since microfinance organizations have a risk profile and the client of their own, while the price is based on the supply-demand ratio.

Vladimir Chistyukhin:

The moderator noted that the Central Bank and the legislature took quite strict measures to protect the consumer against bad practices. However, the number of complaints from the consumers about actions of microfinance organizations received at the Central Bank is not decreasing. The floor was given to Yunus Muhammad so that he commented the relationship between the bank and the borrowers in Bangladesh.

Yunus Muhammad:

The speaker said that the Grameen Bank didn't regard borrowers as consumers, because the money the bank lends is invested in social business. Therefore, one cannot speak of debt overburden of the population. The Bank's policy is lending money to those who need it without refusals.

As for complaints and bank-consumer relationships, the speaker noted that the Grameen Bank belonged to its borrowers and lenders, the representatives of who are members of the board. Therefore, the bank provides implementation of their own decisions.

Vladimir Chistyukhin:

Switching to consumer issues, the moderator addressed Evgeniya Lazareva asking her to share her views on sufficiency of the existing regulatory framework for microfinance consumer rights protection.

Evgeniya Lazareva:

The necessity of legislative limitations was emphasized that would be targeted at the representatives of the grey area, since most complaints comes from illegal money lenders who ruin the image of the market.

Special attention was given to problems such as borrowing money using stolen personal data and individuals still operating in the market who used to own companies that committed violations and were withdrawn of their microfinance organization status.

Using the example of leaseback, the speaker demonstrated that legislators were trying to fight illegal market players through introducing restrictions for legal players.

In Russia, many see microfinance organizations as social organizations, she concluded.

Vladimir Chistyukhin:

The moderator noted that one of the aspects of social idea is support of entrepreneurship where microfinance organizations are unmatched. Andrey Kleymenov was given the floor to talk on this subject and tell what needed to be done for a more intensive development of this segment of the microfinance market.

Andrey Kleymenov:

The speaker said that support from the Bank of Russia was required to stimulate the funding of microfinance start-ups. The problem of limited access of microfinance organizations to money can be solved through crowdfunding.

The social role of microfinance organizations is seen even in the existing conditions: many companies lend money that the borrowers actually use for entrepreneurial needs.

Interest rate cap imposed by the regulations hasn't resulted in customer satisfaction with interest rate. Customer service needs improving. However, work in this area requires resources, which the companies have to forward to adapting to newly introduced market conditions.

The speaker concluded by supporting the relevance of the subject of customer identification adding that there were services enabling better customer identification, but they are not available to microfinance organizations.

Vladimir Chistyukhin:

The moderator supported the idea of the market lacking stability of changes in legislation in the past years and agreed that the access to state service bases must be equal for all players of the financial market.

To follow up, Nikolay Zhuravlev was asked a question about law enforcement practice and the role of law enforcement agencies.

Nikolay Zhuravlev:

The speaker noted that there were certain issues with law enforcement practice. It's important to block the flow channel to the grey and black areas and to initiate collaboration with law enforcement agencies.

Further plans were described on toughening administrative liability and introducing criminal liability for illegal money lenders, and increasing awareness of the recently introduced prohibition of debt reassignment to unprofessional money lenders and unprofessional debt collectors, as well as of the existing laws that deprives the lender of the right to claim the borrower's compliance with their obligations if they were created according to an agreement with an illegal money lender or if they were reassigned to an unauthorised person.

The financial performance results suggest that microfinance organizations have reserves to reduce interest rates, which would facilitate further socialisation of the microfinance market, the speaker concluded.

Vladimir Chistyukhin:

One of the questions from the audience was addressed to the moderator. The question was about introducing special regulations for the microfinance organizations that are only engaged in funding small and medium entrepreneurship. Answering this question, Vladimir Chistyukhin said what had already been done regarding stimulating money lending to small and medium entrepreneurship entities (changes in the procedure of reserves formation and introduction of the reduction factor for calculating ratios), and noted that it would be reasonable if all market players (using mixed business models) created favourable conditions for money lending to small and medium entrepreneurship entities, but not only microfinance organizations funding entrepreneurs.

The moderator concluded the session by answering the question from the audience about developing proportional regulations of microcredit companies. Vladimir Chistyukhin noted that the regulator intended to give the control over microcredit companies to self-regulatory organizations for which creating and improving a control environment is currently one of the most important goals. The Central Bank will focus its effort on increasing oversight of self-regulatory organizations.

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ROUNDTABLE 5.3:

The Development and Improvement of a Self-Regulation Institution on the Microfinance Market

Moderator:

Ilya Kochetkov, Director, Microfinance Market Department, Bank of Russia

Speakers:

Elman Mekhtiev, Chairman of the Council, Union of Microfinance Organizations ‘Microfinance and Development’; President, National Association of Professional Collector Agencies

Alexander Solomkin, Director, Self-Regulatory Organization of Credit Consumer Cooperatives ‘Cooperative Finances’

Igor Baginsky, Deputy Director, Department of Economics and Public Support for Agribusiness, Ministry of Agriculture of the Russian Federation

Renat Davletgareev, Chairman of the Board, Credit Union ‘Renda Savings and Loan Fund’

Ilya Kochetkov:

The moderator started by saying that the micro-finance market is currently the largest in terms of the number of participants and, being 9 thousand entities strong, it can't be efficiently supervised without self-regulatory organizations. About 95% of micro finance institutions are members of Self-regulatory Organizations of Micro Finance Institutions (SROMFI), 65% of credit unions are members of 5 Self-regulatory Organizations of Credit Unions (SROCU). The first SRO for rural credit cooperatives (RCC) was granted status of self-regulatory organization in the spring of 2019 and currently integrates around 6% of the RCCs.

Easing the supervisory burden for small-size actors at the micro finance market is an important objective, which can only be met through transferring supervision and control functions to self-regulatory organizations. Once SROs assert themselves as viable and effective to the controlling body, the above-mentioned functions will be delegated to them.

Following that, Elman Mekhtiyev was invited to share his view on maturity levels in self-regulation culture and to talk on specificities of bailiffs' SROs.

Elman Mekhtiyev:

The panelist pointed out that society needs self-regulation not only by virtue of the law, but also when the market has a development strategy in place and makes its own choices as to what fields to pursue. In such a case, the standards are not imposed from the top – down; SROs independently elaborate and promote standards that anticipate both regulator's requirements and society's needs. Moreover, good corporate governance, information transparency being one of its forms, is the prerequisite for any activity.

Hence, there are three identified criteria of self-regulation maturity:

1. Whether the market has a mature strategy.

2. Whether there are standards that the regulator does not require, but the market needs.

3. Whether there is corporate governance.

The panelist also commented on peculiar aspects of self-regulation in professional bailiffs' market, highlighting several positive developments in this field. As one of the strengths he mentioned the fact that bailiffs' SROs are not bound to have at least 26% of market participants as their members. Spared from this bane, such SROs get the opportunity to develop higher standards of work with their members.

Ilya Kochetkov:

Giving the floor to the next panelist, the moderator inquired about the state of self-regulation culture in the credit unions market.

Alexander Solomkin:

A self-regulatory organization formed by its members is itself a part of the market. Self-regulation is progressing towards maturity, but so far it is still in 'it's young days'. The credit cooperation segment is now only coming up with a concept and a strategy of what it is they are striving to achieve.

Designing standards and rules, self-regulatory organizations intend to foster good practices and stop unscrupulous ones, and in doing so, help the regulator. Unlike in the early days, when there was no clear understanding of how to proceed in this field and what path to choose, today's self-regulatory organizations take the initiative and through basic standards invite the regulator to join them in a concerted conceptual effort to ensure that the market doesn't stray from the right track of development. As soon as the market is on the right track and all unfair practices are eliminated, we will be able to say that the market has reached maturity.

Ilya Kochetkov:

The moderator asked Renat Davletgareyev to describe how SROs relate to market actors: whether they are a controlling body, a partner, lobbyist or regulator; and to tell the audience about expectations that cooperatives can typically have regarding their membership in a self-regulatory organization.

Renat Davletgareev:

The panelist responded that in the early days when self-regulatory organizations had just emerged on financial markets and new norms of Russian legislation obliged all credit cooperatives to become members of an SRO, the market saw SROs exclusively as controlling bodies. Over time, however, the situation began to change: SROs are transparent about the outcomes of their work, they provide information assistance to members, represent and defend their interests; delegates from cooperatives are directly involved in SRO activities as members of permanent collegial bodies and specialized disciplinary committees. Now, self-regulatory organizations are more than just a controller, the market also sees them as partners. The larger the benefits obtained by market participants from SROs are, the stronger is their partnership.

Commenting on maturity levels among self-regulatory organizations, the speaker underscored three key aspects: a regulated relationship between the Bank of Russia and the SRO (a clear understanding of both sides' obligations); fair dealings between the SRO and its members; and lastly, the SRO taking responsibility for the micro finance institution they accept as member. The filter should be placed at the entrance: after the SRO has granted its membership to an entity, it must assist it up till the bankruptcy proceedings, in order to protect the shareholders.

Ilya Kochetkov:

Later in the discussion, the moderator moved to the issue of self-regulation in the segment of rural credit cooperatives, and their first SRO that emerged in 2019. Igor Baginsky was asked to talk about the strengths that will allow the RCC SRO to grow, provide support to its members, make their life easier, while still performing the supervisory and controlling functions, and avoid the mistakes made by SROs in other financial markets.

Igor Baginsky:

There are several basic principles at the heart of self-regulation and those are, above all, consistency and getting feedback from the market.

RCC SRO faces certain challenges in its work. The first challenge being the swift combination of the annual internal audit, that the RCC are submitted to, with the control function of the SRO. The second challenge is overcoming the market's fear of SROs, since the majority of participants in the RCC market still do not see self-regulatory organization as source of help and assistance. Besides that, the RCC SRO will have to prove that the standards they elaborate and adopt serve to improve the situation on the market, rather than to impose new strict rules on the RCCs. This was the third challenge. Fourth challenge is that the markets have got used to be steered from the outside and they will now have to learn how to self-regulate.

Ilya Kochetkov:

The moderator mentioned that the Bank of Russia is now focusing of improving the control environment for SROs. The regulator has a clear plan to incentivize SRO institutions with a special emphasis placed on enhancing the control functions performance by SROs. The plan provides for a set of consistent supervisory measures and legislative initiatives aimed at removing the obstacles that hinder efficient indirect supervision of small micro finance entities

through SROs. SRO CU and SRO MFI adopted their respective roadmaps – individual plans to improve the quality and efficiency of controlling environment. In this vein, the moderator asked all of the participants if they can agree that the Bank of Russia has done everything in its powers to transfer the supervisory functions over small micro finance institutions to SROs, or there are still certain areas to work on and certain gaps to fill.

Elman Mekhtiyev:

Control activities should be uniform: both for small market participants and for large ones. There is, however, a serious problem on the services market – deficit of people with enough skills and qualifications to properly perform control activities. Another challenge is that the software that SROs need to monitor and control the activities of its members is very costly. The regulator should have foreseen that apart from functions and methodology transfer, SROs also require software assistance. Thirdly, self-regulatory organizations need the Bank of Russia to create a level playing field, to ensure all the SROs are equally committed to their responsibilities.

Alexander Solomkin:

The future progress of self-organization requires major involvement of both sides: members of self-regulatory organizations and the bank of Russia. The fact that the bank of Russia is currently communicating multiple methods and procedures to SROs, proves that self-regulation hasn't yet reached true maturity. Analyzing members' reports on their own, SROs never reached the level of depth and thoroughness that today can be obtained within almost 10 days. All this now became possible due to the triggers and mechanisms provided by the Bank of Russia.

In its activities, any self-regulatory organization should firmly rely on the quality of control environment, which, in its turn, should contain an incentivizing component. Only when the supervisory burden on the part of the Bank of Russia decreases, the market will see self-regulatory organizations as properly performing their control functions.

Igor Baginsky:

By stimulating the creation new of self-regulatory organizations, the Bank of Russia met a very important objective – catering to the market through a 'single window'. The SRO, however, are faced with numerous 'windows', while dealing with the regulator. It would serve the SROs better if they worked exclusively with the Department of the Microfinance Market, which in its turn would independently manage all interactions with other departments at the Bank of Russia.

The second task for the Bank of Russia is to prepare a roadmap, laying out all stages and steps of transferring supervision and control functions to self-regulatory organizations. It would send the market a clear message on general aspirations, and it would also make clear that, at a certain point, after certain tasks are completed, the SROs will take over the functions of control, supervision and administrative impact.

Ilya Kochetkov:

The moderator noted that successful transferring of control functions over small market players to SROs and lower regulator supervision of those players will depend on efficient interaction between SROs and their members. Summarizing the session, the moderator expressed his hope that the discussion proved to be useful and interesting for the audience.

The moderator emphasised that the success of the Bank of Russia's plan to transfer control functions over small market participants to SROs and to reduce the supervisory burden placed on them by the regulator, will depend on how efficient SROs are in their interactions with their members. Concluding the debate, the moderator expressed his hope that the audience had found the discussion useful and stimulating.

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ROUNDTABLE 5.4:

Online Services in the Microfinance Market: Challenges and Growth Prospects

Moderator:

Andre Achtstaetter, CEO, Vexcash

Speakers:

Irina Khoroshko, CEO, MoneyMan

Andrey Petkov, CEO, IFC Chestnoe Slovo

Danil Sherstobitov, Chief Operations Officer, Scorista

Ivan Zimin, Acting Director, Financial Technology Department, Bank of Russia

Andre Achtstaetter:

At the beginning of the session, the moderator noted that in Russia the microfinance market is growing faster than the banking sector. This market has certain flexibility, which has accelerated the development of technology (esp. financial technology) that increases the speed of the services provided to clients. This, in turn, has led to more rapid growth in the microfinance market. We can then ask the question: What is the impact of financial technology in this market? The moderator asked Irina Khoroshko to characterise the current trends of the online segment and to outline the path of its growth and development. He followed up with a question about what technology would be prevalent in 2019–2020.

Irina Khoroshko:

The speaker compared the current state of the microfinance market to "games," as an analogy to the competition for market share, the uncertainty of competitors, and the changes resulting from regulatory measures. She likewise explained that in the near future there will be many changes in the tactics used to attract new clients. For example, there will be marketing changes in terms of attracting clients by offering them first time loans at zero percent annual interest, as well as marketing costs among online microfinance providers. However, despite these changes, the focus will continue to be on the client: attracting new clients, fulfilling their needs, and keeping good clients.

In terms of technology, Irina noted that fintech, big data, and machine learning have already been actively applied by microfinance companies. In the future, it will be possible to develop assessment systems at all stages of the business process in order to build a more customer-oriented model.

Andre Achtstaetter:

The moderator turned to Andrey Petkov with a similar question concerning future technology, and asked what could be done to reduce costs and to optimise the microfinance business.

Andrey Petkov:

The speaker agreed that this is important for all market players. As the market expands, regulators have had to change and increase their control, which requires that companies adapt and apply cost-saving technology. The speaker gave three examples of cost-reduction:

1. Reducing the risk of identity fraud, which raises monetary and reputation costs. Improving the imagery used on bank cards, which has already helped the company reduce the number of requests for loans based on false passport data.

2. Reducing collection costs by analysing collection agencies (excluding corruption, human relations, and other factors). When a collection agency is connected to the system, it is given the lowest quality portfolio. If the agency shows good collection results, the system automatically upgrades its portfolio. Later, it redistributes the default loan portfolio among its partners, and the micro-finance company achieves the best recovery.

3. Creating savings by sending password recovery messages via SMS, which has reduced costs by nearly three times.

The speaker emphasised that all companies should remember to optimise business processes, apply the relevant technology, and share information concerning successful results.

Andre Achtstaetter:

The moderator asked Danil Sherstobitov about the risks for micro-finance organisations resulting from the introduction of new digital technology, and whether they are a risk or a growth driver. He likewise enquired about the new methods of risk management that are currently on the market and how well they work.

In addition, the speaker was also asked about the risks and importance of behavioural scoring. The moderator asked him to talk about the kinds of services used to evaluate borrowers remotely.

Danil Sherstobitov:

The speaker explained that the biggest risk is that companies will grow uncompetitive as a result of not introducing new technology in a timely manner—because financial technology is a growth driver.

According to him, the introduction of new technology in online lending can improve the service provided for the end user, and, thereby, facilitate the conversion from click to issuance. Public Services technology and voice recognition technology significantly reduce risks and lower personnel costs. Risk assessment technology is primarily developing toward the analysis of client actions, such as repayments and repeating loans.

The speaker agreed that behavioural scoring was effective. The primary task is to clear the available data from errors, so that it can be analysed properly.

His company has developed a system to combat two of the most common types of fraudsters: professionals who use false passport data and those who provide their own data to micro-finance organisations, but have no intention of repaying the loan. The system can also help service clients that are past due, as well as increase the effectiveness of recoveries.

Irina Khoroshko:

Irina added that due to the volume of information the quality of available data in Russia is quite good, and that the Credit Bureau provides both negative and positive data for each client. This data needs to be used correctly in combination with the right technology.

Andre Achtstaetter:

Next, Andre raised the topic of how the Bank of Russia is developing a unified biometric system and digital profiles for Russian citizens, as well as the organisation of the exchange of information between financial institutions and telecommunications operators. He posed the issue to Ivan Zimin and asked if he could comment on the current work being done of creating a “regulatory sandbox.”

Ivan Zimin:

The speaker said that companies should not react too negatively to the measures and actions taken by regulators, since they have two main goals. The first goal is to create a balanced, clean market, to facilitate development and conditions that are agreeable for all participants of the financial market. The second goal is to act as the driver and founder of national infrastructure platforms. Such projects are ongoing and will help the development of companies.

The first such infrastructure project concerns remote authentication. As a result of many factors, the banking sector has been closely involved with the development of this project. The system utilised the Public Services Portal of the Russian Federation and the Unified Identification and Authentication System, which already uses the existing electronic signature technology—ESIA [short for unified identification and authentication system].

Biometric identification was created using voice and face recognition. To provide a level playing field, regulators plan to ensure the use of biometric identification in all sectors and areas of the financial market. Currently, there are tens of thousands of samples in the database. There is constant exponential growth. The speaker emphasised that it will be possible to obtain information and remote identification from this database within a minute.

The second project involves the creation of a digital profile infrastructure. It is currently in the pilot stage. This platform will allow all organisations

to access the government data necessary for accepting clients. Consumers' interests are, of course, the most important issue.

The "regulatory sandbox," according to the speaker, is a financial development tool. It is possible to test new services, products, and technologies without real clients, including all participants, beginning with the government organisations that influence the accelerated development of initiatives in the financial sector. There have been over 30 projects since the launch of the sandbox: only one of which was related to micro-finance organisations.

Irina Khoroshko:

In response to the moderator's question about using technology created in the micro-finance market in other areas, Irina Khoroshko gave the example of the Innovation and Development Foundation, which became a resident of the Skolkovo Innovation Centre. The company is developing a B2B product that will be offered not only in the Russian market, but also abroad.

Andre Achtstaetter:

At the end of the session, the moderator addressed Ivan Zimin with two questions from the audience concerning the regulator's intentions to use progressive micro-finance organisations to test projects, and whether large players or micro-finance companies can access the data collected within the project.

Ivan Zimin:

Ivan explained that banks were chosen because they had the need and the ability to comply with stringent requirements. The next step was to develop the collection of biometric data at the MFC [Multifunctional Centre for the Provision of State and Municipal Services]. Also, a special act has also been passed regarding the requirements an organisation must meet in order to become a biometrics registrar. Once all the requirements are met, all financial market participants will have access to all the necessary data with equal access.

Andre Achtstaetter:

The moderator concluded the session by emphasising the importance and relevance of new technology and biometrics, as well as the risks faced by online lending companies and their approaches to mitigating those risks.

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ROUNDTABLE 5.5:

Partnership between Credit and Microfinance Organizations: Benefits and Threats to Business and Consumers

Moderator:

Alexey Simanovskiy, Adviser to the Governor, Bank of Russia

Speakers:

Andre Achtstaetter, CEO, Vexcash

Sergey Kotlyarenko, General Director, Microcredit Company 'Kupi Ne Kopi'

Arsen Lyametov, General Director, Microfinance Company 'T-Finance'

Dmitry Peshnev-Podolskiy, Chairman of the Board, BCS Bank

Sergey Chetverikov, Managing Director – Director of the Office, Lending Products and Processes Division, Sberbank

Roundtable 5.5

Partnership between Credit and Microfinance Organizations: Benefits and Threats to Business and Consumers

Alexey Simanovskiy:

Prior to discussion, the moderator outlined the main goals and issues of the session: How does the partnership between credit and microfinance organizations (MFOs) affect the microfinance organizations of banking groups and the microfinance market as a whole? Do consumers and borrowers ultimately benefit from this partnership or are there potentially negative aspects? Does regulatory arbitrage have a place in the microfinance market when partnering with banks provides opportunities?

At the beginning of the session, the moderator referenced some statistics and drew attention to the fact that of the 2,000 MFOs, nine are affiliated with banks, which account for approximately a third of the market's microloan portfolio.

During the session, the moderator also noted that with regards to point of sale loans from banks and point of sale loans from MFOs, there are various restrictions on the size of the effective interest rate, which functions as a kind of regulatory mechanism. Banks and MFOs operate under different requirements in terms of regulation. The moderator focused on the topic of regulatory arbitrage—the utilization of regulatory differences to maximize revenue, as when regulation meant for specific segments or market participants is used by other market participants.

He emphasized that the use of regulatory arbitrage does not violate the law; however, it gives a competitive advantage to certain players and leads to unequal competition. A question was raised concerning how regulatory arbitrage affects the activities of banks and MFOs in the microfinance market, and to what extent participants use it in their partnerships. The moderator noted that a sign of regulatory arbitrage is when clients do not know if they are receiving their loans from banks or MFOs. The moderator also said it was important to understand whether clients receiving loans from MFOs could also borrow from banks (so-called "bank status" borrowers), and whether regulatory arbitrage arises in these situations. If regulatory arbitrage does present a problem in these situations, should the industry respond with prohibition or regulation? How should regulation be implemented: based on the client, the product, or a combination of the two?

Andre Achtstaetter:

The speaker said that the partnership between MFOs and banks is profitable and provides clients with greater access to loans. Referring to his foreign experience in Germany, he noted that bank clients often turn to microfinance organizations, since it is easier to receive a loan from the latter. Also, the development of fintech has allowed MFOs to work better with certain types of clients. At the same time, fintech can work to improve the partnership between banks and MFOs.

Sergey Kotlyarenko:

The participant said that both MFOs and banks benefit from the partnership. The bank benefits because it gets the opportunity to work with clients that were inaccessible for various reasons: in certain circumstances, it would be unprofitable or unappealing, and at other times, the bank is legally prohibited from performing certain activities. MFOs can work in a number of areas that banks cannot. For MFOs working with the banks, this cooperation is important and convenient, because it saves significant resources. MFOs working with credit organizations use the business-processes of banks and strictly abide by the law in terms of informing the client about loan conditions, repayment channels, and additional services. In other words, the banks and MFOs complement one another, and this synergy provides a better product, ultimately benefiting the consumer. Also, clients can improve their credit history and receive bank loans on good terms. According to the speaker, there are no negative aspects for the client.

The speaker added that for certain product segments, banks cannot provide their services, in which case the client can only work with MFOs. For instance, banks cannot work with checks that are very small and the terms are short (with fixed costs

for issuance and maintenance), because it would be unprofitable for them. In such cases, MFO products complement those of banks.

The concept of regulatory arbitrage is rather controversial and has yet to be defined. Bringing legislation in line with the requirements of the banking sector would exaggerate MFOs and slow the development of fintech. The speaker suggested that regulators should closely monitor the development of partnerships between the banks and MFOs, and, within the Bank of Russia, create an appropriate group composed of market representatives.

Arsen Lyametov:

The speaker noted that the idea of partnership implies a positive answer a priori. However, the context and understanding of partnership models must be taken into account. They can range from partnerships where MFOs and banks simply share clients to highly "immersed" partnerships where MFOs are essentially 100 percent dependent on banks, from attracting new clients to the technology used to call for tender from collection agencies.

Partnerships between banks and MFOs will always benefit the client due to the greater access and higher quality of services (when MFOs apply business processes that meet bank standards). Another benefit is when MFOs improve the credit histories of their clients, which allows clients to become bank borrowers.

The speaker stated that the decision to issue a product to a client is based not only on a risk assessment, but also on an analysis of the profitability of a particular transaction. Special terms apply when working with stores that pay in instalments for goods sold (a loan in this case differs from a classic bank consumer loan), and this affects what product a client chooses and how much the product costs.

It was also noted that under current conditions, the partnerships of banks and MFOs do not deliberately redistribute clients and take advantage of regulatory arbitrage. In the competitive market (among banks and among MFOs), the exploitation of regulatory arbitrage is strategically unjustified, because the client will always be able to use the services of competitors who offer better terms.

Dmitry Peshnev-Podolskiy:

The panellist noted that in terms of market size, the share of MFOs working in conjunction with banking groups has risen sharply over the past three years and now represent over a third of the market. For the consumer, this is generally a plus. When a bank is not ready to independently finance a client, an MFO can step in and meet the client's needs.

He maintained that there are signs of regulatory arbitrage in the partnerships of banks and MFOs, if only in the shift from the complex regulation of banks to the simplified regulation of MFOs. Banks that are subject to heavy and complicated regulation simplify their operations by creating MFOs within which they can conduct a credit business, which would otherwise not be worthwhile. At the moment, this does not pose a danger. First, due to the high level of regulation, and second, due to intense market competition. According to the speaker, the market as a whole currently regulates itself and is in a sufficiently healthy state.

Sergey Chetverikov:

The participant added that if the partnership aims to maximally satisfy the consumer and is economically feasible for the participants, then it is clearly positive. However, there is nothing positive about a lack of transparency or the presence of a hidden agenda to force the client into an agreement the only purpose of which is to get as much money from him as possible. Partnerships between credit organizations with fintechs, including with MFOs, are inevitable and already here. This also benefits the consumer of these services. In the case of Sberbank, the MFO product is part of their product line, which can be accessed through Sberbank's

online service. The probability of receiving a bank loan is 50/50 and it takes three days to receive the money once approved. Meanwhile, if a customer goes to an MFO, he can be approved within an hour and receive money that very day. The client always has the option of choosing whichever product suits him best.

Based on the speaker's experience, there is no regulatory arbitrage in the market, just as there is no "speculation" when bank status clients are transferred to MFOs. All banks, especially in the small micro-business segment, strive to maximize and maintain their portfolios, and it is beneficial for banks to service their status clients themselves. Decisions are made not only based on the risk of the client, but also by considering the product line. If several products are available, the customer makes the choice.

At the end of the session, the speaker noted that MFOs provide not only consumer loans, but also successfully finance small and medium-sized enterprises. The time has come for MFOs to be viewed positively and to avoid the toxicity that had previously surrounded microfinance.

Alexey Simanovskiy:

At the end of the session, the moderator commented that the Bank of Russia will continue to focus on regulatory arbitrage, which requires more comprehensive study in order to make an informed decision. He concluded with the conviction that all providers in the financial market who truly benefit both the economy and the population will remain in the market and will increase their capabilities and expand their services.

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ROUNDTABLE 5.6:

Consumer Fraud and Borrower Misconduct: Taking Effective Countermeasures

Moderator:

Victor Klimov, Financial Ombudsman in Insurance, Financial Ombudsman Administration

Speakers:

Alexander Akhlomov, Chief Product Officer and Co-Founder, JuicyScore

Lyudmila Gribok, Chairman of the Board, Regional Association of Pawnshops

Ivan Merinov, Chief Executive Officer, SMSFINANCE Group

Stanislav Romanchuk, Head of the Operational Search Unit, Russian MIA General Administration for St. Petersburg and the Leningrad Region

Victor Klimov:

The moderator noted that consumer fraud is one of the problem areas of the microfinance market. Not only microfinance companies and bona fide consumers suffer from it, but also citi-zens whose data was used in a scheme. A spotlight was never put on the topic. A citizen acci-dentally finds out that they are to pay a loan that they've never applied for or received, but they don't think it is scammers assuming it's the MF market to blame.

The moderator invited participants to take in the situation and discuss what the market faces in terms of fraud.

Ivan Merinov:

The speaker indicated that there is a difference between social fraud, IT fraud and inter-nal fraud. All of these fraudulent actions are aimed against both the consumer and the organiza-tion.

So-called 'anti-collectors' is the simplest of all, scammers taking advantage of legal loop-holes. They coax money out of consumers promising to free them of debt. Such promises ulti-mately yield no return. While talking about 'debt-freers', the speaker noted that his company uses technology that is capable of identifying an anti-collector application on a device (from which the loan application was submitted).

The next step is the illegal use of personal data. First, it's the ordinary folks whose data was used to apply for a loan, and second, it is organizations losing the loans that are never to be repaid.

Social fraud comes from extremist consumers conceiving the company is going through some problems, and drastically alter their behaviour ceasing making payments on loans. Default and social fraud are a significant threat. Microfinance organizations always face high risks of de-layed payments, incomparable with those of banks. However, well-formed scoring system and indent models allow the organization to intercept social fraud.

And finally, IT fraud was mentioned as the most dangerous of all. The speaker brought up the case his organization has come across, the fraud level in which is one of the lowest on the market. Although the company was weeding out fraudulent technologies (the use of identical passwords, phone numbers in the application, the same birth dates or email addresses) and em-ploying particular social constructor even before scoring is applied (the form even does not get scored), the fraudster managed to circumvent the existing protection and obtained several loans. The investigation closed in on an organized, professional group of hackers. The total turnover of electronic wallets to which loans were received amounted to more than RUB 100 million; they used about 4 to 6 thousand fake drops. Each and every microfinance organization suffered cer-tain damages.

The speaker noted that IT fraud currently poses a serious threat to the development of online companies. A company needs a pro IT team and a robust anti-fraud solution to counter it.

Lyudmila Gribok:

The speaker said that pawnshops are an offline only business: the client needs to come to a pawnshop and pledge the property physically. Since pawnshops issue loans secured by collat-eral, they barely even face direct fraud. It only becomes an issue when a client pledges jewellery (95% of pawnshops in our country specialize in precious metals). Scammers start with testing staff qualifications, whether they can get by with fakes. The gold coating can be thinner or thick-er; it is not that difficult to determine the genuine quality by dipping the item in the water.

The second type of fraud is when a customer gets a loan on a pledge, and two hours later, they come back claiming that we gave out counterfeit cash. It can also be easily offset: each pawnshop has CCTV in operation. The camera records both the client and the employee. When giving out money they explicitly take it through a currency detector, the bills are checked, the amount is verbalized, cause some think that they got cheated. Video and audio recording of op-erations in a pawnshop is a must.

The third type of fraud is when a customer pledges an item, half a year goes by, but they extend the loan term. When they eventually come to pick up their article, they feel cheated: the thing is not theirs, the necklace was longer, and those were diamonds, not a cubic zirconia.

Stanislav Romanchuk:

The speaker brought up a legal perspective. The illicit alienation of property is punishable under Article 159 of the Criminal Code of the Russian Federation. In essence, the extent of the damage qualifies the fraud as follows: RUB 5,000 – significant damage, RUB 250,000 and more – major damage, and RUB 1 million – serious damage. The damage of more than RUB 250,000 is major damage for law enforcement agencies to investigate. Fraud is considered to have taken place as of the date the claim is filed or the time of illicit funds alienation.

The fraud components are quite complex: fraudulent intent must be proved. Thus, one needs to contact relevant law enforcement agencies when they come across high-tech embezzle-ment organized by a group of unidentified persons. The fraud is investigated based on the ag-grieved person's statement. It is imperative to contact the police as soon as possible.

In most cases, it is citizens whose personal data was used to apply for a loan would go to law enforcement agencies. While considering the problem from the perspective of fraudulent use of personal data, the speaker noted that under the current legislation, data theft is only a crime when personal data is being used in the context, which ultimately leads to the damage. Therefore, legislators should define and capture personal data theft as a criminal offence.

Victor Klimov:

The moderator summarized that most challenges arise from IT fraud and the illegal use of personal data. Then he asked Alexander Akhlomov, a representative of a company that develops and provides security technologies, to estimate the magnitude of the threat and elaborate on ways to fight it.

Alexander Akhlomov:

The speaker talked about the importance of using alternative non-personal data. Using this data, companies can combat technological fraud. Scammers would attempt to copy devices (re-storing them or using special software to feign the device), manipulate network connections (proxying and other tricks to conceal the application's origin). It is a technology that does not rely on personal data, but instead takes advantage of device data to submit a loan application. Currently, the company that the speaker represents uses 26 different technologies, collects 56 thousand data points from the device. It is the analysis of network connection, hard- and soft-ware. This method is useful simply because it is so much more complicated to copy a device. In many cases, non-personal data analysis is sufficient to make a decision on a loan application be-fore even considering its content.

The speaker noted that everyone should do the borrower's behaviour analysis: banks, non-credit financial institutions, self-regulatory organizations, and law enforcement agencies. It is im-perative to establish a data exchange system both within and between different microfinance or-ganizations, banks, telecoms, and information security and law enforcement agencies. Only hav-ing some consolidated database will it become possible to resist fraud effectively.

In conclusion, the speaker noted the need to bolster the regulation of personal data, in-cluding legislatively agreeing that the phone and email address are also personal data (if for no other reason than the fact that this data is sufficient to make a financial transaction). Moreover, it is necessary to expand the sensitive information concept for the

client. This information includes not only personal data but also any information that would provide authorized access to such data.

Victor Klimov:

The moderator summarized the session and noted that actual fraud combating, the use of relevant technologies, as well as the consolidated actions of MFIs, banks, SROs, law enforce-ment agencies and service companies, will minimize the risks of microfinance market players and advance the consumers' trust in it.

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ROUNDTABLE 6.1

A Development Strategy for the Insurance Sector: Perspectives of the Market and the Regulator

Moderator:

Dmitry Rakovschik, CEO, RESO-Garantiya

Speakers:

Alexey Moiseev, Deputy Finance Minister of the Russian Federation

Vladimir Chistyukhin, Deputy Governor, Central Bank of the Russian Federation (Bank of Russia)

Igor Yurgens, President, All-Russian Insurance Association

A development strategy for the Russian Federation's insurance industry for 2019–2021

Igor Yurgens:

The Russian Federation's development strategy for the insurance industry until 2022, unlike all previous strategies, whether for financial markets or other national economic development strategies, is founded upon an industry, not an agency, principle.

The strategy is based on discussions between the insurance community about the demands of the insurance market until 2022, held in the form of working groups, committees, presidiums, and other meetings, and has been corrected in accordance with comments and proposals made by the Ministry of Finance of the Russian Federation and the Bank of Russia. The strategy is oriented along four major directions that reflect the Bank of Russia's policy: eliminating mala fide actors from the insurance market; developing voluntary types of insurance; digitalizing insurance; fostering client-orientedness and responsibility in the insurance business.

The first results of the strategy's implementation: reducing the number of complaints about Compulsory Motor Third Party Liability insurance (CMTPL); creating a favourable environment for the development of life insurance; implementing legislative provisions for home insurance.

In conclusion, it is noted that the Strategy's four main directions align with the insurance market development strategy as it was described by Sergey Shvetsov during a discussion at the BCC International Conference.

Gratitude was expressed to the Bank of Russia and the Russian Ministry of Finance for their support.

Vladimir Chistyukhin:

The Strategy was a joint effort. It really was prepared by the insurance community, but the Central Bank took an active part in discussions: providing commentary, supporting measures, and making improvements. Accordingly, the Bank of Russia fundamentally supports the ideas expressed in the Strategy. It will be implemented by the joint efforts of the Bank of Russia and the insurance community.

However, in our opinion, when it comes to determining strategic vectors, the Strategy does not reflect the role of the insurance community itself while taking into account its goals and objectives (in part, aimed at searching for additional drivers of growth). Essentially, one could imagine a situation where legislation does not change, the regulator does nothing when issuing regulations, and in that case, the community must find some sort of internal resources, drivers, cost-saving measures, technologies to implement, that would allow for more rapid growth and an increase in the quality of services.

For example, regarding the following topics:

1) mala fide sales: it would be good to see internal provisions, positions, detailed plans about how to combat this behaviour. Not just within life insurance: it applies to a large number of products. What stimuli must the insurance community create for the vast army of agents that distribute insurance products?

2) civilized loss adjustment: how can/should loss adjustment be improved, making it convenient, clear, and fast for consumers and, accordingly, in the amount the consumer wants?

3) developing modern, innovative insurance technologies: consolidating the role of the market and self-regulation to advance innovative technologies.

4) lowering insurers' costs: what can help insurers reduce costs?

5) further stimulate the development of insurance, drivers of growth through mandatory or voluntary insurance:

How can we create minimal standards for market participants looking to and legally required to be insured that would help them access insurance services? For example, liability insurance for tour operators. It is likely that some development potential lies in creating minimal standards featuring the insurance community's requirements for the subjects being insured.

6) financial stability and solvency:

How can subjects be stimulated to get rated or some analogue to a rating system that would essentially lead to the creation of a number of data points that would evaluate the likelihood of default based on a certain area, business component, region, etc.?

The issue of developing investment skills, increasing insurers' financial stability by implementing more accurate corporate governance: insurance companies that manage a large volume of assets must have very advanced investment strategies that allow for the diversification of investments and sustainable income so that, for example, insurance business costs can be compensated.

Alexey Moiseev:

The Ministry of Finance of the Russian Federation participated in developing the Strategy and, as a whole, supports its provisions. Particular attention is paid to the following issues:

1) Gradual reforms of the CMTPL tariff system.

The Russian Ministry of Finance is in the process of developing draft legislation to reform the CMTPL market tariff system, the first reading should be approved in the fall session.

The draft legislation reflects issues such as individualized tariffs, establishing a wider tariff corridor, changing tariff factors, granting insurers the right to set a number of coefficients.

2) The penetration of insurance services.

The primary goals of the insurance community, regulator, and legislation in this area are: improving the population's levels of financial literacy/business responsibility, building a trusting environment, and facilitating access to insurance services.

Stimulating the development of insurance through mandatory or voluntary insurance

Igor Yurgens:

The development of insurance under the current cultural and public financial literacy conditions requires a significant share of voluntary types of insurance. The primary focus must be made on developing compulsory insurance. For example, implementing compulsory home disaster insurance would reduce the burden on the state budget.

Regarding the home disaster insurance programme, Vladimir suggested and promised to accompany him in visits to six or seven governors, the BCC is ready to do this. The government must be motivated to take action, and that motivation is there. In a meeting with the Presidential Administration, it was noted that governors' KPIs include a category that considers the penetration of home disaster insurance.

Insurance must be developed organically, over a long period of time, fostering the public's purchasing power, expanding the middle-class, improving investment opportunities, which will, of course, facilitate the advent of Chinese and Western insurers to the Russian insurance market. In this case, this is an issue of government strategy, not the Insurance Market Strategy until 2022. The insurance community is ready to make a significant and logical contribution to the discussion.

Vladimir Chistyukhin:

With respect to the implementation of new compulsoryand voluntary types of insurance:

A major challenge for the insurance community is when home disaster insurance programmes have been developed and accepted, but not a single insurance company has joined in. This is the risk of any voluntary or compulsory insurance today. As such, it is clear that any voluntary or any compulsory option will have both positive and negative consequences. It is not just a requirement that economic entities or individual get insured, there should also be a requirement, perhaps somewhat less stringent in some cases and more stringent in the case of compulsory insurance, that insurance companies offer this type of insurance.

It is important to consider the ideal way to implement such a law.

BCC colleagues and individual insurance companies have recently brought up the issue of discussing this subject with regional authorities. Clearly, regional authorities are not well-versed in insurance. They don't understand how insurance premiums

are set, what insurance companies count on, and, clearly, they are not ready to hand out their resources, just like that, without receiving anything in return. A study needs to be conducted on the type of programme or set of programmes that would be accepted by the insurance community as viable and that would also allow the regions, on their part, to establish certain basic principles and move forward.

Alexey Moiseev:

It is impossible to make home insurance compulsory, since it is impossible to force everyone to insure their property. This must be a voluntary service; people must understand that it is advantageous and convenient for them. Work needs to be done with consumers.

Accordingly, there needs to be a transition to voluntary insurance. Voluntary insurance also involves certain risks. An example of this is the completefiasco with insuring construction companies' responsibilities to their equity holders. The state essentially had to take all of that liability on themselves, because otherwise it would have been up in the air.

For this reason, of course, all of this needs to be approached very carefully.

Developing life insurance and implementing unit-linked insurance plans

Vladimir Chistyukhin:

Regarding life insurance and implementing unit-linked insurance plans (mentioned during the report on developing life insurance in Russia), developed by the Bank of Russia: it would be ideal if the insurance community, with all of their opportunities and resources (including our Russian colleagues' experience with foreign capital, the experience of the globally operating auditing community), were to develop and present their own plan for the implementation of unit-linked insurance to Ministry of Finance of the Russian Federation and the Central Bank. If unit-linked insurance plans, as a classic, globally popular form of investment insurance, were implemented, this could put insurers on a new level, move them significantly closer to mutual investment funds, and provide an opportunity to do something similar.

There is currently no complete product to facilitate further progress.

Igor Yurgens:

The State Duma notes that unit-linked insurance is a non-option due to the country's constitutional and legislative structure. However, Alexander Zaretskiy, as the head of the BCC committee for the development of life insurance, first proposed developing unit-linked insurance plans five years ago. He worked at the American company MetLife, which has a comprehensive approach to unit-linked insurance, i.e. shared life insurance with participationin an investment product. As such, the insurance community has developed and is ready to further develop this area.

Reforming the CMTPL market's tariff system

Arkadii Lyubavin (General Director of ASKO-Strakhovanie, question from the audience):

When the draft legislation for reforming the CMTPL markets tariff system was being developed, were the risks regarding access to policies in regions with high territorial coefficients considered?

Vladimir Chistyukhin (in response to Lyubavin's question):

When this draft legislation was being developed, we used actuary calculations that considered which coefficients and which factors have what effect on tariff-setting. Meanwhile, there is truly a notable difference from region to region, not just in relation to coefficients, but also to the factual state of losses and tariffication. Certain averaged data is not always accurate and, accordingly, does not allow for totally accurate calculations. This results in a rather complex paradigm.

The total range of the base tariff is calculated for the country as a whole, and the companies that operate in one region or another, monoregional companies, or ones that operate in closely-located regions, can experience certain issues in applying

these tariffs or, accordingly, individual coefficients, to their territories.

Federal companies are in a more privileged situation because they can diversify their risks, as they ensure the country at large. Regardless, after the first reading of the draft legislation in the State Duma, further calculations will be made to determine accuracy and whether the temporary deferral periods for implementing certain mechanisms and halting others are well-balanced.

Alexey Moiseev (in response to Lyubavin's question):

In making an analogy to the foreign exchange market, where the majority have moved away from fixed rates, it was noted that the insurance market will also be able to move away from tariff regulations when it starts operating effectively.

Developing agricultural insurance

Nikolay Galaguza (Advisor for Government Relations, Rosgosstrakh Insurance Company PJSC):

Significant progress has already been made. The Central Bank and the Ministry of Agriculture of the Russian Federation support this type of insurance. The progress is tied to increasing the scope of the insurance, the collection of insurance premiums, and claim pay-outs. However, the majority of European countries are currently considering the need to form a disaster fund for covering disaster risks.

The Russian insurance market could also potentially move in this direction. However, there are certain contradictions related to the unified subsidy. There needs to be work towards a situation where an actual subsidy aimed at insurance is paid out from the unified subsidy. The interest and trust of agricultural producers in such a solution is undoubtedly growing. This is a topical issue and requires serious work.

The fight against fraud in the insurance market. Implementing an institution of insurance investigators

Question from the audience:

Insurance companies must prevent the penetration of fraudulent payments in order to fairly and accurately adjust for losses. There has been a lot of talk about insurance companies developing investigative functions to look into insurance cases, for Russia to develop an insurance investigation service. However, additional rights and authorities must be established to this end.

Today, the law 'On Security and Detective Services' does not grant such rights, nor is this matter mentioned in the law 'On Organizing the Insurance Business.' Recently, there was a meeting at the General Prosecutor's Office where it was noted that the General Prosecutor's Office and the Russian Ministry of Internal Affairs are not ready to acquiesce to any amendments to the law 'On Operational Investigations' or the law 'On Operational Security Activities.'

To what extent is the regulator ready to consider the possibility of including insurance investigations into the law 'On Organizing the Insurance Business'?

Vladimir Chistyukhin:

The Bank of Russia fundamentally supports expanding the rights of insurance companies to conduct insurance investigations, however, any amendments made to the law on organizing the insurance business, rather than the law 'On Operational Investigations', will prove ineffective. Colleagues from the Ministry of Internal Affairs, the Prosecutor's Office, and law enforcement agencies were strongly against. This issue must be discussed widely and publicly and must include representatives of the Government of the Russian Federation, not just the law enforcement bloc, but also public institutions that are potential stakeholdersin the benefits brought to consumers from the work of such investigators.

A report must be prepared that considers global experience in this sphere and the challenges of implementing such a measure in the Russian system. Legislative amendments alone will not solve this issue.

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ROUNDTABLE 6.2

Motor Third-Party Liability Insurance: A Focus on Customization

Moderator:

Viktor Klimov, Financial Ombudsman in Insurance

Speakers:

Mikhail Volkov, CEO, Chairman of the Management Board, Ingosstrakh

Philip Gabunia, Director, Insurance Market Department, Bank of Russia

Petr Shkumatov, Coordinator, Blue Buckets Society

Andrey Yazykov, Leading Researcher, Department of Insurance and Social Economics, Financial University under the Government of the Russian Federation

Roundtable 6.2

Motor Third-Party Liability Insurance: A Focus on Customization

Philip Gabunia:

Motor third-party liability insurance ('CMTPL') is a strategically important area for the Russian insurance market.

A year ago IFC-2018 played host to discussions on CMTPL reform, and the insurance community has continued to engage on this topic throughout 2019. A bill has now been drawn up that will shortly be debated and voted on in the State Duma, and which will mark the beginning of the second stage of the path to the customization of CMTPL.

The main provisions of the bill are as follows: within the corridor established by the Bank of Russia, it will be possible to use a wide range of criteria for determining the individual rate for each consumer, such as driving style and traffic discipline, and other factors such as the coefficients related to vehicle power and region of primary use, and the obligation, if there is such a system for setting the rate, for the consumer to use an insurance calculator to obtain an CMTPL quote from different companies, and the increase in personal injury and death limits up to 2 million roubles.

This bill is primarily aimed at establishing better conditions for the consumer, and the state is interested in generating a more robust and flexible insurance market. Major insurers are set to benefit the most; they will be able to operate in the new conditions and compete for consumers, which will lead to lower rates and better-quality services. CMTPL is currently associated with problems such as fraud and market abuse that occurs on the part of the consumer or an organization that buys the rights from the consumer. However, the ombudsman came online on 1 June, and a session will be dedicated to it at IFC-2019.

With the introduction of the authorized financial institution, payment parameters have changed, and so this institution should stop such abuse of rights from occurring. Also, the initiatives contained in the bill, which will increase CMTPL coverage from the point of view of consumers who today do not have a policy as a result of the violation of the law, will make it possible to gain certain economies of scale that will give even more room for insurance companies to work within their network. The regulator will create a pricing corridor taking into account the sensitive nature of this subject for consumers, and in the future, as soon as this has been achieved, it will be possible to draw intermediate conclusions and move on from there.

Mikhail Volkov:

The insurance community fully supports the Bank of Russia and other departments with respect to CMTPL reform. Several stages to customize CMTPL have already been completed. Also, the customization of CMTPL has been included in the Development Strategy of the Russian Insurance Industry for 2019–2021, developed by the All-Russian Insurance Association.

Today, the regulator sets rates and calculates the BMS, which is relatively simple for insurers, but after the law is adopted, it will become necessary and possible for everyone to calculate a customized rate, and major providers of fully comprehensive insurance know how complex this is. Also, with the adoption of customized rates, competition will become more severe, and insurers are not sure that they will be able to maintain the current CMTPL profit margins.

Today, the situation with CMTPL is more or less under control and the insurance market is positioned in a financial model that roughly corresponds to the target model prescribed in the law – the payment level is about 80%, which is exactly what the legislator expected when writing the law. The only big problem is that this is the situation as of now. A year ago, it was fundamentally different, and the loss ratio is growing at a tremendous speed, as a result of which in the current situation, all other things being equal, insurers will probably have to increase their rates. The draft law needs to be finalized, considerable work needs to be done between the first and second readings. The insurance community at the Russian Association of Motor Insurers needs to look at all the problematic aspects of the bill from a legal point of view so that it meets the interests of both policyholders and underwriters.

The bill is being introduced to stabilize the CMTPL

system, after which it will be possible to incorporate new ideas and modify the CMTPL market.

Viktor Klimov (question to Mikhail Volkov, CEO, Chairman of the Management Board, Ingosstrakh):

What in the legal changes will prevent the insurance market from continuing to maintain high prices in the affluent regions to compensate for the losses associated with less affluent regions?

Mikhail Volkov:

Unfortunately, consumers and the judicial system behave differently in different regions, and with the almost complete customization of the rates, consumers in such regions will pay more for their policies. Perhaps they will be able to somehow put pressure on the authorities in these regions, which do not regulate abnormal differences from the Russian average.

Victor Klimov (question to Petr Shkumatov, Coordinator, Blue Buckets Society):

1. What is the consumer attitude towards changes to CMTPL in recent years? Have there been any positive changes in the market?

2. What is the biggest priority for the consumer and what benefits does the consumer seek to gain from any possible future changes to CMTPL?

Petr Shkumatov:

The Blue Buckets Society receives complaints regarding the entire automotive industry, including CMTPL. About three years ago, we received 400 separate complaints related to CMTPL. Compare this to the first half of 2019, when we received only 2 complaints (without losing any customers), while receiving even more complaints related to other problems. With CMTPL there has been a sharp reduction in issues, but a few years ago things were very different. It follows that with the changes made to CMTPL there are now no low-level conflicts.

Regarding the future, CMTPL should not only play the role of a claims settlement fund; it should shape the driving behaviour of the end consumer, and it should be expensive to drive dangerously. In this situation, strategically speaking, customizing rates is the right thing to do. But the question is how exactly the rates will be customized.

Victor Klimov (question to Petr Shkumatov, Coordinator, Blue Buckets Society):

Is it possible in the near future to create some kind of public individual rating containing information about driving behaviour? What will be the consequences in terms of competition, and will it be beneficial for the consumer?

Petr Shkumatov:

Liability insurance should not only be a financial instrument; it should motivate people to change their behaviour. A consumer should know which risk group he or she is in: green, yellow, red. This is essentially an individual insurance coefficient for each driver, which is tied to a particular person, and which will allow this person to change his or her driving behaviour, become a better driver and transfer from a more expensive, red group to yellow, and from yellow to green. So, this individual rate, which can be stored in the Bureau of Insurance Histories, will make good driving behaviour financially expedient.

Victor Klimov (question to Andrey Yazykov, Leading Researcher, Department of Insurance and Social Economics, Financial University under the Government of the Russian Federation):

How sustainable are all the planned measures to customize CMTPL rates in terms of numbers and economics?

Andrey Yazykov:

Calculations based on CMTPL insurance payment and loss statistics in various regions over the past 4 years show that a tariff corridor of 20%–30% will enable 88% of the regions to fit into this tariff corridor, and there is no longer a need for a regional rate coefficient. As for the vehicle power and regional coefficients (multiplying coefficients), if you no longer apply them, then you need to adjust the tariff corridor for these coefficients; their upper limit is 1.6 and 2.1, and their weighted average value

is about 1.3.

Also in support of the Bank of Russia initiative related to the increase in the number of age/driving experience categories, it was noted that the existing penalty table does not prevent drivers from breaking the laws, and does not factor in the losses in the event of an accident – it does not distinguish between major and minor accidents. Based on this, if the coefficients are cancelled, it is necessary to take them into account in terms of risk compensation and expand the tariff corridor accordingly; it is also possible to set the regional coefficient in a fairly fair range that will cover all insurer risks. In this regard, mathematical calculations have shown that the transition to customization is advisable.

Victor Klimov (question to Andrey Yazykov, Leading Researcher, Department of Insurance and Social Economics, Financial University under the Government of the Russian Federation):

How will an increase in the coverage for personal injury and death to 2 million roubles affect the cost of policies? Are there any calculations on this?

Andrey Yazykov:

2 million – the figures are right, and they correspond to the amount of compensation provided by other types of insurance or other government initiatives and policies related to the risk of loss of the breadwinner. Trends for the 4th quarter of 2018 and the 1st quarter of 2019 showed that the price increase will be minor, but noticeable. This means that if the coverage is increased to 2 million roubles, the price of a policy will increase by about 15%.

Philip Gabunia:

Following from the increase in the amount of coverage for personal injury and death, every effort must be made to prevent corresponding fraudulent cases from affecting the insurance sector.

Question from the audience:

What are the possible sources of information necessary to calculate risks? How will it work and what will the standards be?

What is the attitude of the regulator towards the solution to the problem of collating information, especially in the context of the Federal Law 'On Personal Data', and the need for insurers to adequately assess risks and possess a significant amount of information about a potential client?

Petr Shkumatov:

Today, CASCO (comprehensive insurance) collates data using telematics, but this is not standardized in any way, so information can be collated by any legal means available. In respect of CASCO, the situation is as follows: with telematics the policy will be cheaper, and without it more expensive. Regarding driver identification, which is more related to fraud, joint work is needed, including access to IT systems that can be accessed through the Russian Association of Motor Insurers, and the data hubs of various government bodies that would allow this. New products are emerging that may also be of interest to insurers, such as the vehicle registration certificate, which has the potential to be used by the market and the regulator in all kinds of helpful ways, so that appropriate decisions are made, access is gained and related technologies are used. Another very difficult aspect is the advantage gained by insurance companies that can share big data, and this is for the Bureau of Insurance Histories to deal with.

We need to proceed from how much this reform is really beneficial for all insurance companies, and that companies will compete to collate data and compare the dependencies between factors, including those factors that are not directly prescribed by law and are not related to telematics and other metrics, and the most successful companies in this respect will gain an advantage.

Question from the audience (Sergey Efremov, Vice-President of the All-Russian Insurance Association):

How is it proposed to replace the regional and vehicle power coefficients, which had a big impact on the rates? Does the regulator realize that the abolition of these coefficients will entail a significant increase in the rates?

Philip Gabunia:

If you simply cancel the regional coefficient, the rate will drop and insurance companies will fold. You will have to increase the rate in the regions where it drops; the law provides for a 40% shift of the corridor, 30% due vehicle power. Across the country as a whole, the situation is sustainable. Once the outcome of the second reading of the bill becomes clear, the tariff corridor will be calculated once again and adjustments will be made, because the calculations are largely based on data from a year ago. The main goal of the reform is to create a model in which the vast majority of consumers will be positioned inside the corridor, and the regulator will offer a customized, fair rate.

Mikhail Volkov:

Insurers should be able to significantly increase the rate for high-risk categories of drivers and so deter dangerous driving.

Ideally a consumer is insured in one insurance company for many years in a row and the insurer possess a large amount of information about him or her (driving style, possible risks), which enables it to offer the consumer the most precise rate. The transition from one insurer to another should become unreasonably expensive so that this does not happen.

Petr Shkumatov:

If you allow the rate, even for risky drivers, to increase by 3.5 to 10 times, then there is a risk that drivers will stop buying insurance. Before expanding these boundaries, it is vital to ensure equal rules of the game and to protect good drivers.

Andrey Yazykov:

In order to ensure balance and avoid a situation in which rates increase tenfold, there is a corridor that is set by the Bank of Russia, and in this case it will be necessary to act carefully so as not to increase any rate tenfold, even in cases that deserve it.

Question from the audience:

The key question is, if insurers increase their rates by 10–15%, then there will be large-scale falsification of policies in the regions. How is it possible to monitor that driver policies are genuine?

Philip Gabunia:

It is possible to track vehicles by camera, this technological capability is now being developed throughout the country, and not only in Moscow and St. Petersburg. It is unfair to fine someone when he or she can't afford a policy. Now the issue of affordability is a thing of the past.

Question from the audience:

Does the insurance supervisor intend to reinsure CMTPL and why?

Mikhail Volkov:

Insurers in most cases ideologically support the regulator. However, in our opinion, the issue of reinsurance in CMTPL needs further consideration. In such a large-scale form of insurance as CMTPL, the financial stability of the insurer and the entire system should be ensured not by reinsurance, but by sustainable insurance rates.

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ROUNDTABLE 6.3

The Consumer in the Insurance Market

Moderator:

Petr Shkumatov, Coordinator of the Blue Buckets Society

Speakers:

Yury Voronin, Chief Financial Commissioner for Consumer Rights, Financial Ombudsman Administration

Ivan Kozlov, Deputy Head, Service for Consumer Protection and Financial Inclusion, Bank of Russia

Evgeniya Lazareva, Project Manager, All-Russian People's Front 'For Borrowers' Rights'

Vladimir Skvortsov, CEO, AlfaStrakhovanie Group

Petr Shkumatov invited speakers to discuss consumer-related issues in the insurance market. The participants of the discussion touched upon insurance services standards, the nature and number of complaints against insurance organizations, the process of pre-judicial settlement of losses, as well as the financial ombudsman's functions.

Ivan Kozlov presented the regulator's position, foremost noting that companies should be customer-oriented. He highlighted the key factors that force people to file claims against insurance companies to the Bank of Russia, such as supplying inadequate information about the properties of a product while selling it to the customer.

Insurance rules and terms of the contract are often far too intricate. They can lead to a wrong (unthought through) choice of the insurance service by the consumer. Concurrently, the purchase of an irrelevant service leads to negative framing of the insurance market in general.

As part of its work, the Bank of Russia is addressing the issue of misselling. Just so, pre-emptive regulatory measures resulted in a reduction of complaints by 38% by the end of the second quarter of 2019. He answered 'zero' to Petr Shkumatov's question regarding the acceptable number of incoming complaints against insurers.

Insurance companies analyse their business practices and take measures to improve them. However, individual companies refuse to accommodate their customers and end up under substantial supervision.

Ivan Kozlov outlined the triggers that stimulate consumer interest in the insurance product and their further relationship with the insurance company, such as a thorough understanding of the insurance product and the company confidence.

He suggested taking note of international practices in terms of aligning the requirements for the disclosure of information about an insurance product.

He noted that the Bank of Russia is cooperating with the All-Russian Insurance Association to standardize the requirements for information materials about the major products on the insurance market. It is to contribute to the development of the market in general and to expand the consumer's means to compare products within the marketplace in particular.

Yury Voronin, answering Petr Shkumatov's question about changing behavioural patterns, noted the significance of a balance of the insurance market participants' rights and obligations. He delved into the issue of pre-judicial settlement through Chief Financial Commissioner for Consumer Rights. There is no need to standardize the form of complaint since compliance with every item of a signed agreement is to be examined anyway.

The Financial Commissioner for Consumer Rights service was established to encourage negotiations between the consumer and the financial organization. Companies should be interested, firstly, in satisfying the majority of policy claims at the pre-action stage, and secondly, in informing their customers on the protection of their rights through a financial ombudsman.

Further on, it will be possible to evaluate the company in terms of complaints filed on the financial representative's website and draw relevant conclusions based on statistical data. It is to stimulate companies to develop a specific culture and action plans for internal issues resolution, settling claims amicably. Another objective for establishing the financial commissioner institute is the consumer's rejection of unscrupulous traffic lawyers. Yury Voronin suggested that eventually, the digital ombudsman is to protect consumer rights.

There are specific statutory provisions in the Law on the Financial Commissioner. Still, there are no proceedings, unlike the civil, criminal or administrative. Majority of operations are to take place without the participants, except for complicated cases. There are also special provisions to suspend the case proceedings. For example, CMTPL calls for expert examination. However, the financial commissioner has the right to have their independent investigation to render a judgement. Leading lawyers and financiers, members of an expert council under the financial

commissioner are jointly developing solutions to build a consistent practice.

The speaker presented the statistics of approaching the financial commissioner. In the first month, 2,390 claims were received with the overwhelming majority, 95% on CMTPLs. The claims average is RUB 180,685. One thousand eight hundred forty-two claims were rejected for violating the claims procedure established by the Law. First, the insurant is to file an application to the insurance company and contact the financial ombudsman only in case of faulty resolution.

The financial commissioner's website already hosts 3,906 personal web offices, of which 3,800 are physical entities, 63 – legal entities, 43 – individual entrepreneurs. It points to the fact that the customers are expecting a response from the insurance company and, in case of a poor decision, are ready to file a complaint.

Vladimir Skvortsov agreed with Ivan Kozlov regarding the misselling, noting that combating it is a prerequisite for the healthy, sustainable development of the market. Information about the insurance product is to be presented to the client in an understandable, accessible and convenient manner.

However, he mentioned the significance of a meaningful approach to the amount and format of information provided to the consumer. Product information overflow poses the risk of confusing them. Insurance companies are to seek improved business processes, including the objective of reducing the number of complaints, for example, by possibly introducing control over hard selling additional services and misinformation.

Regarding the reduction of CMTPL complaints, he commented that the share of complaints on this type of insurance is generally declining, including due to the prevalence of natural compensation and combating unfair practices.

Vladimir Skvortsov noted that the claims settlement time is one of the drivers of reducing the number of complaints and enhancing customer satisfaction, as well as fair reimbursement. Insurance companies, including combating traffic lawyers and insurance fraud, are to improve internal processes, first of all through improving the quality of repairs, reimbursement and monitoring the settlement process. Russian Association of Motor Insurers currently works on regulating and unifying the quality of repair works requirements.

Evgeniya Lazareva emphasized that much depends on a fair and honest service, for example, in such a large-scale segment as CMTPL.

In her presentation, she sited data on CMTPL services provided. Monitoring revealed that the majority of respondents identified imposing insurance services and motor vehicle inspections as significant downsides. The highest satisfaction was reported from in-kind insurance payments.

Also, Evgeniya Lazareva emphasized that monitoring the ease of purchasing a CMTPL revealed that 70% of 6,000 participants from 83 regions had no issues and 30% had, which is a relatively large number within this survey.

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ROUNDTABLE 6.4

New Approaches to Assessing the Financial Stability of Insurance Companies

Moderator:

Maria Bogomolova, Partner, Assurance and Consulting Services Leader to the Insurance Sector, PwC Russia

Speakers:

Alexey Bredikhin, Director, Financial Institutions Rating Group, Analytical Credit Rating Agency (ACRA)

Anastasia Vinogradova, Partner, Head of Insurance and Non-State Pension Funds Advisory Division, EY

Philip Gabunia, Director, Insurance Market Department, Bank of Russia

Andrey Saveliev, Director for Finance and Investment, Corporate Governance Directorate, RESO-Garantia.

Maria Bogomolova suggested that the speakers discussed new ways of assessing financial stability of insurance companies, in particular, the Bank of Russia's propositions on solvency margins of insurance companies, assessment of credit risk and borrowers' debts.

Philip Gabunia noted that the modifications in financial stability assessment were based on the fact that the existing regulations were not optimal from the point of view of identification and timely evaluation of the potential of insurance companies to fulfil their obligations. The number of insurance market players has recently decreased more than by half. The risk-oriented approach should be preferred, that is used in other countries and markets.

Thus, the regulator suggested three major novelties:

1. Comprehensive review of insurers' balance including all their assets and liabilities to understand their effect and assess the insurance obligations performance;

2. The assessment of individual assets whose value cannot be accurately evaluated is taken as a zero;

3. Introduction of the risk component in the assessment of insurers' financial status that addresses market, credit, and other risks and that will be growing up to 2025.

The new systems are to be launched in the middle of 2021, with full implementation of all regulatory requirements on balance – in 2025. At first sight, even a conservative assessment shows that many insurance companies do not have enough money to fulfil all their obligations, therefore, implementation of all regulatory requirements will make the capitalization that all the insurers will need in 2025 extremely high. Philip Gabunia cited some data on the contemporary assessment of requirements applicable to 2025, asking to consider those to be strictly preliminary. In many respects, sufficient capital is caused by the effect of concentration, for example the deposits are all in one bank – they should be redistributed, and the company should adapt without the need of capitalization increase. The second reason is the property and capital structure that is not smooth and allows adding certain assets to the overall balance. Thus, obvious steps in working with assets can help provide sufficient and required capital to cover the liabilities. In total, working with assets only during the transition period, without considering other capabilities of the company, can significantly increase the assessment of the required capital. Philip Gabunia said that the regulator's estimation made for the insurers, which collected up to 54% of insurance premiums in the insurance market, the capitalization would require a 18% increase of the existing capital to meet the new requirements in 2021, and further – 4–5% a year by 2025, taking into account the increasing shake-ups.

The net profit of the insurers added up to 165 billion roubles last year, which means that the market can handle capitalization increase in case there are no significant crisis changes. Most companies only need to take certain technical actions to redistribute the assets. Philip Gabunia thinks that only those companies cannot handle capitalization increase that underestimate their total liabilities and are not willing to change their asset structure, thus, concealing their financial instability.

The suggested model of financial stability assessment only addresses the assets, their reliability and adequacy, and does not address the passives for creation of insurance reserves. Philip Gabunia noted that the regulator had agreed to accommodate the perspective of the market and was planning to replace the equalization fund with a simpler and more convenient form.

The regulator's shift to Solvency II announced earlier is still in progress and requires additional adjustment. Introducing a new capital estimation model is a meaningful step towards Solvency II. By 2021–2025, when the new capital estimation model has been introduced, and required data sets have been accumulated for a more precise assessment of forex, stock market risks that can be used as a basis for a reliable model of sustainability and paying capacity, which is required by Solvency II.

Andrey Saveliev spoke about advantages and disadvantages of the new financial stability assessment model from the insurers' perspective.

Since there are various players in the market, he voiced the position of insurers with high levels of capitalization and solvency, adding that the strategy seamlessly encompassed quality control criteria of asset liquidity and credit risk, which is a revolutionary step in regulation, because the old procedure that did not address the coverage of insurance liabilities did not stand up to scrutiny. According to Andrey Saveliev, the new approach is an evaluation of an actual insurance company capital and "one cannot suggest anything better". The implementation of the new regulations will make the insurance sector more stable. However, some insurers with a weak balance will not survive and will have to leave the market. Andrey Saveliev thinks that the only disadvantage of the new regulation project is that the insurer keeps the larger share of the profit as capital, which will decrease the revenue performance and growth indicators of the companies. However, market concentration will increase, mergers and acquisitions will accelerate, which, according to the speaker, is a good trend for the market.

Andrey Saveliev also noted certain nuances that the implementation of the new financial stability assessment model should address. First, the importance of the strict position of the regulator regarding the borrowers' debts and subrogation requirement. Instead of debt relief that requires longer terms that are proposed, Andrey Saveliev suggested using actuarial methods of debt estimation and booking that have been used by 'retail' insurers. Second, the equalization fund is considered to be anachronic, and the transition to certain risk loading of the capital suggested by the regulator will help financially punish mala fide insurers that get unacceptably too many payments. Third, evaluation of the required capital amount leaves out fine adjustment of the formulas for calculating individual risks that are addressed.

Alexey Bredikhin spoke well of the shift to risk-based regulation which is essentially equivalent the Solvency II European directive. He warned that it was not advisable to copy foreign experience, since the capital value of Russian companies is three times higher than that of the European – 10–15% vs 4–5%. Therefore, it does not make sense for Russian insurers to decrease the likelihood of insolvency to 0.5%, if the decrease of economic losses will be less than the capital value required for it. In addition, he made a few notes to be discussed at the final adoption of the document:

1) setting higher requirements to the capital for systemic insurers vs other companies;

2) the regulator's rule to create capital to fully secure certain assets that are not the most reliable looks too strict and excessively loads the insurance business;

3) the structure of the formula for additional capital estimation is quite complicated, but it does not address the correlation between insolvencies that are interdependent rather than independent;

4) the insurers' requirement to follow a certain solvency margin which already addresses some risks is still relevant, as new estimations are added, the requirements turn out to be too high, since the correlation measure between the estimated risks is not addressed.

Philip Gabunia commented on this speech, noting that the regulator, on the contrary, made the correlation between the estimated risks much looser in the new method, but it is open to discuss certain adjustment parameters of the model. As for changes in the insurance reserves calculation, he suggested discussing them later when all the issues regarding the capital are solved. Philib Gabunia also said, on behalf of the regulator, that it was not acceptable to apply the principles of proportionality to financial stability assessment of systemic and non-systemic insurers based on customer needs. He also called the market players to estimate their potential capitalization increase using the suggested formula already now, before new requirements were introduced in 2021, mentioning that the relevant method was submitted to the All-Russian Insurance Association.

Anastasia Vinogradova analysed the effect of IAS 17 on the insurer's balance in the context of the adoption of financial stability assessment project, suggested by the regulator as equivalent to

Solvency II. Unlike the EU, the Russian market is introducing both documents at the same time, which can provide certain benefits. In particular, she noted that shift to fair estimation of insurance liabilities would be required in the near future, replacement of the equalization fund with the risk loading to claims reserves would be an appropriate price to pay for uncertainty of the insurance risk, which, in general, might result in an increase in insurance reserves. Life insurance reserves will also undergo significant changes, due to transition to reflecting cash flow results and profitability margin booking. Like the other speakers, Anastasia Vinogradova also noted that she fully supported the regulator's method and the upcoming shift to IAS 17, and she urged insurers to start testing their risks and capital in advance. In addition, she warned about high costs that insurers would face in their transition to IAS and suggested making both novelties as similar as possible, adding a switch to the new insurance reserve estimation model.

Answering the questions of the session participants, the speakers addressed problems of the forthcoming implementation of the Solvency II Pillar 2 on requirements for corporate governance. And if Philip Gabunia spoke about the necessity of establishing regulatory requirements to insurance management, Andrey Saveliev, on the contrary, called for regulation of the results rather than of business processes. The speakers expressed different opinions on the effect of the market concentration growth, the size of requirement for additional capital and social functions of the insurance market and of regional insurance companies.

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ROUNDTABLE 6.5

Life Insurance: Prospects

Moderator:

Maksim Chernin, Chairman, Committee on Insurance against Accidents and Develoment of Life Insurance, All-Russian Insurance Association

Speakers:

Maxim Danilov, Vice President, All-Russian Insurance Association

Alexey Ermakov, Head of Segment and Non-Credit Products Development Directorate, Alfa Bank

Alexey Rudenko, General Director, IC Rosgosstrakh Life

Ilya Smirnov, Deputy Director, Insurance Market Department, Bank of Russia

The session kicked off with the moderator **Maksim Chernin's** presentation of the principal trends in the development of the modern Russian life insurance market. Over the past year, life insurance developed at the all-time high pace – 36.5% growth with only accident insurance exceeding this indicator and amounting to about 40%. However, life and accident insurance share the same market segment. The absolute market size reached one and a half billion roubles. The total available market grew by 15%, and only by 8% when excluding life insurance. In a 10-year retrospective, the life insurance market had a 38% average annual growth rate. One and a half to two years ago it came out on top of all segments of the Russian insurance market, overtaking CMTPL (compulsory third-party car insurance) and voluntary health insurance, and becoming a 'local economic miracle'. The main driver of such accelerated development over the past five years has been investment life insurance. Its share amounted to 65% in 2018. At the same time, the percentage of credit life insurance, which drew the most criticism for its binding nature, fell from 56% to 19%. However, by the end of last year, and especially at the beginning of this year, the situation changed, and qualitative problems of sales and organization surged.

In the middle of last year, after an ample discussion of the quality of life insurance products, standards for disclosing information while selling life insurance products were developed and approved. They were further supported by the Presidium of the All-Russian Insurers Association and became effective in January 2019. A few months later, the Bank of Russia's instruction on disclosure standards for life insurance products came into force. At the earliest date, the ARIA standards are to re-align following the Bank of Russia's guidelines. Maksim Chernin noted that either after the introduction of changes or escalation of the market discussion, the trend has changed. In the first quarter of 2018, compared with the same period of 2017, for the first time in ten years, the market fell by 5.5%, and, excluding the segment leader, even further, by 16%. The share of investment life insurance fell for the first time in ten years and amounted to 46%. Maksim Chernin highlighted an increase in savings life insurance by 49% as a silver lining.

Ilya Smirnov presented the regulator's position on the current and future development of the life insurance market. First of all, he extended Maksim Chernin's presentation with data on insurance profitability for customers, which averaged 2% for three-year contracts, and slightly more for five-year contracts. In general, the indicator is low, and this is due to several reasons. The first is a client's random timing to enter the investment market, on the stock markets high or low, which conditions the future return on investment. To make an effective decision on the market entry, a client must be almost a professional investor. The second is a competent exit, the choice of just the right time to terminate the contract when the return is at its best. However, the policy-holder cannot make an independent decision, since the insurance contract has a strict termination date.

Moreover, the investment strategy of a contract is pre-set, and the parties are not authorized to make any changes during the insurance period, even though the inefficiency of the selected tools becomes obvious. Hence, the insurer should be more flexible, maybe in keeping with mutual investment funds. Client and the insurer should be in continuous interaction to alter the investment strategy and obtain the highest possible yield. Separately, Ilya Smirnov turned to a problem of life insurance products misselling but described it as a minor issue impeding the welcome development of life insurance, including also the high commission fees for banking channel sales. The major disadvantage of agent sales is that commission is paid after the contract, and not based on the sold product performance. The one-time-only interaction of the insurer with the client is the problem. Its fundamental solution is regular contacts between the service provider and receiver, the insurer and the client, regular deposits, the adjustment of the investment strategy, the agent's and insurer's commission in the form of some 'management fee'. Internationally solution to this problem is known as 'unit-linked'. In this respect, the regulator is willing to support the insurance community developing such products. Ilya Smirnov noted that the regulator, along with the insurance community, is to ensure that this product becomes trustworthy and provides high investment returns.

Answering Maksim Chernin's question on other life insurance options, Ilya Smirnov noted that, in his opinion, the future is with complex, packaged products that enable the client to simultaneously address investment, savings and guarantee issues in terms of health or accidents insurance.

Maxim Danilov presented the position of the All-Russian Insurance Association in resolving current issues of life insurance. He introduced the critical initiatives offered by the market to facilitate its favourable development. Before implementing any potential solutions, he proposed to determine the role of life insurance in the economy and its relevance for the state, society and people, all while similar socio-economic problems are being solved by NWF, SIF, PFRF, PPF, MIFs and many others. Market participants need to define a) its fundamental nature and b) stand relative to all other industries. From then on, all current issues will virtually cease to exist. Maxim Danilov noted life insurance's potential in poverty reduction. A wealthy person can afford expensive healthcare, and the poorer the person, the more they need insurance to cover expenses in adverse social situations. Perhaps this is the 'entry point' for us. In conclusion, Maxim Danilov emphasized once again that finding the unique value of life insurance for society would warrant a 'fundamental shift' for the industry.

Maxim Chernin supported the opinion suggested and urged market participants to determine the main agenda for changes, to find new growth points. An analysis of Western markets reveals that previously life insurance successfully developed due to a special tax regime. Now, these tax incentives are declining, and markets are stagnating, young generations are less interested in long-term savings instruments. The search for the next life insurance market niche is relevant not only for Russia but also for developed countries. Maksim Chernin also addressed the question of accelerating life insurance's new growth dimensions to Alexey Rudenko.

Alexey Rudenko, in keeping with previous speakers, started his presentation with a blitz analysis of the place and role of life insurance in the modern domestic economic paradigm highlighting its inadequate investment market reach compared to, for example, bank deposits, less than 3%. In Western markets, the share of life insurance reserves in comparison with bank deposit products is 10–15%; hence, the industry has enormous growth potential. He expressly agreed with Ilya Smirnov that investment savings are to provide for the future growth of the industry. The possibility of risk insurance for a population of one hundred and fifty million people can amount to only one hundred billion roubles on average with an insurance policy for a million roubles costing about a thousand roubles. However, even now, by the end of 2018, the life insurance market is five hundred billion. Investment savings are to fertilize further growth. Instead, the question is how to make this growth sustainable, how to prevent problems down the road, such as misselling, low profitability, and maybe even the central issue of high commissions.

According to Alexey Rudenko, 2018 showed low returns on life insurance contracts because the economy and the stock market stagnated. In 2017, the 'top' performance amounted to 38%, and policyholders multiplied their savings. He also pointed out that life insurers should consistently fight against the fact that individual life insurance is compared to a deposit. It is not a guaranteed income tool, but rather a transition to a stock market investments tool. Thus, insurers should accept investment income as a criterion for choosing a strategy. The previously mentioned sparseness of contact with the client as a drawback can be overcome by switching to regular contributions. Their further advantages are full applicability of tax deductions, the option of actual additional sales, averaging returns on regular investments through stock market ups and downs.

Alexey Rudenko cited the traditional expansion of tax benefits in exchange for placing insurance reserves in government stocks as the main driver for the development of the life insurance market. Right now, life insurers hold 10% of the state debt, and in 2018 they bought half of all new government bond issues.

Alexey Ermakov in his speech presented the position of the banking sector focusing on customer relations to maximize their satisfaction through personalized financial planning and offering a

range of services and products vs. for example just individual life insurance. He sees disinflation and reduction of deposit interest rates, which promote investments as factors for the upward development of the life insurance industry. Alexey Ermakov paid a lot of attention to the problem of misselling, justifying its existence exclusively by banks' management KPI system. The need to retain the client and guarantee sustainable customer relations through personalized financial planning calls to waive banks' short-term high operating revenues from the sale of insurance products. With that, he pointed out the complexity of choosing an investment strategy for life insurance. Insurers struggle to compete for investment profitability with professional stock market participants. Thus, other factors should steer the client's choice in favour of life insurance. Otherwise, with competent professional advice, they "will not choose live insurance as an investment strategy".

During the final discussion, the session participants also discussed the following issues: a concept for the development of life insurance with a general public appeal; establishment of other than banking channels for insurance products sales; the advantages and threats of embedding investment life insurance in personal financial planning products; development of risk life insurance and enhancing its social role; improvement of insurance services especially in terms of payment of insurance claims.

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ROUNDTABLE 7.1:

Funding Entrepreneurship: A National Priority

Moderator:

Mikhail Mamuta, Head of Service for Protection of Consumer Rights and Ensuring the Availability of Financial Services, Bank of Russia

Speakers:

Muhammad Yunus, Nobel Peace Prize Laureate of 2006, Founder of the Grameen Bank

Alexander Kalinin, President, All-Russian Non-Governmental Organization of Small and Medium-Sized Businesses OPORA RUSSIA

Dmitry Golovanov, Chairman of the Board, SME Bank

Gennadiy Margolit, Executive Director, Innovation and Investment Market, Moscow Exchange

Elena Dybova, Vice President, Chamber of Commerce and Industry of the Russian Federation

Andrey Tarakanov, Deputy Director, Department for Investment Policy and Entrepreneurship Development, Ministry of Economic Development of the Russian Federation

Roundtable 7.1

Funding Entrepreneurship: A National Priority

Session moderator **Mikhail Mamuta**, setting the stage for the discussion, noted the indisputable significance of small and medium-sized business (hereinafter, SME), that is currently being discussed on all major platforms as holding the most potential for economic development. The moderator set the session's spotlight on a comprehensive review of SME financing and development, including within the national project and the Bank of Russia's road map for the development of SMEs funding.

Mikhail Mamuta, in his opening speech, noted that ensuring access to finance is an essential component of the successful development of the SME sector, but it is not the only one. Financing is mostly a supportive measure. The business environment should be so welcoming that people strive to become entrepreneurs, clearly see the potential, and go there for financial and personal fulfilment. In his speech, the Moderator mentioned a marked increase in granting loans to SMEs in the first four months of the year. Within the limits of existing powers, the Bank of Russia strives to support this growth, while allowing for controlled risks. **Mikhail Mamuta** outlined the focus areas of the Bank of Russia's road map for the development of financing of SMEs. That is to say, much attention is paid to incentive-based control of SME financing. Over the past and current year, many innovations were implemented that are to simplify and make lending to this sector of the economy more attractive for banks. The road map pays particular attention to the digitalization of bank-client relations. Currently, the Bank of Russia is working on exclusive models for small business lending risks assessment. It should further the interest of banks that are using internal risk assessment tools. Separately, the Bank of Russia focuses on microfinance organizations financing the business and on supporting measures. Much attention is paid to the development of the stock market for fast-growing medium-sized companies, the so-called gazelle enterprises that are looking for financing to ensure further growth. The speaker also noted the potential of crowd funding and leasing. **Mikhail Mamuta** concluded that, in his opinion, the processes are going in the right direction. However, the current contribution of small and medium-sized businesses to the Russian economy is yet to meet the expectations outlined in the ambitious national project. He also suggested discussing the role of the banking system, including small and medium-sized banks with a basic license in achieving strategic priorities.

The moderator gave the first word to the special guest of IFC 2019, Professor **Muhammad Yunus**, Nobel Peace Prize Laureate and one of the founders of the microcredit system for small business and social entrepreneurship. Mikhail Mamuta raised the question of the most popular financial instruments across the globe that hold the highest potential to support small and micro-businesses of start-up entrepreneurs, including social entrepreneurs, in the view of the law on social entrepreneurship being adopted in the Russian Federation.

Muhammad Yunus, in his speech, emphasized the importance of financial inclusion when financial services are provided on reasonable terms. The speaker noted the specifics of his project, which can be attributed to the open 'new' banking system. The project exists for those who have few and far between opportunities to start a business, and also it does not rely on the pledge and legal services. The company provides services in Bangladesh and 15 US cities.

According to **Muhammad Yunus**, most people desperately need just a small amount to start their own business. The speaker also noted that it is only natural for humans to be an entrepreneur, but a financial system that would organically support this trait is yet to be established. Thus, loans for poor people are social work and part of the company's social operations aimed at resolving people's problems and creating opportunities for young people.

Alexander Kalinin, answering the moderator's question on financial inclusion and the entrepreneurs' expectations, spoke about the findings of a quarterly survey for small business entrepreneurs being conducted by OPORA RUSSIA for more than three years now – the RSBI (Russian Small Business Index). The first-quarter results revealed the positive expectations of the business regarding the second quarter and the preceding deterioration of attitude over two previous quarters. Speaking about trends,

Alexander Kalinin emphasized the growth of filled financing demand. Already 23% of entrepreneurs surveyed state they were able to obtain loans (compare to the previous 15%). The speaker noted the growth of the loan portfolio along with the growing demand for credit resources, primarily for the replenishment of current assets, due to tax and tariff hikes, the abolition of deductions for social contributions since 1 January for small businesses in 32 industries, and some other factors. Regarding soft loan programmes, especially those under the national project (Programme 8.5), **Alexander Kalinin** noted the need to change specific parameters and expressed solidarity with the Governor of the Bank of Russia Elvira Nabiullina's position that small banks should be included in this programme. Otherwise, there is a severe risk to fall short of the national project's goal to issue a trillion roubles at a preferential rate for small and medium-sized businesses this year.

Answering the moderator's question about the measures essential to reshape the attitude towards SMEs, especially the youth's perspective, the speaker pointed out an unprecedented decision to include an information campaign in the national project. The objective of the campaign is to have more people to start a business. **Alexander Kalinin** is to oversee and manage this federal project. In September, the Russian Federation will launch a large-scale information campaign on primary television channels, radio, social networks, using outdoor advertising, to alter the infosphere around starting a small business and it's topmost importance for the society in general.

Moderator **Mikhail Mamuta**, passing the floor to Dmitry Golovanov, elaborated on the access of small and medium-sized banks, including banks with basic licenses, regional banks to all kinds of soft loan programmes raised by the previous speaker. **Mikhail Mamuta** noted that through the joint efforts with the Government of the Russian Federation, all strict barriers in terms of capital requirements and ratings to qualify for 8.5 Programme were withdrawn. The moderator emphasized that small banks demonstrate a robust appetite for both of the Bank of Russia's 8.5 and 6.5 programmes. However, due to the somewhat limited capabilities of the banks, an intensive infrastructure integration deems fit. The moderator addressed the next speaker with a question about what is being done and will be done to facilitate and simplify the banks' participation in the implementation of national projects.

Dmitry Golovanov noted that the Bank of Russia had taken a massive step towards business and banks in searching for new mechanisms to include SMEs in financial and stock markets. First of all, in terms of pressure on capital, issues related to portfolios of homogeneous loans and claims and to simplifying the system of making credit decisions. The speaker touched upon two topics. One is the 8.5 Programme of the Ministry of Economic Development of the Russian Federation and the 6.5 Programme of the Bank of Russia. He mentioned the challenges of implementing the 8.5 Programme, which is to provide small and medium-sized businesses with access to resources, rather than to further profit commercial banks or create a liquid banking market. The second is the securitization of loans issued to SMEs. **Dmitry Golovanov** quoted that in two years SME Bank has implemented loan securitization transactions worth more than RUB 20 billion, but noted that commercial banks do not show any interest in participating in such transactions. According to the speaker, this is due to the complexity of the mechanism itself, in particular, a sophisticated accounting system and the need for IT support, some issues with collaterals and conveying the essence of the tool to borrowers, as well as the irrelevance of current liquidity for many banks that are at a reasonably high level.

Gennady Margolit delved into stock market tools noting that only the most transparent and ambitious companies get listed. Bonds remain a popular instrument, however, the main motive is the prospect of public capitalization, IPO. The speaker emphasized that the Moscow Exchange and the Growth Sector are a kind of accelerators that locate and foster gazelle companies. Such enterprises are integral to economic growth and hold the potential to become national leaders. **Gennady Margolit** announced the end of the exchange infrastructure test period. This year already 9 companies emitted

securities (6 of them are SMEs), which is a new phenomenon for the Russian market, and it was made possible partially owing to support tools established in the national project. The speaker noted that the national project contains exactly those instruments that are the most effective and least toxic. So, it means that the company takes whatever steps are necessary to enter the public stock exchange market while receiving a subsidized coupon rate and costs of preparation for entering the exchange. Gennady Margolit emphasized the role of partners (AO MSP Bank, AO MSP Corporation) and their tools (guarantees and anchor investments), as well as marketing plans involving entrepreneurial associations (OPORA RUSSIA, CCI RF) and the Bank of Russia's operations in the Russian regions.

Elena Dybova at the beginning of the speech quoted some SME statistics: 39% – wholesale and retail, 21% – services, while 90–95% of those are micro-business. The speaker noted that the system of property-secured loans stalls the growth. At that, she noted the deep interest in regional banks, as they know the local business best. **Elena Dybova** also emphasized the advantage of allowing regional banks to implement special programmes, given that Programme 8.5 does not stipulate for the trade industry.

Andrey Tarakanov delved into Programme 8.5 of the Ministry of Economic Development of the Russian Federation, noting that this is not the first approach to soft loan programmes. They are being implemented since 2017. The speaker pointed out that the goals set in the national project (SME employment for 25 million people, 32.5% contribution to GDP) are subject to affordable funding availability. The speaker pinned down the amendments to Programme 8.5. Firstly, considering the Bank of Russia's proposals, the requirements for credit rating and tax clearance were lifted. It was a limitation for many banks' participation in the programme. Based on the results of two screenings, 91 SME banks (which account for 70% of the entire lending market) are already participating in Programme 8.5. **Andrey Tarakanov** noted the Ministry's willingness to consider proposals for liberalization and simplification of banks' access to Programme 8.5. However, he questioned the fundamental impact of these conditions on the achievement of the national project objectives. The speaker specified the Programme's lifted restrictions (compared to the last year's Programme) in terms of its accessibility for borrowers, raised threshold loan amounts from 100 thousand to 500 million for operating assets, from 500 thousand to a billion, and even to two billion for some industries for capital assets. There are no restrictions on lending rates, no requirements for operating–capital assets ratio. The subsidy rate is the cornerstone.

At the end of the discussion, the speakers answered questions and comments from the audience and responded to the moderator's blitz poll.