International Financial Congress

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PANEL SESSION III

Competition on the financial market: obstacles and solutions

Moderator:

Sergey Shvetsov, First Deputy Governor, Bank of Russia

Speakers:

Anatoly Aksakov, Chairman, State Duma Committee on Financial Markets; Chairman, Association of Russian Banks

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

Andrey Kashevarov, Deputy Head, Federal Antimonopoly Service of Russia

Georgy Luntovskiy, President, Association of Russian Banks

Ekaterina Trofimova, CEO, Analytical Credit Rating Agency (ACRA)

Paul Andrews, Secretary General, International Organization of Securities Commissions (IOSCO)

Sergey Shvetsov:

... We live in a capitalist environment and are ourselves a capitalist country. And if we go back to classical economics, then we see that the protection of personal property, the equality of all business entities before the law, and competition are the founding principles that enable economies to develop, new proposals to be formed, new levels of quality to be achieved for the consumer, new innovations to be introduced, costs to be reduced, and so on. In other words, the role played by competition is extremely important.

At the long-established Higher School of Economics conference, Vladimir Mau said that the better regulators are able to tackle crises, the lesser the extent to which competition's function of creative destruction makes itself felt. But if market participants do not go bankrupt, if they are saved by the state, if our regulations prohibit business models that are too risky and too alternative, then how can competition be translated into an improved business environment?

This can be applied to Russia especially. Over the last 20 years, and to a significant extent in recent times, we have witnessed the cleansing of the financial sector. Not all companies were reorganized, of course; some went bust, and businesses and citizens lost some of their money. That is why both traditionally and in light of these events, trust in government in Russia has been greater than trust in the private sector. But then, if we are saying that the financial market is built on trust, and that trust in government is greater, then do private players on the financial market have any chance at all of being able to compete fully with state-owned companies?

Undoubtedly a competitive environment should mean observing the rules, because those who do not will always have a competitive advantage and the ability to outpace honest players. And honest players are not interested in engaging in a market where they follow the rules while others do not. This results in quality capital leaving the market. That is why combatting dishonest practices is without question the most important aspect of regulating the environment.

Our task for today is also to consider other avenues and measures with the objective of supporting a competitive environment and ensuring that players who genuinely apply their intelligence and new technologies are able to obtain a market advantage.

Andrey Kashevarov:

... We have long been determined advocates for the development of competition. We need to think about how much further the government should involve itself in the economy. I would certainly say that one of the key priorities of future development should be halting the governmentalization taking place in all sectors. We need to develop private business and private initiative – this is the foundation needed for national development. An economic breakthrough is certainly possible if we apply this model, this formula as a concept in regulating the economy.

A key element of a competitive advantage in the

banking market lies in having access to cheap liabilities, which state resources generally are in one sense or another. We have been saying since last year that, in 2016 alone, more than 30 regulations were adopted to ensure a comfortable existence on the market for exclusively state-owned banks or banks in which the state holds a stake. The private sector has accordingly lost its advantages.

It is understandable that the government would wish to provide this kind of support if a bank finds itself with obligations to the state. But it is entirely illogical for borrowers to also be transferred to these state banks with subsidized interest rates and various other forms of state support. We are effectively seeing a situation where we first selected good banks, and then gave these good banks good borrowers. The philosophical question here is what do we do with the rest?

And the only possible objective component that will ensure equal access to all banks is a rating system. If we assume that we are moving away from our own capital and from the criterion of state holdings in a given bank as the basis for access to government resources, then let us rely on ratings and trust our ratings agencies.

The next thing will be the governmentalization of the banking system and steady growth in the state's share in this or other markets, in lending to companies and individuals, and in the placement of companies' and individuals' deposits. This share is currently estimated to be in the range of 64–66%, depending on the market. We have proposed prohibiting state banks from acquiring any more, and have found a certain consensus with the Bank of Russia on how this can be done.

Sergey Shvetsov:

... Yesterday we published and presented a report on the status of competition in the Russian Federation, in which one of the topics addressed is the general nature of the competitive environment. We concluded that what we have is a conventional oligopoly with a rearguard competitive environment. A conventional oligopoly, because in a number of regions it is actually a monopoly. And when it comes to the market, we often hear about the leader that has got so far ahead of all the others that their technology gives them advantages that other market participants cannot compete with, and this is what many consider to be the biggest problem.

The next speaker is Paul Andrews. Paul, I have two questions for you: IOSCO has issued a lot of standards that concern the quality of the securities market, counteracting negative practices on the securities market, and how fair forms of information disclosure can be safeguarded. Despite all of these standards, there is no standard devoted to competition. Is competition not important for the securities market? Why is IOSCO not addressing this issue? The second question is: today you see that a lot of countries are concerned about their banking sectors being too dominant, and that the Russian Federation also has this problem. Is competition between banking and non-banking sectors therefore a specific issue for developing markets, and what means are available to regulators to maintain a balance between banks and 'non-banks'?

Paul Andrews:

... It is true that IOSCO has not released any reports on competition, and there are two reasons for this. Competition issues need to be considered more widely than from the point of view of competition alone. They should be considered from the point of view of capital formation, because if you have the necessary fundamentals for the formation of capital, then you will have competition. We have discovered that in key cases, issues of competition and issues of capital formation are localized, local issues.

We have decided to devote more time to fundamental matters, to what are called foundational building blocks: protecting investors, protecting fair markets, and removing systemic risks. If we are able to safeguard these aspects, then capital formation and competition will follow in one way or another from these foundations. That is why the standards, recommendations, and guidance that we publish is focused primarily on these three areas – protecting investors, ensuring transparency and accordingly fair markets, and reducing systemic risks. Of IOSCO's more than 200 members (and these are, for the most part, capital market regulators – central banks, the Bank of Russia, the ACC in the USA, and the Financial Conduct Authority [FCA] in the United Kingdom), the majority have a mandate to regulate competition or capital formation, and so we are also oriented towards the formation of capital.

We do not have any kind of silver bullet or panacea for promoting competition and ensuring proper capital formation. But what we can do is to lay foundational building blocks that will enable IOSCO members themselves to work through the issues that arise on the path to establishing more competition and more open markets: disclosing information, managing conflicts of interest, and safeguarding fair dealings and honest relationships with investors. If we can focus on these building blocks, competition is sure to follow. That is my answer to your first question.

Your second question concerns banks and capital market regulators. This is something that I spend a lot of time thinking about. Honestly speaking, this seems to me to be a false dichotomy, because I do not view this as competition. The fact is that banks have their role, and that banking regulators and capital market regulators have their own role and their own direction. These are things that complement each other. In many jurisdictions (at least in the ones that we see through IOSCO), capital market regulators stand alone and so do banking regulators. Russia is lucky in this regard: your banking regulators and capital market regulators are joined together in a single entity within a single organization.

It is now becoming increasingly clear to us that collaboration and cooperation between these two regulatory functions are vital for the development of capital markets in the 21st century. We have come through a financial crisis that was followed by reforms aimed at restoring the system and changing it in productive ways. But now we are seeing new risks emerge on the market, and we need to work together with such risks as cryptoassets and cybersecurity, and there are also elements here connected with capital markets and with the banking environment. We need to look together at

innovations in financial instruments, because these are also changing the game for banks as much as they are for regulators. The instruments that we are proposing can also be used by central banks. That is why I am envisaging an environment of cooperation. For me, the major threats are in the markets, and not in the banking sector. If we do not work together, then we are bound to see a new crisis.

Sergey Shvetsov:

... Evgeny [Bushmin], your colleague Mr. Kashevarov believes that the government's share in the financial sector should be limited. Firstly, what do you think – might it not be too late for this? It is already quite a big share. And my second question: if consumers want government guarantees, if they are comfortable with financial institutions belonging to the government, do we need to do anything or fight against anything, if consumers are happy with this?

Evgeny Bushmin:

... Until recently, the lack of growth in credit portfolios, and in private loans in particular, was attributed to a high interest rate. The experts said there would be no loans until the rate fell to 10%, and forced the Central Bank to take active measures to reduce it. Since February, the key rate has been 7.5%, and before this it was 7.75%, and we were moving towards this figure for the whole of last year. The credit portfolio has grown by 0.9% since 2017. This indicates that the interest rate is not the key factor, and that other factors must be involved. One of these factors is market competition.

And this brings us straight to governmentalization – the fact that the government is occupying an ever larger position on this market. But you know, the issue is not even about the government itself, but rather about what surrounds the government – state corporations and companies in which the state owns a stake, and credit institutions around Vnesheconombank and others. I think we are talking about more than 30 organizations already, which are estimated to represent around 70% of these companies. And here we really do have a problem. It is not so much about us having reached the point that we find ourselves in now as it is about the fact that we were moving towards it so actively over all of this time. Every decision made in this process has been very positive, with the creation of consolidation funds and the like. All of this was very positive, but the result, in general, has not been so good. In my view, there has been insufficient coordination in this process between the Federal Antimonopoly Service and the regulator. Is there a solution? Direct restrictions do not always achieve the intended result. Instead, the right condi-tions need to be created. It is certainly a good thing that we have made the transition to a ratings system – we can now determine whether or not we should permit allocations of budgetary funds based on this. But we are overvaluing these ratings to such an extent, just as we overvalued capital in the past, that it is for the most part only these same 30 financial organizations, that as I said before are attached to the government in some way, that are getting access to these funds.

The Federal Antimonopoly Service has been working on public procurement procedures whereby a contract cannot be concluded unless a certain percentage of the procurement is delivered by small business. We can consider regional banks to be small businesses in this respect. This problem is of great concern to us, as we are seeing a reduction in regional bank numbers. At the same time, we are seeing the departure of the major banks from problematic regions and localities. Regional banks cannot penetrate these areas due to the lack of opportunities, which is leaving some of our regions with very significant problems. In my view, these require a similar solution to the one employed by the Federal Antimonopoly Service specifically for procurement.

Is it at all possible now to move towards solving competition issues in the banking sector? For this to be possible, we firstly need the regulator not simply to monitor, but also to develop the banking sector. I am especially interested in creating financial infrastructure. This includes digitalization. I understand that a small or regional bank is not in a position to undertake a digitalization project on the scale of Sberbank or others – that is obvious. What could help them here? The Central Bank could help them as a regulator. Creating systems that they can participate in rather than create themselves, because the regulator has created them, would be one possible strategy in this extremely competitive field.

If, as before, we are only going to save and reorganize major banks, and only destroy small banks, revoking their licences and bankrupting them, then we obviously will not be able to encourage any trust in small banks.

I am also absolutely confident that what the Central Bank is doing to develop infrastructure is very much the right and necessary path of action and a very positive factor.

Sergey Shvetsov:

... Paul [Andrews], how typical is it for the regulator to engage not only in regulation, but also in creating financial market infrastructure? From the point of view of competition, is this practice the right thing to do or not?

Paul Andrews:

... Yes, this practice is right in my view, and I am glad that the issue of infrastructure development has been raised. That is because this is not only a question of competition, it is a question of working together. It is about cooperation, not only between banks and capital market regulators, but also with other stakeholders. This is in no way just an issue for banks or for capital market regulators, it is about ensuring access, the existence of the correct legislative framework, of monetary policy, insolvency policy, and tax policy. We should be looking more at cooperation than at competition.

Sergey Shvetsov:

... Anatoly [Aksakov], I have a question for you: the introduction of a deposit insurance scheme is certainly a very powerful innovation that was brought in over 25 years of the financial sector's existence in order to support competition. But at the same time it does not take account of market realities, because each bank has different credit qualities. Nonetheless, it does enable banks to obtain some kind of share in the deposits market. What other initiatives does the State Duma have, whether unanticipated or consequential, which could help to support competition levels, and, on the other hand, reduce the regulatory arbitration that is interfering today with the establishment of a normal competitive environment?

Anatoly Aksakov:

... With respect to legislation, next week a bill will be introduced to the Committee on insuring the funds of micro and small businesses held in bank accounts. This will provide useful support for small banks, among others, by increasing trust on the part of their main niche: micro and small businesses. And, accordingly, this will help to develop competition.

Furthermore, as far as remote client services are concerned, in my view this will also have an effect on competition. We have adopted a law on the use of biometric data for remote identification. Following this, a group of deputies introduced a bill developed by the Association of Russian Banks with the involvement of the Central Bank which makes it possible to remotely obtain permission to transfer information to credit history bureaus. This will allow bank clients to send their proposals to a range of credit institutions, meaning that they have access to those offering the best conditions. Consent to the transfer of information to credit history bureaus can also be given remotely. This means that remote operations are on the rise, and that competition will expand as a result. I naturally also support what Evgeny was saying about infrastructure creation. Marketplaces, rapid payment systems, and cybersecurity infrastructure supported by the Central Bank are certainly extremely important for the development of market competition.

Sergey Shvetsov:

... Speaking of Sberbank, we mentioned that a lot of innovation is thanks to them. In theory there is a definition of a so-called X-monopoly that does not abuse its position but instead develops its advantages. But there is a strategic danger here, because advantages can be developed on such a scale that at a certain point it becomes impossible to stop this monopoly from abusing its position. But opportunities for its competitors will already have been lost by this point, which could lead us into a bad situation. For that reason, if we could see into the future and know that there would not be any abuses, then a planned economy would surely be the most effective way to do business.

Anatoly Aksakov:

... But objectively, of course, the monopolist will always make use of their advantages. This is why we support moves to create an infrastructure which will help small players to compete effectively.

Evgeny Bushmin:

... What monopoly does Sberbank have? There are regions where Sberbank has already left three quarters of locations.

Georgy Luntovskiy:

... There are regions in Russia where local banking works quite effectively and competes in many areas with the same banks that currently dominate our market, and which hold about 70% of assets within the banking system. My view is therefore that regional banking is alive and thriving. Furthermore, implementing proportional regulation and conduct supervision will create the same conditions for healthy competition.

Many banks, and major banks in particular, which are pursuing optimization of their expenditure with the goal of increasing their competitive advantages, are transferring their IT infrastructure to the cloud; that is, they have gone down this road faster than regional, small, and medium-sized banks. It is becoming the task of small and medium-sized banks to join forces in this area, and I agree that use should be made of the technologies proposed by the Bank of Russia. It is also important that, in creating this or that platform or technology, the Bank of Russia understands that it is not an independent business, but a means of responding to the challenge of reducing costs for small and medium-sized banks.

Sergey Shvetsov:

... Ekaterina [Trofimova], as somebody responsible for one of Russia's leading ratings agencies you have quite a strong influence on competition, because in awarding this or that rating you virtually hand banks the ability to obtain funds or bar them from receiving financing. How do you see the issue of competition from the point of view of your role? And I have a second question about technology. We have not touched that heavily on the topic today, but technology is changing our world. How will the competition landscape change with the application of new technologies, and are we not fighting problems that will go away of their own accord or be solved by the introduction of new technology?

Ekaterina Trofimova:

... The concentration of the financial market is quite high, but, strangely enough, we do have a lot of competition, although it is unequal. Why is this? It is because if we look at the number of players, there is a clear tendency towards governmentalization. On the other hand, however, looking at the figures on the accessibility of financial services, costs, and financial service quality, we are seeing quite positive trends in a lot of these aspects.

When we talk about competition now, we often talk about the extent to which market participants do or do not have preferential, simple, or simplified access to this or that source of cheap finance. But if we look into the future, we see that amid lower interest rates and the reduction and stabilization of a low level of inflation, competition and competitive advantages will transition to an entirely different plane. And this will certainly be a completely new reality for the financial market.

Accordingly, we predict that competitive advantages will be determined by such factors as client orientation, quality of services, streamlined procedures, the ability to flexibly manage expenditure, not simply by reducing staff numbers but, very importantly, through proper management and making quality decisions on lending, and provision

of financial resources. That is to say so-called smart management of resources, of created reserves, and of capital.

The penetration of financial services in fintech format in Russia is already quite high: by our estimates it is around 40–43%. This is third place globally, which really is a very high indicator. That means that the population's inclination to work with financial services in a technological format is very high. We have around 250 fintech companies, of which two are digital banks. But unfortunately it can be seen that the level of investment in this area is far from high, which is weakening the future competitive prospects of players.

In our view, the greatest threats and competitive challenges are posed by large technology companies, which are putting serious pressure on banks' financial indicators. It is obvious that the government and even state bodies and state banks will not be able to support everybody indefinitely. These challenges and opportunities for survival will, in the future, depend to a large extent precisely on the commercial competitive component of the viability of each individual organization, and in particular on its streamlined procedures, its client orientation, the quality of its services, the quality of its decision-making, and the quality of its credit portfolio.

D. Grulev:

... To what extent do you assess and how do you view entirely new risks that could arise in the financial sector in connection with the transition to a new level of technology?

Ekaterina Trofimova:

... I will mention just one problem and the question that our analysts regularly ask organizations when the trendy issues of financial technology, artificial intelligence, and so on arise. To what extent have they calculated the efficiency of these investments? To what extent are they just following trends? To what extent are these well-planned measures? In 99.999% of cases they have no answer, which means an enormous risk for the phenomenon itself. This is because when acting on a whim or under the influence of a trend, we can commit extremely significant strategic and tactical errors which deliver disappointment very quickly. When investments like these are not calculated, the blow can be considerable. This is because, as I know from my own experience, when enormous sums are invested and this then causes the technology to be massively rejected, management will no longer be prepared to invest any more in it. It is important to talk about this, and to calculate any financial steps that you take.

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PANEL SESSION IV

Three development strategies: financial market, information technologies and financial inclusion

Moderator

Olga Skorobogatova, First Deputy Governor, Bank of Russia

Speakers

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

Sergey Shvetsov, First Deputy Governor, Bank of Russia

Front row speakers

Anatoly Aksakov, Chairman, State Duma Committee on Financial Markets; Chairman, Association of Russian Banks

Alexey Voylukov, Vice President, Association of Russian Banks

Oleg Vyugin, Chairman of the Board of Directors, National Association of Securities Market Participants (NAUFOR)

Aleksey Panferov, Deputy Chairman of the Management Board, Sovcombank

Dmitry Rudenko, President and Chairman of the Management Board, Post Bank

Sergey Solonin, Chief Executive Officer, Qiwi

Alfred Hannig, Executive Director, Alliance for Financial Inclusion

Panel session IV

Three development strategies: financial market, information technologies and financial inclusion

The session discussed pressing matters relating to the three main policy papers drawn up by the Bank of Russia on selected development trends in the financial sphere. The three strategies represent a single whole, since they fully complement one another: the market, technology, and inclusion.

The first document was presented by Sergey Shvetsov. He highlighted the three basic aims of financial market development outlined in the document:

1) To increase people's quality and standard of living through the use of financial market instruments

2) To support economic growth by providing competitive financing

3) To create the conditions for the development of the financial sector

In order to achieve these aims it is important to secure consumer satisfaction by increasing the penetration of financial services among the population, to provide long-term money for economic growth, and to facilitate the development of domestic demand for financial services at a time of external geopolitical restrictions. On the day of the panel session, discussions began on The Main Development Trends in the Russian Financial Market for the period up to 2021. This document will require several months of active discussion before the final version is adopted at the end of the year and becomes a plan of action. Four trends are identified in the document. In comparison with the previous programme, which included ten trends, they are now more concentrated: development of competition on the financial market, creation of a trust environment, provision of accessible financial services, and maintenance of financial stability.

Trust in financial market services is valuable in itself; the tasks of the regulator are to remove from the market those situations and those players who reduce the level of trust in the financial sector and to create mechanisms that lead to a sense of confidence in financial products among citizens and businesses. By establishing trust it

is possible to make financial services attractive and to create an environment in which the finance industry can thrive. The financial literacy of the population needs to be improved in order to increase the level of trust in financial services. It is necessary to concentrate on robotization, which will compensate for the lack of financial literacy, and to create and monitor confidence indicators by conducting opinion polls with the aim of identifying people's requirements and their opinions on the quality of services.

Improvements in the quality of corporate management are reflected in the financial stability of a business. "There is no more problematic area than the bankruptcy of financial intermediaries." According to Sergey Shvetsov, over the next three years the regulator aims to achieve a situation in the financial sector where "the bankruptcy of even one bank will be an extraordinary event." Guaranteeing financial stability means reducing the fluctuation of interest rates, maintaining low inflation, and creating an interest derivatives segment in the market. What the regulator means by financial stability is the presence of three elements: compliance with regulatory requirements, the early identification of threats to individual market players, and the removal of these threats before they can take effect.

Other specific sets of tasks outlined by Sergey Shvetsov were: conduct supervision based on self-regulation; independent assessment of the actual effects of regulation; incentive regulation; a professional judgment mechanism ("moving from rules to principles"); and implementation of a road map for developing competitiveness in conjunction with the Federal Antimonopoly Service. He suggested concentrating on three ways of improving competitiveness:

1) Overcoming "account slavery", freeing up people's money from the bank in which it lies and giving them the possibility of purchasing financial instruments from any supplier

2) Creating marketplaces as platforms for the distribution of financial services

3) Removing the advantages held by financial institutions partly owned by the state

Olga Skorobogatova set out the Principal Trends in the Development of Financial Technologies (or fintech), which should be fulfilled with the use of a regulatory sandbox – legal regulation that takes account of new trends and the introduction of legislation in the digital sphere. The regulator sees the development of fintech in the context of two trends:

1) Understanding the drivers behind the development of financial services and promoting these innovations and services if they are needed by clients and present minimal risks

2) Creating joint platform solutions which increase the accessibility of services and reduce costs

The Bank of Russia already understands which programmes can be implemented to improve payment systems and reinforce cyber stability, and how to implement them. Olga Skorobogatova outlined the key infrastructure projects in 2018: remote identification (with the aid of biometrics); the financial marketplace; the quick payment system; the Masterchain platform (for electronic mortgage payments, letters of credit, and bank guarantees); and a platform for the identification of clients' personal details. The key project for 2019 – the creation of digital client profiles – was suggested by the banks themselves.

The main provisions of the Financial Inclusion Strategy were outlined by Mikhail Mamuta. The strategy is based on the fact that ensuring inclusion creates equal opportunities for developing financial services. In accordance with global trends, the right to financial services is equal to the right to education, health care, and other basic rights. The level of savings in Russia is currently lower than in developed economies. Fewer than 20% of Russians have savings, the lowest level being in small towns and villages. On the other hand, the level of debt is higher among poorer people.

The financial inclusion strategy includes several priority tasks.

The first is to improve the quality of service for users with internet access; this requires technological solutions and an increase in the level of financial literacy. In accordance with the road map adopted by the strategy, internet coverage should reach 100% by 2025.

The second task is to work with particularly vulnerable sections of the population recognized as socially unprotected groups: people in sparsely populated areas and those with disabilities.

A third group is made up of small and medium-sized businesses which experience great difficulties with banking services and obtaining credit.

The strategy identifies four levels of access to financial services: territorial, physical, price-based, and mental. A range of suggested measures is aimed at achieving these.

The front row participants posed questions regarding the development of the financial market on the basis of the adopted documents.

Oleg Vyugin asked about the consequences of the introduction of new technologies on the business model of the financial market and on the changing strategies of the market players themselves. Sergey Shvetsov confirmed that artificial intelligence could, in future, help to perform certain functions of banks, as it is banking services that are required and not banks themselves.

Anatoly Aksakov drew attention to the incompatibility of software products used by participants in the financial market, which makes it difficult to synchronize measures to improve financial inclusion. Olga Skorobogatova confirmed that this problem existed and assured the panel that it was already being resolved.

Aleksey Panferov mentioned the problem of an increase in the risk of fraud with the introduction of fintech. Mikhail Mamuta described the principal measures which would ensure the security of financial technologies, including the accessibility and transparency of information about these services, the robotization of services, preventing user error, and an Association website to analyse information about new financial instruments.

Sergey Solonin asked how the Central Bank intended to use artificial intelligence in its work. Sergey Shvetsov replied that technological innovations would mainly affect regtech (compliance with the use of fintech) and the development of cyber stability measures.

Alfred Hannig suggested that attention should not only be devoted to improving financial literacy and financial inclusion, but that it was also worth considering developing a special guide to fintech which would include the most common terms and instruments.

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ROUNDTABLE 2.4:

Attracting Investment: Banks vs Capital Markets

Moderator:

Alexander Afanasiev, Chairman of the Executive Board, Moscow Exchange

Speakers:

Svetlana Balanova, Chief Executive Officer, IBS

Oleg Jelezko, Managing Partner, Da Vinci Capital

Mats Isaksson, Head of Corporate Affairs Division, OECD

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

Irakli Mtibelishvili, Managing Director and Chairman, Citi Corporate and Investment Bank in CEEMEA

Vladimir Potapov, Chief Executive Officer, VTB Capital Investment Management, Senior Vice President, VTB Bank

A. Afanasiev:

Let's see where the problem is. There is a widespread opinion that in Russia bank crediting prevails, and the financial market develops slower than the bank loan system. It is clear that the emitent, the company seeking for capital on the market, has a number of alternative ways to attract it. One of them, seemingly the easiest, the most natural and popular, is seeking to attract from specific banks, and there is a number of reasons for this. As for the securities market, speaking of both share and debt capital, it develops slower. First of all, let's see if that is true. Now on the Russian market the share of the public debt, and I do not take into account the capitalization through public offering, I mean the primary debt, has reached around 30% in corporate liabilities. Is it a lot? I guess it is not much compared to the Anglo-Saxon markets where the tradition of attracting public capital through shares rather than through bonds is very strong. But it is higher than, for example, in Brazil, and, as you know, even higher than in Germany. It means that this problem is more relevant for continental Europe even than for Russia. So what should develop faster? What are the problems here? Should we stimulate the development of the public debt and the public way of attracting capital? What speaks against it? How comfortable is this banking debt? Or is it going to gradually reduce its share?

M. Isaksson noted that the Governor of the Central Bank Elvira Nabiullina put us in a very correct direction this morning: she underlined that the capital markets, as much as we are excited about them, are not really an end in itself. Capital markets are there to channel money for good investments that will enable economic growth. But there are different types of capital; as economists and market participants we know that different kinds of capital serve different purposes. There are studies by OECD, by IMF and by other financial institutions that come to a conclusion that too much capital, too much debt can be counterproductive, a drag on productivity rather than a stimulus to economy. There are different reasons for this. Some of them are related to tying up a collateral, a shopping mall, which is really not at the forefront of innovation. Another explanation is linked to a sort of risk profile, risk of debt, because everyone wants to take fewer risks. So it is not about debt or equity, it is about the balance

between the two. Many studies show that there is a need to re-equilibrate this balance. We talk about companies that need to be re-capitalized with more equity. Another strong argument for having a sound balance between equity and debt is the use of intangible assets. However, a number of countries are a bit worried. They see that fewer companies come to the stock market, and they see too highly leveraged corporations. We actually have seen fewer and fewer companies coming to stock markets in OECD member countries, including the United States. Also, often companies come to the stock exchange at a later stage, and they are larger, and then there is an IPO.

I think with Russia there is more resemblance to non-Asian emerging markets. Partly, to get things rolling, you need to have a credible regulatory framework in place. And I know there have been improvements, not least thanks to the Moscow Exchange. But there is also an issue of who is going to provide the capital? The important role is played by investors like pension funds, mutual funds, private and public. So these developments will decide whether Russia is going this way in the future.

O. Jelezko:

I was trying to understand what the goal of this panel is: I think it is to show where Russia stands and what the future trends will be here. We are investing in private equity, but we are quite close to the financial infrastructure, as we invested in the stock market, minor platforms. Now we invest more heavily in global companies. We do cross-border investments. For us, as private equity investors, what matters is access. Let me explain how I see trends here, in Russia, related to private equity and equity markets. As for the global markets, I was surprised by my colleague's statement, because we also keep track of the trends. In 2017, there was a record number of global IPOs, around 3,000. In the United States as well. Markets are rather cyclic, but 2017 was a big year for IPOs. And the prospective for the global public markets in the US, Hong Kong and London for 2018 are quite favourable. Secondly, the multiplicators, according to which the companies are traded at the global markets, they are very high, they have reached their peaks, and many investors are worried that the markets are overheated. For investors private equity is a complementary class of assets both to debt and to IPO. Going public was a major element of our strategy; and then selling it to a strategic thinker. We see very positive trends on private equity markets. We see that global public markets are in a good shape. Maybe there are fewer minor companies, but there are more cross-border IPOs.

In Russia there are lots of different companies, but, unfortunately, not many of them are prepared to become part of public markets, hence not many IPOs. However, I am sure that this will change because Russia is a very cyclic market.

R. Lokhov:

In Russia there is no long money, it is just emerging. A lot has been done, the stock exchange has done much; and latest stock reforms, through the Central Bank, easing tax burdens etc. We had two IPOs last year, we issued bonds for 35 companies. Foreign investors as well as retail started entering. But if we look at the capital markets globally, in Russia it is still underdeveloped. But there is a huge potential, and now is one of the best moments to strengthen these capital markets.

Right now the conditions are favourable, the rates have gone down, investors are looking for profitability; companies finally started looking for diversification when taking loans. Attracting capital through equity, or bonds, or loans, has different functions; usually it is a form of evolution: loan is the simplest form, then you have bond, and then IPO.

Last year we placed bonds for 35 companies, half of them having medium capitalization. Ten companies issued debt for the first time, and they have ratings of B+, B, B-. I can see that there is such a segment in Russia: companies dealing not only with banking, oil or gas. Now it is the earliest stage, when companies start to observe capital markets getting more mature. We also see that, we believe in that, and we invest in that.

V. Potapov:

When we try to distinguish between syndicated loans, bonds, simple loans, we need to understand that they depend on capital pools. People, pension funds, insurance companies prefer to invest in public financial instruments, and for that we have bonds. And it is great news, because the share of loans through bonds by corporate loaners has grown two times. It is due to the emergence of a capital pool thanks to these long money. We see a forming clients base, and they prefer to invest through the public market, which stimulates its growth. I do not see any competition inside the system, since a corporate client is interested to diversify its investor base. For a bank it is interesting because of the orientation on commission profit; the pressure on capital and risks is also decreasing, as well as all currency unrest effects. I see here what we

all have been dreaming of for a while, namely forming of a long-term investor base and less volatility. This is happening. In Russia company balances are quite healthy, the companies are attractive for investors. The problem is that they do not see long money, and this is the money that they can receive. Our task as institutions now is not to let down those who trust their money to managing companies and brokers, and to correctly transform these increasing savings into economic growth.

I. Mtibelishvili:

Why did we start working with SMEs and dealing with them at the share market? For us it was an experiment, to a certain degree; but the key reason was that we liked the businesses. What is important for investors? They look at the story. And the story was there, the people were there who could bring to life all their promises; they are very enthusiastic, and they are true entrepreneurs. We saw clearly why, despite numerous problems, mainly due to low liquidity that these companies were offering, the investment community could be interested. And we were right. Although there were a lot of complications, we do not regret it at all and, moreover, we keep going. We have a long-term perspective here, and we want to be with the clients when they start to growth, to follow their whole growth cycle.

Coming to a broader topic, I would like to note that bank crediting and capital markets are complementary, and should not be counterposed. It is important to remember where regulation is going, especially after the Third Basel Accord was adopted. Basel III is about a lot of things, including liquidity and the way banks allocate their capital. Actually, a regulator tells a very simple thing to banks: “Dear banks, everything you do is about short and medium term crediting.” Regulators put limitations on assets with a term of over five years. The cost of these assets on bank balance after the period of five years starts growing rapidly. It helps reduce risks in the banking system. Everything beyond five years belongs to capital markets. It might not be Russian reality right now, it is going to become Russian reality later, but in the continental Europe this is already happening. This naturally directs us towards capital markets.

S. Balanova:

When we think about different options of investing into our growth, we always consider bank crediting and access to public funding.

But for IT companies access to public equity is the most natural way of funding. We are a business built entirely on the human resource. We have almost no other resources. And for us the natural way of building long-term values of business capitalization for our shareholders is a long-term motivation of key people which can be based on stock option plans. Of course, there are many different ways to do that, but they are pretty artificial. So for us IPO is a strategic and natural way to finance our future growth. We believe that we have a lot of opportunities for growth on these markets, there are many investment options for both organic and non-organic growth. For that we need financial support, but first of all we need our employees to understand how they can add maximum value for our shareholders.

After leaving the French stock market we made a decision to keep all the corporate governance rules and all transparency standards that we had as a public company.

That is why for us this new entrance into a public market is easier and more natural than for many potential issuers. On the other hand, it is very important for us, as we still plan to enter the Innovation and Investment Market of the Moscow Exchange, to maintain this leading position on the IT market. From the marketing point of view, we are establishing a new standard both for the market and for our clients, showing how a serious company with a huge growth potential should look like. So we believe that this combination of HR, marketing and access to the capital market is justified, and our investments are going to pay off.

During the discussion of the issue of attracting investment each speaker noted the problems specific to different segments of the financial market, diverse interests of all participants of the investment process, risks associated with investment processes as well as possible scenarios of development of the investment sphere. The speakers cited foreign experience and discussed how it could be applied in Russian realities, noting particular features of Russian financial environment. The general conclusion is that the Russian market has a large potential for all subjects of the investment process, and its fulfillment depends on regulation and motivation of all participants.

International Financial Congress

ST. PETERSBURG
6–8 JUNE
2018

ROUND TABLE 3.2:

Fair competition in the financial market: practices of combating illegal participants

Participants:

Valery Lyakh, Head of the Department for Countering Misconduct, Bank of Russia

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

Roman Lokhov, Deputy Director General, BCS Financial Group

Andrei Shemetov, Vice President, Head of the Global Markets Department of Sberbank

Roman Goryunov, President, RTS Nonprofit Partnership for the Development of the Financial Market

Sergey Shvetsov, First Deputy Governor, Bank of Russia

Nikolai Zhuravlev, First Deputy Chair of the Federation Council Committee on the Budget and Financial Markets

Maxim Chernin, Personal accident insurance and life insurance development committee, All-Russian Insurance Association

Viktor Klimov, member of the Central Staff, Head of the 'For borrowers' rights' project, All-Russia People's Front

Alexey Zubets, Vice-Rector for Strategic Development and Practice-Oriented Education, Financial University under the Government of the Russian Federation

Round Table 3.2:

Fair competition in the financial market: practices of combating illegal participants

In the financial market, competition is currently developing not only between bona fide market participants, but also between illegal participants, on the one hand, and legal (honourable) financial market participants, on the other. If the first kind of competition contributes to the development of the financial market, the other one has negative consequences. Thus, illegal participants take advantage of bona fide participants, because they are not subject to regulatory requirements, and do not have to bear the costs of implementing them, reducing the costs of creating infrastructure for performing operations and providing financial services. Illegal participants often become outright scammers. All of that creates certain temptations for bona fide market participants, undermines public confidence in financial products and institutions of the financial market. (Valery Lyakh, Head of the Department for Countering Misconduct, Bank of Russia)

Unfair competition in the financial market creates motivation for bona fide participants to move their business underground in order to minimize the costs associated with compliance with regulatory requirements. To prevent this, the Central Bank needs to create a system of preferences for bona fide participants (for example, preferential funding). At the same time, for illegal participants, the punishment for their illegal activities must be unavoidable. An important factor for establishing fair competition in the financial market is successful judicial (law enforcement) practice and efficient work of law enforcement. (Evgeny Bushmin, Deputy Speaker, Federation Council of the Federal Assembly of the Russian Federation)

Preferences for professional participants from the regulator are unnecessary for developing fair competition in the financial market. What is necessary is to strictly comply with the requirements of the law, and not count on encouragement for doing business legally in the financial market. At the same time, if the regulator punishes someone, it is important that it is made clear to other market participants where exactly the rules have been violated, and the difference between the operations that led to violation of the law from those that do not constitute violation. It is also unnecessary to revoke the wrongdoer's license, but rather to introduce a system of strict penalties, report of the wrongdoers in

the media, and on the regulator's website, in order to let other participants know what illegal activity in the financial market can lead to. (Roman Lokhov, Deputy Director General, BCS Financial Group)

It is necessary to approach the problem of illegal business in the financial market, and to counter unfair competition in our country's financial market from two sides. On the one hand, professional participants in the financial market and the regulator should implant the culture of investment and increase people's awareness in the financial sphere. On the other hand, websites that provide unlicensed financial services must be shut down, and licenses of unscrupulous financial market participants must be revoked. It is necessary to avoid arbitrary approach from the regulator, so that companies of different scale are in the same position to access the professional players' market. Competition should be developed as a result of new and more compelling services, provided by small-sized companies. This kind of competition is normal and it should be present.

(Andrei Shemetov, Vice President, Head of the Global Markets Department of Sberbank)

Financial services that are associated with a casino model (for example 'Trade at the Stock Exchange') are actively imposed on the Russian people today through advertising. That, Forex trading particularly, can give millions of people a long-term inoculation from the financial market by leading them to inevitable collapse. The dealers of that service build their business model on principle of "client's account must become my account". On the one hand, the government has now started to license Forex companies, but on the other hand, there are plenty of unlicensed companies (around 300 illegal participants in the Forex market), and that remains a pressing issue (and so does the problem of this kind of trade being actively advertised).

Financial products of any kind should be offered to unqualified investors through professional Russian participants in the financial market. But the present-day Russian legislation contains a number of restrictions that make

it impossible for the financial market players to provide their services without offshore or foreign companies involved: it is impossible to list the ETFs on Russian stock exchanges, the problem of currency revaluation in taxation is unresolved, restrictions for companies on derivative hedging instruments are in place. All of these regulatory flaws must be eliminated. (Roman Goryunov, President, RTS Nonprofit Partnership for the Development of the Financial Market)

Forex advertising does not need to be prohibited. It is necessary to prohibit the involvement of potential buyers of financial services in the transactions that are banned by the legislation of the Russian Federation. Thus, providing Forex services on behalf of foreign companies on the territory of the Russian Federation is forbidden. Thanks to the Bank of Russia's institution of control purchase, it is possible to identify the breach of the Russian legislation by brokers, and to revoke their licenses. But there is another approach to solving such problems: self-regulation of Forex clubs, and their behavioural supervision by self-regulatory organizations. (Sergey Shvetsov, First Deputy Governor, Bank of Russia)

The illegal practices of financial services in the present-day Russia (and therefore, the practice of unfair competition) may be divided into two groups. The first one is black market operations, which include illegal lending by companies that are not included into the register of microfinance and microcredit organizations, and accepting off-balance-sheet deposits by commercial banks. There are clear ways to combat such operations: criminal prosecution for illegal loans of organizations that are not included in the relevant registers, ban on provision of the mentioned services, tightening civil penalty, prohibiting companies not included in the register of microfinance and microcredit organizations from transferring credit portfolios to debt collectors.

The second group of operations related to unfair competition practices is the so-called services on the brink, which are not prohibited by law. These operations include abusing commissions, overestimating the full cost of credit, commercial banks issuing loans through microfinance organizations under their control. That is imposing services (insurance when a loan is issued), selling securities that have no relation to the bank to unqualified investors through its balance sheet, incorrectly

accruing interest on deposits. Recently, the practice of investment life insurance became common. When a person acquires this financial product, more often than not, they do not fully understand what kind of financial product they buy, and what the structure of their investment portfolio is with the use this instrument. This financial product is disguised as a regular bank deposit, which, however, is not insured by the government.

A separate problem of unfair competition in the financial market is unfair competition from government-owned banks. The manifestations of this kind of competition include: negative rhetoric on behalf of state-owned bank employees towards private banks, upward bias of interest rates on deposits by banks controlled by the Banking Sector Consolidation Fund, bully pulpit statements made about systemically important banks, as of those deserving special kind of trust. The Bank of Russia must firmly eradicate all those practices of illegal activity and unfair competition in the Russian financial market. (Nikolai Zhuravlev, First Deputy Chair of the Federation Council Committee on the Budget and Financial Markets)

Unfair competition practices in the insurance sector concerns the sale of mandatory third-party only vehicle insurance policies by unlicensed companies, unit-linked insurance products from companies registered in offshore zones, and foreign insurance products.

Practice of unfair sales of insurance services has a significant negative impact on the life insurance segment. First of all, it is imposing insurance services (when insurance is represented as mandatory condition) when a bank loan agreement is concluded. Secondly, it is the practice of selling complex accumulative products with an investment component. In the latter case, the client is ill-informed on whether their income is guaranteed, whether there is a possibility of early termination of the insurance contract without penalty.

Finding a solution to these problems would be facilitated by disclosing all information about the product in an infographic form that would give a client the complete understanding of the service they get. (Maxim Chernin, Personal accident insurance and life insurance development committee, All-Russian Insurance Association)

Round Table 3.2:

Fair competition in the financial market: practices of combating illegal participants

In the Russian financial market, there are problems associated with illegal market participants: private ('black') lenders. Their services are used by one-fourth of the country's population. With regard to them, legislative initiatives have now been developed, including the introduction of criminal punishment for illegal lending, and the ban on judicial protection of lenders in the transactions of this kind. (Viktor Klimov, member of the Central Staff, Head of the 'For borrowers' rights' project, All-Russia People's Front)

The survey conducted by the Financial Academy shows the scale of the financial market in Russia (including the scale of the 'black' and 'grey' markets).

Pawnshop services are used by 3.7% of the population (3.5 million people of the country's adult population). About 1 million people are clients of microfinance organizations. Services of private creditors are used by 2.5 million people. Around 50–60 thousand people invest their money in financial pyramids, 1.2 million people use the services of online casinos (the demand for these services has doubled), 50 thousand people use Forex services (a 75% increase in demand). At the same time, the main source of people's savings loss in the financial market is investing in unlicensed financial products.

The main regions where the 'grey' and 'black' financial markets are most developed are the Trans-Urals and the Far East (particularly, small and medium-sized cities with a population of 100,000 and below). Often, people are well aware of the kind of risk they take when they acquire doubtful financial instruments. (Alexey Zubets, Vice-Rector for Strategic Development and Practice-Oriented Education, Financial University under the Government of the Russian Federation)

International Financial Congress

ST. PETERSBURG
6–8 JUNE
2018

ROUNDTABLE 4.1:

Discussion panel: Current issues in compulsory third-party liability motor insurance (CTPLM)

Moderator:

Andrey Kashevarov, Deputy Head, Federal Antimonopoly Service of Russia

Speakers:

Viktor Klimov, Member of Central Staff, All-Russia People's Front (ONF); Head of ONF's For Borrowers' Rights project

Alexey Moiseev, Deputy Minister of Finance of the Russian Federation

Vladimir Skvortsov, CEO, AlfaStrakhovanie; Member of the Supervisory Board, Alfa Group Consortium

Vladimir Chistyukhin, Deputy Governor, Bank of Russia

Igor Yurgens, President, All-Russian Insurance Association

Damian Jaworski, Director of the Department for Analysis and International Cooperation, Polish Financial Supervision Authority

Roundtable 4.1

Discussion panel: Current issues in compulsory third-party liability motor insurance (CTPLM)

Moderator Andrey Kashevarov,

... Noted in introduction that there were many problems with the compulsory third-party liability motor insurance (CTPLM) market and, for market participants and consumers, these problems were diametrically opposed. The market is experiencing a difficult time. There are elements of fraud and consumer discontent when payments are not made in full. There is also an understanding that perhaps rates are not high enough. Competition, to a certain extent, may also be low, because the existing system of charging for CTPLM needs to be reformed.

Vladimir Chistyukhin,

... Noted that the Central Bank sees the development of the CTPLM market going in three directions. The first is connected with purchasing policies and the availability of service. Citizens should have the physical opportunity to buy a policy, and this should be easy to do and require the least possible amount of paperwork. Many things are being done to ensure this, but there is still significant potential for improving and developing the domestic CTPLM model. The second direction is connected with the settlement of losses when an insured event occurs. Car owners should also be able to have their cars repaired or receive cash payments as soon as possible. And the third is fair pricing, which could be based on tailoring insurance conditions to individual consumers and expanding the range of rates. At the same time, the current range is set to be expanded by 20% at both the lower and higher ends. This will stimulate competition, and a decrease in rates can be expected in the future, first and foremost in the most prosperous regions, followed by those that have a more complicated CTPLM market.

Alexey Moiseev,

... Noted that there are no fundamental differences between regulators in their approaches to improving the CTPLM legislation. The number of obligatory coefficients should be lower and the number of voluntary ones should be higher, with a gradual transition to only voluntary ones, i.e., so that insurance companies themselves establish these coefficients, which, in this part, will help form a competitive market. The second, of course, is the step-by-step expansion of the range with a gradual withdrawal of rate regulation. In his opinion, this can happen no sooner than in five years' time.

Damian Jaworski,

... Said that in Poland the regulation of CTPLM rates was practically abolished in 1990, along with a number of other laws related to financial services. However, there are certain principles that need to be followed; namely, insurance companies must correctly assess the risks specific to their sphere of business, and regulators, supervisory bodies, and those institutions that are responsible for drafting and passing laws and taking legislative initiatives should understand what they offer in terms of market regulation. Some countries have an excessive number of parameters for rates. For example, one country has 146. The problem is that, in practice, when there are so many parameters, companies cannot use them effectively.

Igor Yurgens,

... Talked about the work carried out by the Union and the Russian Association of Motor Insurers (RAMI) to ensure the availability of CTPLM policies through RAMI's single-agent system and electronic sales. He also noted that CTPLM rates were not revised until 2011, and then, due to the economic crisis and an increase in the exchange rate that resulted in an increase in the cost of spare parts, there was a deficit of insurance premiums. The Union has done a lot, and will do more, to stabilize the CTPLM market, jointly with the Central Bank of Russia. RAMI is working with all federal executive bodies to collect the information it needs to ensure correct CTPLM rates.

Viktor Klimov,

... Noted that, in 2016, the Bank of Russia received about 80,000 complaints, a large part of which were about incorrect calculations of the bonus-malus ratio. In fact, the number of errors made in these calculations is much larger. Of course, the Bank of Russia has already prepared proposals for reforming the bonus-malus ratio to partially solve this problem: a transition to an annual basis, tying in the insurance history of the driver, etc. At the same time, this problem is widespread not only due to specific circumstances that result in honest mistakes, but also to the bad faith of agents and managers of insurance companies seeking to sell more expensive insurance and knowing how few customers will end up complaining and challenging

an error once it is discovered. The question of the profitability of CTPLM, the maturity of the insurance market in general, and the extent to which a competitive climate affects the supply of a balanced and fair price, in our view, remains unanswered.

Vladimir Skvortsov,

... Noted the importance of the question "what do we sell?" from the point of insurers operating in the CTPLM market. When it comes to compulsory insurance, it is very difficult to create a competitive advantage in light of strictly regulated rates. CTPLM has three major components: the first is fair pricing, and we can see that this is coming to fruition. It is important for the industry, and something we have been waiting a long time for. The second is accessibility, which is linked to a fair price. The third is loss adjustment, because that is why clients come to us. They do not come to buy a policy, whether it is CTPLM, comprehensive insurance, or voluntary health insurance; they come to us for help.

Arkady Lyubavin,
General Director of YuzhUral-ASKO in Chelyabinsk,

... Drew attention to two problems in reforming CTPLM rates. First, it is in everyone's interest to ensure that the first stage of reform is successful. Success will be judged by consumers and consumer-protection organizations, primarily on the fact that there will be not only increases in tariff rates, but also genuine decreases. Therefore, it is very important now, at the first stage, to ensure that companies have the opportunity to manoeuvre inside this range. Secondly, it would be pragmatic to not delay solving other issues, for example, fines and penalties that go to intermediaries.

International Financial Congress

ST. PETERSBURG
6–8 JUNE
2018

ROUNDTABLE 4.3:

The Search for New Brokerage Opportunities in Mediation by Professional Securities Market Participants

Moderator:

Roman Goryunov, President, Nonprofit Partnership for the Development of the RTS Financial Market (Association of Financial Market Participants)

Speakers:

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

Paul Andrews, Secretary General, International Organization of Securities Commissions (IOSCO)

Andrey Shemetov, Vice President, Head of the Global Markets Department, Sberbank CIB

Vladislav Kochetkov, President and Chairman of the Management Board, FINAM

Oleg Yankelev, Senior Partner, FinEx Capital Management; Chief Executive Officer, FinEx Plus

Roundtable 4.3

The Search for New Brokerage Opportunities in Mediation by Professional Securities Market Participants

In her opening remarks, **Larisa Selyutina, Director of the Securities Market and Commodity Market Department at the Bank of Russia**, underscored the relevance of the topic, triggered by dynamic changes in the financial market and primarily connected to the development of AI-based financial technology. At the same time, she noted that the main driver of change was competition between the traditional banking business and online banking, and between traditional securities trust management and investment life insurance, auto-tracking, and robo-advising. Traditional brokers compete with internalization, Forex, and similar platforms. The growth in the regulatory burden is also pushing this process forward. In addition, the market architecture is changing at a rapid pace. In such conditions, it is vital to find a compromise between the regulator, business, and the users of financial services.

Topics discussed at the roundtable included the development of auto-tracking services and robo-advising. The situation regarding the justifiability of regulatory arbitrage between classical financial instruments and new forms was also analysed, including in the context of investment insurance.

Due to the appearance of a new role on the securities market – that of investment consulting – issues relating to its regulation and incorporation into professional participants' existing business models were examined.

Paul Andrews, Secretary General of the International Organization of Securities Commissions (IOSCO) noted that, as with numerous other services which have appeared on the market in recent years, robo-advising is not, in fact, entirely new. Robo-advising is merely a new variation on long-standing services in the individual trust management market, which employs algorithms and a convenient platform. As a result, the mass-market customer benefits from a high-quality service without any errors related to the human factor or the dealings of a particular financial advisor. It is simply evolution

– innovation means that we are capable of doing things we were incapable of 10 years ago. It is a change in the overall structure – technologies change the market. This technology has still not been tested, and so we are unable to predict the effect of implementing it.

A feature of this roundtable was online voting, which revealed the following prevailing opinions among participants:

• In five years' time, there will still be the same instruments on the financial market. There may be a change in the percentage composition of new and traditional means of investment (59.1%).

• It is impossible to have a fully functioning financial market without brokers (50%).

• Banks and insurance companies will be able to recommend investment life insurance policies only if they are investment advisors, since given its level of complexity and the degree to which it is poorly understood by investors, investment life insurance is on a par with derivative financial documents. (66.7%).

Opinions among participants differed on what makes the largest contribution to the regulatory burden. The most frequently cited factors were the following:

• Legal requirements on counteracting money laundering and terrorist financing (33.3%).

• Preparing and submitting various reports (27.8%).

• Preparing and submitting oversight information (22.2%).

Main conclusions:

Information technologies offering new technological solutions on the financial market for investors will prompt regulatory changes. Regardless of the fact that this task is a new one, there is an understanding and interaction between the regulator and the financial market.