Experience of Greece on Recapitalization of Banks, Marketing Management and Personnel Retraining in Conditions of Economic Recession

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Abstract:
The article covers instruments which are aimed at strengthening of global and national financial and credit systems, encouraging banks recapitalization, techniques of marketing management of financial and credit sector development focused on ensuring financial stability of banks. The authors consider also basic methods of banking market services regulation, point out specific issues of bank management and human recourse management development in conditions of economic recession.

Greek experience of anti-crisis measures has revealed key factors and peculiarities of the changes that were brought by the global financial crisis of 2008-2010 to development of banking systems of the countries implementing the model of "catch-up development". The experience of Greece in development and application of regulatory instruments has shown that if in the period of long sustainable economic growth for countries having emerging markets an opportunity to use the methods and control systems of developed countries can be visible, then with the appearance of negative scenarios system limitations come to the fore and the risks associated with high degree of uncertainty are realized.

Key Words: anti-crisis measures, banking system, state, imbalances, institutional design, imbalances, recapitalization, risks, and financial crisis.

JEL Classification Codes: *G00, G01, G21, H12, H60, M31.*

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1. Introduction

In the globalizing financial economy the imbalances reflecting peculiarities, limitations and structural weaknesses in development of banking services markets and financial and credit sphere in general occur frequently. Banking systems of countries having emerging markets in conditions of crisis lose reliability and stability, have difficulties with capital and face the problems difficult to resolve (Allegret *et al.,* 2016; Thalassinos *et al.,* 2014; 2015a; 2015b; Thalassinos and Liapis 2014; Athanasenas *et al.,* 2015; Boldeanu and Tache, 2016; Fetai, 2015). The authors define the institutional gaps in the regulatory system related to implementation of neoliberal economic policy conducted as a part of separate market space as the main causes of emerging risks and limitations in the banking sector (Giannarakis, 2016; Rupeika-Apoga and Nedovis, 2015; Theriou and Aggelidis, 2014; Duguleana and Duguleana, 2016).

In conditions of global financial risks implementation Greek banking system which had been created with active state participation reduced its financial stability to a large extent. National Financial Bank of Greece was formed in 1828 to control financial, credit and fiscal issues. The history of formation and development of Greek modern banking system is associated with creation of such large Greek banks as Bank of Attika, General Hellenic Bank, Bank of Central Greece, which served as a basis for the institutional design of national financial institutions. Stage-by-stage construction of credit-and-monetary regulation mechanism occurred in 1970-1990.

During this period the mechanism of credit-and-monetary regulation aimed at improving Greek banking system first of all according to the Bank of Greece line was being created and strengthened. Fixed final indicators of inflation and GDP growth rate were set as financial market regulators, the achievement of which was ensured by strict control over liquidity and objective information about the processes occurring in the sphere of country's credit-and-monetary regulation.

The processes of strengthening and grading the credit-and-monetary regulation legal framework were implemented in the course of financial institutions development. This policy allowed ensuring flexibility and autonomy of the exchange rate which was considered as a decisive factor in achieving strategic macroeconomic indicators.

In 1981 Greece joined the European Union, which defined the need for structural reforms in financial and credit system of the country. The Bank of Greece implementing a strategy of ensuring stable exchange rate introduces in this period restrictions on deposits in national currency for non-resident foreigners, on foreign currency debt of commercial banks, on obtaining external credits by national companies with aim of their reorientation to internal credit resources.

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The entry of Greece into the Economic and Monetary Union on the 1st of January 2001 and into the Common European Currency area created real conditions for transition from economy of closed protective type to an open socially-oriented market economy.

The Bank of Greece has a special place in the banking system of the country; it has functions of credit-and-monetary policy development and implementation in order to achieve price stability and support of the state economic policy. State-controlled Greek banks such as National Bank of Greece and Emporiki Bank of Greece, private banks such as Alpha Bank and Piraeus Bank, as well as Eurobank Ergasias (with foreign participation) financial and credit services had a dominating role in the market of financial and credit services.

In connection with post-crisis changes in the banking and credit system of the European Union as well as appearance of financial imbalances the structural changes occur actively in Greek banking system; there is a search of instruments ensuring reliability of banks and transparency of financial transactions. As a result of increasing instability many commercial banks in local markets do not perform the functions of encouraging development of their countries' economies, which directly testifies a de-emphasis in the banks' investment role in the economic development. It defines a high significance of the tasks of scientific research of financial and marketing management methods aimed at recapitalization of banks and increase of banking systems stability in emerging markets.

2. Theoretical, Informational and Empirical, and Methodological Grounds of the Research

Theoretical and methodological basis of the research is the points of the theory of financial regulation and financial globalization, marketing relations, fundamental concepts of risk management and human capital management, based on the system and functional approach to the study of the laws of the modern financial and credit institutions development in conditions of high turbulence and slowdown of the world economy development.

The implementation of the monetary activity strategy means that Central Banks come to conclusion that the implemented development concept needs to be corrected. These conclusions are confirmed by growth in demand for gold, which continues growing in the world market. Thus the monetary policy of the world Central Banks increases dynamics of the prices for gold.

The results of the world market development show that modern vector of monetary policy is not able to reduce risks of the global market. It is obvious that the ongoing European Central Bank monetary policy can be effective only as a temporary

solution. Structural reforms are necessary. Such reforms should be aimed at economic growth, stimulation of economic agents' investment activity and development of large investment projects, focused on the competitive strength of the companies.

The experience of Greece development in the period after the global financial crisis revealed the need to reform social and economic policy considering changes in global economic mechanism and conditions of entrepreneurial activity implementation. The dynamics of growth rate of economics of such type cannot be high even as a result of the limited effective demand for products and services, including financial and credit resources directed to industrial economy development.

3. Results

Strengthening of the monetary policy levers is a peculiarity of modern financial market. World Central Banks flood markets with money and continue a practice of financial bubbles inflating. Such policy of Central Banks as controllers of financial market encourages an increase in the assets value. E.g. the European Central Bank (ECB) continued active emission of currency. As a part of the auction on granting very long-term loans TLTRO financial companies were directed 46.2 billion euros at 0%. Such instruments are applied to stimulate economic agents and increase demand in economy.

Amount of 'bad' bank debts in EU countries, %
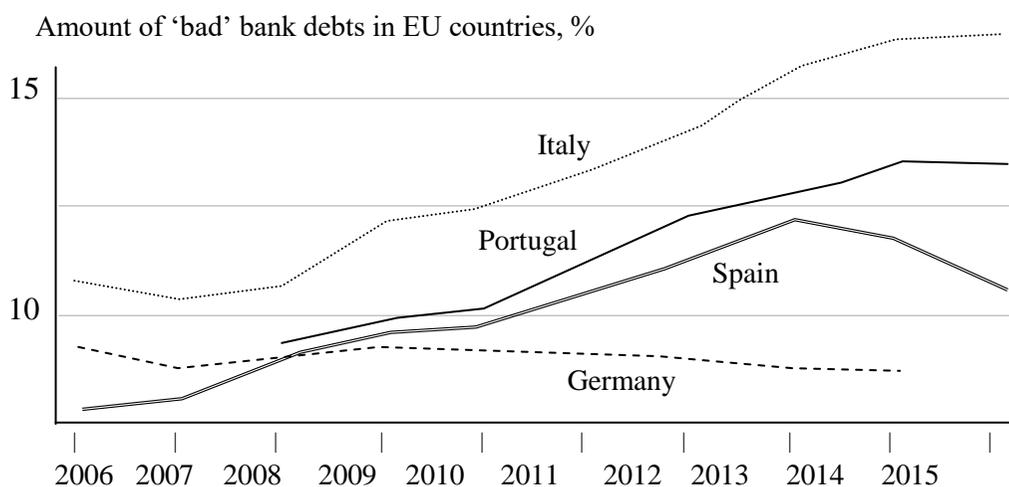
Picture 1. *Amount of 'bad' bank debts in EU countries, % (Thomson Reuters Datastream)*

The US Federal Reserve System, which in September 2016 kept the rate at the same level (0.25%) due to lowering of predictive appraisal of the economy development

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dynamics, marks unsteadiness of world trends for development. Along with that there was a perspective reduction in the predicted value on the issue of the rate increase in 2017. Such policy of the world Central Banks encourages activation of the demand for risk assets, which can provide a high profitability of financial and credit institutions. The main US stock indicator, Broad Market Index S&P 500, almost reached its maximum.

It should also be noted that the Central Bank of Japan is intending to revise a strategy of monetary policy. Leaders of the Central Bank of Japan identified the need to refuse from the course of a monetary base as one of the main targeted indicators. The macro-controller of Japanese financial market is moving to a new control strategy. This strategy is connected with a limited amount of financial resources for the assets acquisition. The new policy of Japan Central Bank is connected with targeting the profitability of 10-year government bonds at the current level about 0%.

As a result of this Central Bank program announcement the yen exchange rate increased certainly. At the same time a new strategy of control is not a tested one. In this regard the yen exchange rate may fall again, which will lead to an outflow of Japanese currency to the global market. Perhaps the result of this strategy of control will be the growth in activity of Japanese speculative capital in foreign markets.
Economists of ESMT in Berlin analyzed data on the two first programs of aid in Greece and came to conclusion that more than 95% of 215.9 billion Euros allocated to Athens were spent on repayment of old debts, interest and recapitalization of Greek banks. According to the Handelsblatt, a German economic edition, which first published the results of a 24-page research, less than 5% of all funds got in the Greek budget.

Thus a large part of Greek credits flows to the banks and their creditors, but not to the Greek government, so it cannot solve the challenges of crisis in economy. At the same time the allocated credits were aimed at saving European banks operating in Greece. The level of Greek banks capitalization over the past three years (which undertook transformation of the economy and the financial market) reduced by almost 98%. Nearly 40 billion Euros were spent inefficiently.

After the global financial and economic crisis erupted in 2008-2010 and affected in the most negative way the development of financial and credit institutions and economy of Greece in whole, the country was close to default. In connection with this Greece was forced to accept financial assistance of the European Union, the European Central Bank and the International Monetary Fund in the amount of 130 billion Euros. The condition of this aid receiving was the creditors' requirement to

implement tough course of reducing costs and to conduct an effective program of structural reforms as a part of the anti-crisis policy, provided by Greek government. Structural changes in economy which should be carried out through social and economic stability lowering and the population's state worsening are quite difficult to conduct. Risks of policy of budget discipline reduction were indicated in the financial and credit sector in Greece in the mid-1980s, as the increase of government expenses was not ensured by sufficient tax revenues.

Since the mid-1990s a deficit of current transactions of balance of payments and a rapid increase in government debt were added to the budget deficit arisen in Greek financial system. The chosen format of changes in Greece has led to the fact that the country is currently in a difficult economic situation.

According to experts on social policy the Greek economy remains in conditions of recession. The economy is experiencing economic slowdown, reduction of budget expenses and consumer purchasing power, increase of unemployment; all these factors limit the return of the country to the path of sustainable growth (Avilova , 2013).

Budget expenses grew due to the changed economic policy course. In the process of institutional design a special national version of social state, corresponding to the vector of social and economic policy of the PASOK socialist party, was formed in the country. As a result of implementation of the selected vector of social and economic development of the country in 1980-1990 the social expenses increased from 11.5% to 20.9% of GDP. Lack of budget revenues was mostly explained by the economy agents' avoidance of paying taxes (Tsarouhas).

Low financial stability of Greece financial and credit sector determining the weakness of the balance of payments of the country is conditioned by the economic agents' structure. It is important to note that majority of the economic agents is represented by the companies of small-scale and medium-scale businesses which are not engaged in foreign trade operations and do not manufactures export products. In the period of market changes a currency inflow into the country has always been limited, as economic agents have always oriented results of their production activity to the domestic market. Recently the production of services (maritime transport, transport risks insurance, tourism, etc.) was a strong competitive sector of Greek economy. At the same time promotion of these services to the world market did not provide a positive balance in trade of Greece with other countries.

The vector of small and medium-scale enterprises operation development in Greece, considering the structure of employment, was always supported by the government in order to ensure employment of the population. The share of Greece export revenues in the GDP structure amounted only to 22% on average for 2000-2010.

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The value of this indicator was admitted as a minimum among the European Union countries.

Formation of budget deficit and current expenses in conditions of crisis was tested as the formation of growing risks of Greece public debt service. Cost of public debt refinance, measured by profitability of long-term government bonds, increased dramatically and began increasing continuously in the international market. Greece had to increase profitability of the issued bonds in order to stabilize the financial situation of the country. At the same time a high profitability of financial instruments was assigned to ensure the liquidity of these papers.

The fact that the institutional mechanism of entrepreneurial activity in the country was formed under the influence of a strong tradition of economic agents related to the increase in volume of goods and services production contributed to strengthening risks of Greece unstable economic development. In pre-crisis period most of Greek companies and enterprises were focused on getting fast income in a growing market.

According to the researchers' opinion a fast dynamics of transition from economy with a dominant agrarian social and economic structure to a "service economy", a highly fragmented heterogeneous public medium, can be considered as an important feature of Greece economy development (Petmesidou, 1996).

Crisis trends in a number of EU countries and current challenges of European integration are related with the fact that rapid expansion of the European Union in 2004-2007 was ill-considered. When the European Economic Space was expanding, economic challenges were not taken into consideration, so these problems became aggravated. Today the problem with public debt is observed in most countries, so the search of strong economic growth ways is necessary.

Greek experience of financial and credit relations regulation indicates that low level of domestic banks capitalization creates a risk of the country's financial stability. In an effort to increase profitability of operations the commercial banks addict to derivative and speculative financial instruments. To attract customers to service the banks should increase a consulting component in credit products cost, enter new forms of customer service and reduce the volume of speculative transactions in the global financial market. The experience of Greece development in the period after the global financial crisis revealed the need to reform social and economic policy considering changes in global economic mechanism and conditions of entrepreneurial activity implementation. In the economies with shaping markets the vector of economy's innovative development is weak and has no significant impact on demand restructure and labor productivity growth. The experience these very economies shows evidences about accumulation of risks in such social and economic systems. The dynamics of growth rate of economics of the described type

cannot be high even as a result of the limited effective demand for products and services, including financial and credit resources directed to industrial economy development.

Currently in terms of institutional development mechanism a financial system in Russia is also unbalanced. Russian economy differs with a very high regulatory burden, government participation and interference. In this regard Russian financial system is characterized with a high level of offshorization. Experts believe that Russia has small unbalanced financial system, which is very difficult to invest to (Mirkin, 2014).

To encourage the economy sustainable development it is necessary to create a financial and credit system and develop an economic policy based on reduction of regulatory burden, level of taxes that restrain investment activity of economic agents, level of shadow economy and corruption. Currently economic growth depends not only on financial resources, but also on economic agents' behavior, financial literacy and level of bank employees' competency, positive or negative expectations of the population.

A countercyclical policy, instruments of which are focused on the economic cycle risks evening, is necessary for crisis recovery. In modern economy there are factors that, on the contrary, strengthen the cyclicality: they contribute to economy overheating before the crisis and strengthen the started recession. The articles devoted to the problems of pro-cyclicality and reasons of the continuing economic crisis in countries of Southern Europe appeared in scientific economic literature (Butorina, 2013).

O.V. Butorina highlights in her work that Greece joined the euro zone, without being prepared for this. Prior to transition to euro the Greek currency was regularly devaluated with respect to the German mark and other stronger currencies of the EU countries. Therefore a formation of Greek drachma adequate rate to euro was a challenging theoretical and practical problem which was solved not to the full extent.

Greece unpreparedness to join the euro zone and failure to perform a part of Maastrikh criteria cannot entirely explain the difficulties with which the national economy faced during current crisis in the euro zone. After transition to the Common European Currency of EU countries, pro-cyclical factors which violated the existing factors of economic stability appeared in Greece.

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One of the factors, e.g. pro-cyclical factor, was a system of currency risk neutralization. Experts explain this situation by the fact that before euro introduction Greek companies, enterprises and individuals did not take credits in foreign currency, e.g. in German marks or US dollars. This was connected with fears of foreign exchange risk appearance. In the event of another devaluation of Greek drachma the bank borrowers receiving income in drachmas had to repay a larger loan comparing to the one they had taken in fact. In this regard German banks operating on Greek territory did not provide the borrowers (legal entities and individuals) with loans in Greek drachmas. Giving loans in drachmas, which German marks had been previously exchanged for, a German Bank risks receiving less in case of devaluation. In scientists' opinion the expectation of devaluation was an autonomous stabilizer of the economy in terms of limit of Greek enterprises and population credit appetites (Butorina, 2012).

The condition of connection with Maastrikh criteria on the national Central Bank status can be identified as the second pro-cyclical factor. In order to join the euro zone Greece had to develop an institutional mechanism and instruments of ensuring the Central Bank independence in accordance with the rules of the Central Banks European System. This mechanism should contribute to narrowing the tasks of financial and credit operations market regulator. After joining the European Union and the euro zone the main purpose of Greek Central Bank was to ensure price stability.

At the same time before euro introduction the Greek Central Bank functions were wider. The objectives of the regulation of Central Bank as a controller included the following:

1. Measures of credit expansion limiting in the market;
2. Measures of assistance to the implementation of anti-cyclical policy;
3. Measures ensuring growth of economy;
4. Measures ensuring reduction of inflation;
5. Measures ensuring support of the balance of payments;
6. Measures ensuring liberalization of the banking system;
7. Measures ensuring development of monetary and capital markets.

When integrated into the European Union Greek Central Bank lost some of its functions, and an alternative institution on the national economy risks regulation was not established.

Economic agents of financial and credit services market began attracting more loans, as their supply both from foreign banks and Greek credit institutions increased in the

Greek market. A new pro-cyclical factor arose for the economy development. When forming the signs of possible default in the financial sector the capitals flowed from financial institutions into the global market. Consequently the second pro-cyclical factor contributed to arising of the problems with liquidity, which significantly increased the cost of credit resources and created problems with Greek banking system refinancing.

Another pro-cyclical factor was associated with a characteristic feature of the European Central Bank monetary policy and Eurostat calculation of a harmonized index of consumer prices in the euro zone. The main purpose of the European Central Bank is to maintain a low inflation. The European Central Bank resolves this problem well, as the rate of inflation in the European Union is low (2.5%) as a whole, but the inflation rate differs greatly in separate countries. For example in Greece during all years of euro zone existence the inflation was by 1.2 percentage points higher than in Germany. According to scientists this fact reduced the price competitive strength of Greek economy.

The European Central Bank didn't develop the instruments of these risks control; therefore it could not eliminate them quickly. The European Central Bank itself had difficulties with the identification of risks of such level. So when we assess the risks emerging in the financial and credit system it becomes obvious that the mechanism of the monetary policy in the euro zone does not differ by a high component of risk management. Institutional and logical gaps appeared in this mechanism; these gaps do not allow assessing national specific of development of certain countries belonging to European Economic Space. Above all in this regard Greece should be noted.

Dynamics of Russian economy development after global financial crisis differed with high volatility. Over a period from 2007-2008, which was characterized by a significant growth of world oil prices, domestic economy grew rapidly (over 8%), and later in conditions of the global financial crisis, when the price of oil fell, economic growth (up to – 8%) fell too.

Thus, for almost ten year period the average annual rate of Russian economy growth amounted to 1.6%. According to experts' assessment, the Russian economy is in stagnation for a rather long period of time. By the beginning of 2020 the stagnation will continue for 13 years; this fact comes from the Russian Federation Government forecast for 2017-2019, in the version that the Ministry of Economic Development and Trade considers more realistic ("basic plus"). The price of oil increases in it up to $55/bbl. by 2019, but not freezes, as in a "basic" (main) scenario, at the level of $40 for three years more. According to predictive appraisals only on the results of 2019 Russian economy will probably return to the level of 2013, when it entered

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stagnation period, despite the high level of oil prices (Vedomosti Newspaper, September, 23, 2016).

According to analysts' forecasts from 2010 to 2019 as a result of a long recession Russian Federation economy will grow only by 16% (versus 69% for previous 10 years) moving to the group of countries with low rates of economic growth. Out of 155 countries of catch-up development which are passing through the stage of market formation, the weakest result basing on the results of 2010-2019 is predicted by IMF experts only in 16 countries. It is difficult to find a country with a comparable economy among these countries. The inflow of direct foreign investment in Russian economy reduced, so the task of credit relations development is actualized.

An important problem of the Russian banking sector which requires an urgent solution is certainly the insufficient level of Russian banks capitalization (Andreeva L., Ogurtsova O., 2016). Affordable credit resources are necessary for conducting active credit policy ensuring creation of factors of the domestic economy growth. At the same time the availability of loans in Russia is very low, especially in regions. This is connected with the fact that a high concentration of loans was in Moscow, Russian financial center. In the early 2000s the funds of banks in Moscow and Moscow region on accounts in the Bank of Russia amounted to 53-55% of the total volume all over the country, and according to Ya.M. Mirkin, a head of the department of international capital markets of the Institute of World Economy and International Relations of RAS, currently this market amounts to more than 90%. Russian regions get less and less resources for development; in 2016 the market of regional crediting amounted to 49.6% (Mirkin, 2016).

According to official statistics in 2015 the cost of enterprises crediting in Russian economy reached the level of 20%, while in 2016 the price of loans decreased slightly and amounted to 15-16% per annum. Lending to small and medium-sized businesses can be identified as an issue requiring solution.
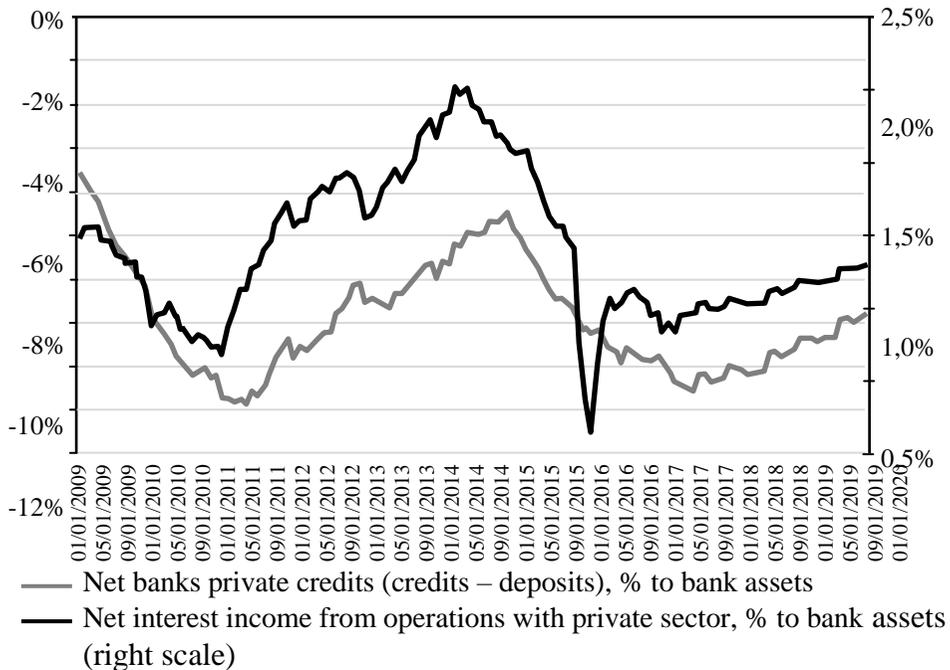
Picture 2. *Forecast of Net interest income from operations with individuals (Solovyeva, 2016)*

Creation by a federal corporation of small and medium-scale business development of "The program of stimulating crediting of the subjects of small and medium-sized enterprises" improved significantly the situation in the credit market. The program which received the informal name of "Six and a half" allows Russian banks lending to small and medium-sized businesses at a rate of 10-11% at the expense of 6.5% refinancing rate for banks.

Currently the main participants of the program are the banks of federal level, which reduces the competitiveness of regional banks. It is important to note that it is the banks of regional format that lend to small and medium-sized enterprises. To ensure active growth of economy in regions the right decision will be a mechanism providing the involvement of regional banks into lending to small and medium-sized businesses.

It is obvious that for such programs regional banks should possess financial stability, know the techniques of lending to small and medium-sized businesses and have experience of this activity. To ensure dynamics of this process the regional banks shall complete the process of recapitalization to the highest manner, and the Bank of Russia as a macrocontroller and MSP corporation shall create an accessible information environment in order to ensure availability of information and analytical support to regional banks on such programs.

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To expand the system of lending to small and medium-sized businesses it is necessary to create a system of complex information for evaluating opportunities and perspectives of regional banks participation in the programs of lending to small businesses, which are implemented with state support. It is important for the banks of regional level to have information on what favorable instruments exist, how to use them properly and what possibilities become opened to the lender and the borrower with these tools using (Andreeva A., 2015).

From the 1st of January 2018 the Bank of Russia plans to divide Russian banks to regional and federal ones on the basis of introduction of proportional regulation mechanism in the field of banking. This mechanism supposes creation of a regulatory system in which the level of requirements to banks corresponds to a set of banking operations fulfilled by them and the volume of accepted risks. For this program implementation the Megacontroller plans to introduce the "Regional Bank", a new type of credit institution. This status can be received by the banks with a capital of not less than 300 million rubles and assets of not more than 7 billion rubles. The controller determines that regional banks will operate in a particular region; they will not be able to open branches outside this region, to carry out cross-border transactions and transactions with non-residents.

At the same time a simplified control will be applied to the banks. Credit institutions which do not plan to get the status of a regional bank must increase the minimum capital to 1 billion rubles before the 1st of January 2018. Carrying out the recapitalization is a very difficult problem for banks. To achieve the minimum limit of own funds of 1 billion rubles Russian banks need almost 142 billion rubles.

Currently 276 banks (excluding the banks under resolution) with a capital of less than 1 bln. rubles operate in the Russian financial market, 175 banks of which have capital of less than 500 million rubles. In this regard during the recapitalization process in conditions of financial limitations Russian banks must use the existing experience of other credit institutions, which will allow reducing risks when carrying out these reforms.
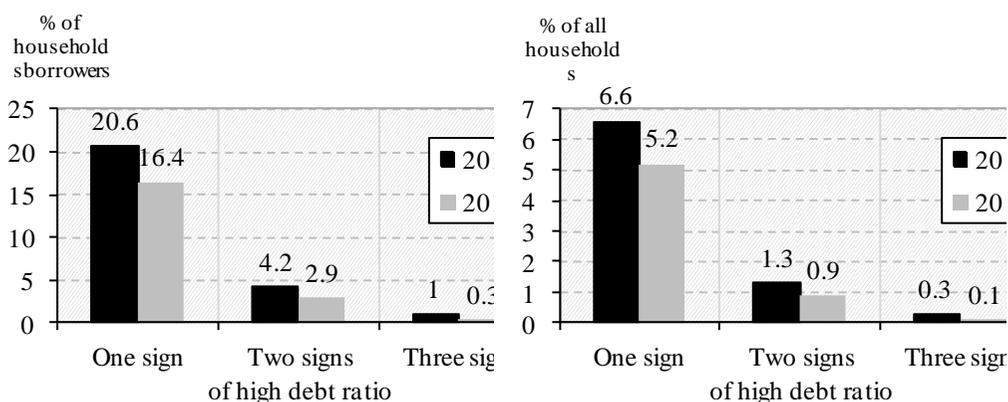
**Picture 3.** *Index of high debt ratio (Solovyeva, 2016)*

Currently the situation in the Russian banking sector has improved slightly, the market of financial and credit services has started growing, some domestic banks begin receiving a steady income, despite the fact that the crisis in the banking sector continues and the recession in the economy has not ended. At the same time credit institutions have gradually formed anti-crisis strategies of development that help them to maintain financial stability. 2015 year can be considered as the most difficult in terms of risks formation after the introduction of sanctions by Western countries against Russian banks with state participation, which are limited at present to attract funds from foreign markets.

The emerged risks of Russian banks related with formation of low-quality credit portfolio, accumulation of "bad debts" caused the need to reorganize Russian banking sector. Reforming of the financial and credit markets is a difficult task, reorganization in the market will probably continue for some years more, which will significantly reduce the number of market participants. It is expected that after preventive measures that are regularly held by the Bank of Russia (the Central Bank), continuing reorganizing the domestic banking sector.

The Central Bank of Russia as macro-regulator constantly revokes licenses from Russian banks, operating with violations. In recent years in spite of insistence on high standards and rigidity of domestic institution of banking supervision, the number of facts related with detection of financial risks and imbalances of internal risk management system in credit institutions has begun growing. The most dangerous risk in this situation is the fact of absence of proper risk management systems. In Russia since the beginning of 1991 more than 2.5 thousand of banks have been deprived of licenses. During 2015 the Central Bank revoked 105 licenses, by the beginning of 2016 approximately 700 credit institutions with appropriate

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admission operated in the banking field (Information agency "National Interests", 2016).

Since post-crisis period the Bank of Russia has been conducting reorganization of problem banks, clearing the market of financial and credit services from credit institutions with a doubtful reputation. From the 19th of September 2016 the Macrocontroller has revoked licenses from Moscow Rosinterbank (JSC "Commercial Bank "Rosinterbank"), Moscow PJSC "Joint Stock Commercial Bank "Financial and Industrial Bank" ("Finprombank", FPB) and JSC "Regional Commercial Bank" (JSC "Bank "RCB"). According to the reports in terms of total assets as of the 1st of September 2016 the "Commercial Bank "Rosinterbank" was on the 68th line in the country's banking system, "Finprombank" was on the 94th line, and JSC "Bank "RCB" was on the 404th line in the ranking.
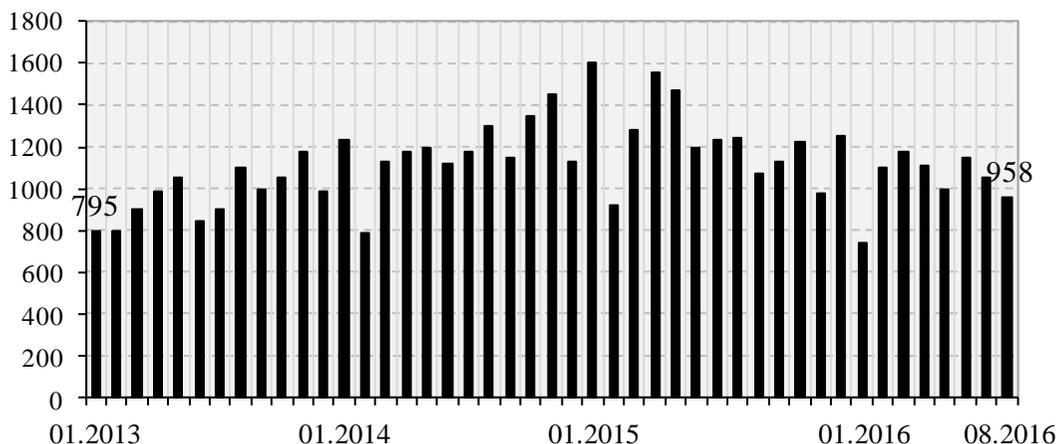
Picture 4. *Number of recognitions debtors as bankrupts (Bazanova[, 2016])*

These banks are the members of deposits insurance system, so the Deposit Insurance Agency (DIA) should start paying compensations to depositors through agent banks, which will be selected by the Central Bank for this purpose. Each depositor of these banks, including individual entrepreneur is entitled to receive within the established deadlines an insurance claim payment under the Federal Law of the 23rd of December 2003 No. 177-FZ "On insurance of individuals' deposits in the Russian Federation banks". Insurance claim is paid to the depositor in the size of 100% of the amount of all his accounts (deposits) in the bank, including open for business activities, but not more than 1.4 million rubles in total. The amount not compensated by insurance will be repaid during the liquidation of the bank as a part of the claims of first-ranking creditors (for individual entrepreneurs' accounts opened for business activities as a part of the third rank). As to the bank deposit (account) in foreign

currency the insurance claim is calculated in rubles at the Bank of Russia exchange rate as of the 19th of September 2016 (Deposit Insurance Agency, 2016).

From the 13th of September the Bank of Russia revoked the license from Moscow LLC "Commercial Bank "Russian Industrial Bank", which conducted a high risk credit policy related with the placement of funds in low-quality assets. Adequate assessment of the taken risks at the supervisory authority's requirement and fair reflection of the bank's assets cost led to appearance of the bank's grounds for implementing measures to prevent insolvency. The "Russian Industrial Bank" did not follow legal requirements in the sphere of combating with funds laundering and terrorism financing in terms of submitting adequate information to the authorized body. Rules of the credit institution internal control in this sphere did not correspond to the Bank of Russia requirements.

The "Russian Industrial Bank" is a subsidiary of "Cyprus Popular Bank" which during the crisis in 2013 experienced the liquidation and restructuring procedures in Cyprus. The Bank was mainly engaged in operations with bonds, loans, service of organizations and enterprises, as well as involvement of funds of the population to deposits. Herewith CJSC "RPB-Holding" controlled 99.93% of the "Russian Industrial Bank" capital, and "Cyprus Popular Bank Public Co Ltd." controlled 50.04% of the holding shares. Part of 42% of the bank shares is under the control of the Republic of Cyprus, the remaining part of shares (8.0%) is in public circulation. The "Russian Industrial Bank" had a head office in Moscow, chain in Russian regions, but in recent years the bank differed with a low quality of assets.

Poor quality of the "Russian Industrial Bank" assets was a consequence of an inadequate assessment of the risks taken. The refined credit risk assessment and objective reflection of the assets value in the bank's reports led to a complete loss of the credit institution own funds. The temporary administration evaluated on a test basis the quality of the bank's liabilities and deposits of the population. With help of special group of depositors the experts determined that the bank carried out the operation, the purpose of which was the regulation of deposits balances so that their size did not exceed the controller's prescription. It turned out that a part of deposits was "outside of the balance", the total amount of such deposits to be confirmed.

Thus the bank internal control rules in this area did not meet the Central Bank requirements. Having poor quality of assets the credit institution did not take measures to adequate credit risk assessment system, and the leaders of the bank and its owners did not take effective measures to form the risk management system for operation normalization.

Implementation of credit risk contributes to the formation of huge financial holes at final stages of a crisis strategy. Prior to revocation of licenses e.g. such banks as

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"Probusinessbank", "Trust" bank, "Vneshprombank" were profitable operators of financial and credit relations, stable leaders of the domestic banking market right up to the moment of licenses revocation. According to the published data of the Bank of Russia website, the banks which lost their licenses, had more than 231 billion rubles of legal entities' funds, and about 10% of this amount was the funds of state corporations and enterprises.

E.g. before the bankruptcy of Russian "Vneshprombank", it kept more than 2 billion rubles, which belonged to the institution of Deposit Insurance Agency (DIA). This fact evidences that a quality risk management system was not created in the bank. Risks of "Vneshprombank" were not identified and assessed in advance. Probably relationship of such a format, that allowed the bank not leveling but hiding risks were formed between "Vneshprombank" owners, the Central Bank and the Deposit Insurance Agency. It should be noted that after introduction of bankruptcy procedure against "Vneshprombank" financial resources on bank deposits were certainly returned to their owners.

At the same time as of today the legal entities have failed to return belonging to them more than 82 billion rubles from the banks which lost their licenses. Thus stability in Russian financial and credit market is not enough, not all banks have financial strength and capital sufficiency. At the same time this marked the factors of economic agents' opportunistic behavior related with the fraud and existence of a large range of operational risks.

4. Conclusions and recommendations

As a result of implemented risks of the global financial crisis of 2008-2010 many commercial banks do not perform functions of stimulating development of their countries' economies. It shows directly a decline in the investment role of banks in lending to companies. The international banking system also remains unstable. Anti-crisis management instruments did influence on certain decrease in commercial banks stability. Experience has shown that controllers represented by governments often used taxpayers' money to rescue national banking systems which reduces ability of the economy to grow.

After the global financial crisis the Russian banking system looked stable on the surface despite the fact that there were signs of detachment of financial sector from real economy (Andreeva A., 2016).

Before sanctions introduction the limitation of Russian banking system stability was associated with the capital outflow. Significant part of resources was spent on financing capital outflow from the country and encouraging imported non-capital goods consumption. Support of the national banking sector was relatively

inexpensive for Russia: less than one year loss of economic growth; the amount allocated by the regulator to support banks is comparable to annual GDP growth.

At the same time, according to M. Ermilova, a BCG partner in financial sector, existing tendencies in Russian market are comparable with the events taking place in Greece and the USA before the burst of banking crises in these countries. State financial support of its banks cost the USA 10 years, and Greece more than 20 years of lost economic growth (Ermilov, 2015).

The expert notes that the price of inefficient banking system in Russia can be high, up to 10 or more years of lost economic growth. To ensure stability of Russian banking system it is important to apply the experience of other countries in order to reduce influence of risks and negative factors on the economy development.
For example it is possible to use the experience of Canada and Australia. These countries managed to implement the model of "Banking System 3.0" in their markets. Main characteristics of this model differ by stability and low volatility of bank incomes, high proportion of productive lending, and transparency of the adopted decisions.

As a result of this model application banking systems of these countries are functioning successfully; they have overcome crisis without constituent state support. Leading developing countries such as China and especially RSA are trying to follow successful experience of this model implementation.

Based on the experience of countries with stable banking system let us select the fundamentals of this system. In terms of the market model they are 4-6 national and equal in scale base banks; absence of dominant player due to the prohibition on mergers and acquisitions among the base banks; competition in the niches from small commercial banks. In terms of the regulatory environment they are autonomous and independent on monetary authorities' mega-controller; compliance to regulatory standards of "Basel III", including individualized setting of standards; fixed rules of the controller's preventive interference in the activities of banks and their resolution / financial recovery. In terms of the corporate management system they are an openness of base banks as additional instrument of supervision from the market; the Board of Directors' personal responsibility which makes it an effective body of control.

Currently in Russian banking system there are numbers of structural gaps in comparison with effective upscale 3.0 development models. In order to increase its stability and utility as well as to avoid additional government expenses on the banks support it is necessary to identify priority activities for the transition to "Bank 3.0" system as well as to speed up its implementation. It is important to create a detailed

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"Banking System 3.0" concept for Russian financial market in order to ensure stability of Russian banking system.

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