

ARTICLE

FEATURES THE CONTEMPORARY LEVEL OF ORGANIZATION OF THE INVESTMENT PROCESS IN A RUSSIAN BANK

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ABSTRACT

Orientation of the Russian economy to the innovation way of development of the outputs to the fore the problem of reforming the prevailing mechanisms to meet the needs of economic entities in investment. Significant changes in the development of the banking sector introduced the financial crisis, which has led to a sharp fall in the level of capitalization of banks, lowering the quality of their credit investments, growth of arrears and, as a consequence, the negative dynamics macro-economic indicators characterizing the role of banks in the economy. Among financial institutions, to ensure an effective transfer of national savings in investment banks played a leading role. Designed to become the main source of long-term loans to banks, which in the structure of the sources of financing of investment is planned to double-up 21.8% versus 13.2% in the year 2010. Effective realization of the objectives of the national banking system tasks requires banks to develop innovative approaches to investment and its implementation.

INTRODUCTION

Investment banking problems constantly rise to the research pages of many leading Russian and foreign economists [1].

Exploration of theoretical aspects of forming the investment policy by banks and developing methodological support of banks investment activity involves examining the whole range of issues related to assessment the current state of investment activity in Russian banks and determination peculiarities of the approaches for different banks towards realization of their investment policy, as well as factors that determine these peculiarities.

Current state of investment banking is under the influence of two different processes. On the one hand, ambitious program of modernization of Russian enterprises and sectors of the economy, driven by the State, opening up vast prospects for banks to increase the amount of the investment and the effective realization of all tasks. On the other hand, significant changes in the development of the banking sector introduced the financial crisis, which has led to a sharp fall in the level of capitalization of banks, lowering the quality of their credit investments, growth of arrears and, as a consequence, the negative dynamics of macro-economic indicators characterizing the role of banks in the economy [2].

The purpose of the study this article was exploring contemporary level of investment activity in Russian banks. The information base for the study were the statistics for 20010-2018 [3]. The ultimate goal is the instrumentation banking proposals on improvement of investment activity.

MATERIALS AND METHODS

The research methodology is presented by descriptive methods of analysis and synthesis of literature, logical methods of information processing, methods of comparative analysis. The study used a horizontal, vertical, graphic and ratio analysis. Information base of research information constitute official federal statistical agencies of the Russian Federation.

Multidimensional nature of the subject of research requires the use of the cognitive capacities of the various branches of scientific knowledge, which makes use of a multidisciplinary approach to solving the formulated tasks [4].

RESULTS

Over the last year's crisis developments in the economy increased unstable state of the financial sector. Statistic data served as a basis for analysis [3]. These data had been taken from the public reports of the Bank of Russia [Table 1].

For the purpose of estimating the potential that Russian banks currently possess let's compare the economic entities' annual demand for long-term investments estimated by experts at a level of at least 60% of GDP with the actual obtained scope of activities by the banks on the whole [5].

KEY WORDS

investment, bank, the structure of investment assets, promising instruments for investment

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Table 1: Dynamics of indicators characterizing the role of banks in meeting the needs of economic entities in investment

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018
The volume GDP, billions,RUB.	46308,5	60282,5	68163,9	73133,9	79199,7	83094,3	86014,2	92101,3	103875,8
Banks ' assets, billions,RUB	33804,6	41627,5	49509,6	57423,1	77653,0	82999,7	80063,3	85191,8	94083,7
in% of GDP	73,0	69,1	72,6	78,5	98,0	99,9	93,0	92,5	90,6
Credits granted to the subjects of economy, billions,RUB	18147,7	23266,2	27708,5	32456,3	40865,5	43985,2	40938,6	42366,2	48273,2
in% of GDP	38,6	40,6	44,4	51,6	52,9	54,1	47,6	46,0	46,5
Banks ' investment in securities, billions,RUB	5829,0	6211,7	7034,9	7822,3	9724,0	11777,4	10302,5	11008,5	11654,9
in% of GDP	12,6	10,3	10,3	10,7	12,3	14,2	12,0	12,0	11,2
Credits granted to the subjects of economy and banks ' investment in securities, in% of GDP	51,8	48,9	50,9	55,1	63,9	67,1	59,6	58,0	57,4
The need for economic entities investments, in% of GDP						No less 60,0			
Unmet need for banks to economic entities for investment, billions,RUB.	3797,3	6691,4	6202,9	3583,6	0	0	344,1	1842,0	2700,8
in% of GDP	8,2	11,1	9,1	4,9	0	0	0,4	2,0	2,6

The data given in the table is an illustrative example that in the course of the last 9 years (2010-2018) only change in bank assets can be compared with a general demand of the economic entities for investment. Assuming that all the loans given by the banks during that period are long-term and all the investments into securities are performed by banks for investment purposes, even according to these assumptions commercial banks on the current stage of development fully satisfied the demand of economic entities for investment.

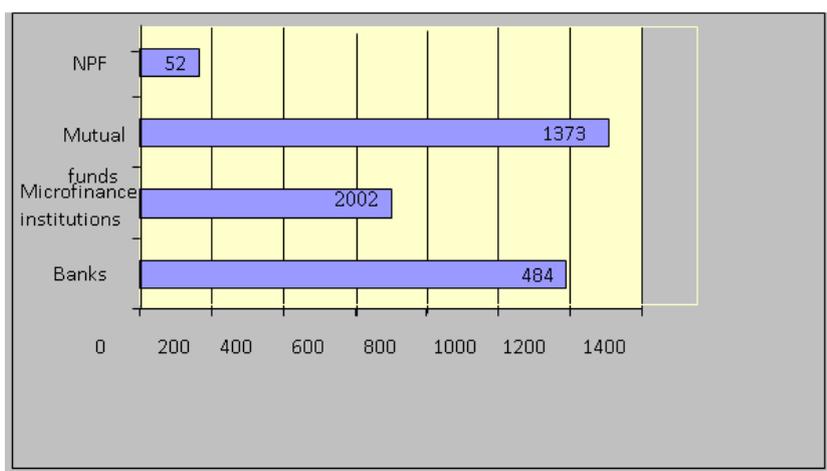


Fig. 1: Quantitative characteristic of financial intermediation institutions.

After studying the development indicators of the Russian banking system we can make a conclusion that most of the parameters have positive trend that indicates stable quantitative growth. The rate of growth in bank assets outruns the GDP trend, and the ratio of assets to GDP within the analyzed period has increased more than 1.2 times and reached 90.6%.

As of January 1, 2019 among all financial intermediation institutions that carry out investment activity in Russia, banks took the leading position that fully complies with the existing in our country's banking economy funding model [Fig. 1].

All major financial intermediaries in addition to mutual funds, conducting its own investment policy, nonetheless inextricably bind with banks. Orientation of financial intermediaries in the indirect investment funds into the economy through investments of funds in the banking sector, let's talk about the inability (or impossibility) of insurance companies and NPF to participate in meeting the existing investment demand [Fig. 2].

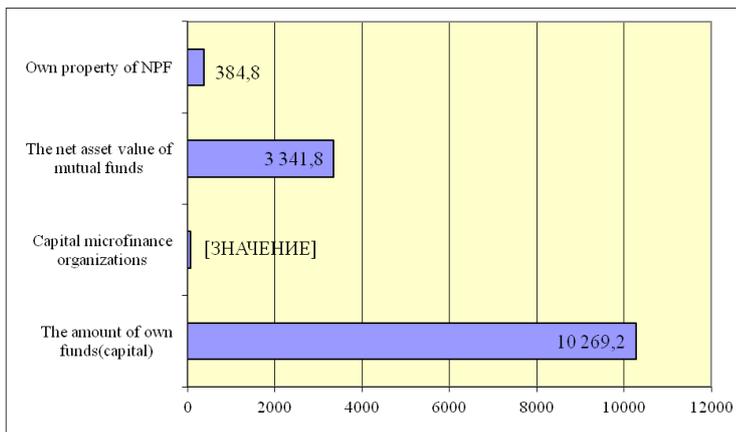


Fig. 2: The size of the main sources of financial intermediation institutions own funds in Russia on January 1, 2019, billions, RUB.

The magnitude of the investment activity of Russian banks from the quantitative point of view can be illustrated as shown in [Table 2].

Table 2: Dynamics and structure of the investment assets of Russian banks

Period	Structure of assets of Russian banks: in duding:						
	Total assets, billions, RUB	Loans		Investments in securities		Participation in the Charter capital	
		billions, RUB	specific gravity, %	billions, RUB	specific gravity, %	billions, RUB	specific gravity, %
January 1, 2011 year	33804,6	18147,7	53,7	5829,0	17,2	368,1	1,1
January 1, 2012 year	41627,5	23266,2	55,9	6211,7	14,9	387,3	0,9
January 1, 2013 year	49509,6	27708,5	56,0	7034,9	14,2	579,4	1,2
January 1, 2014 year	57423,1	32456,3	56,5	7822,3	13,6	594,9	1,0
January 1, 2015 year	77653,0	40865,5	52,6	9724,0	12,5	1365,9	1,8
January 1, 2016 year	82999,7	43985,2	53,0	11777,4	14,2	1662,2	2,0
January 1, 2017 year	80063,3	40938,6	51,1	11450,1	14,3	1549,0	1,9
January 1, 2018 year	85191,8	42366,2	49,7	11008,4	12,9	1747,0	2,1
January 1, 2019 year	94083,7	48273,2	51,3	11654,9	12,4	1613,9	1,7

For the period from 2010 to 2019 Gg. banking assets tend to grow: for 9 years, they increased by 2.8 times and as of January 1, 2019 reached the size in 94083.7 billion rubles. The amount of loans banks loans for the same period increased by 2.7 times with 18147.7 billion rubles in 2011, up to 48273.2 billion rubles in 2018, occupying the largest weight in the composition of the investment banks' assets. Exposure of banks in securities despite the decline from 17.2% in 2010, up to 12.4% in 2018 also show steady growth. Compared to 2010, by the end of 2018 g. volume of investments in securities increased in 2 times and amounted to 11654.9 billion rubles. Banks ' participation in authorized capitals of enterprises, taking a minor share in the structure of the investment banks' assets, is leading to increased growth by the end of 2018, 4.4 times.

Therefore, statistic data on the volume of investment transactions carried out by Russian banks over the past decade indicate that banks investment activities are among the fastest growing ones. Nevertheless, further development of banks investment activities is restrained by a number of factors that make this area

of business specific for the banks, that is an area taking place in limited and a small number of the banks segments [6].

In terms of the way banks should provide a high level of investment activity in the economy and financial support for innovative activities it's better to offer the implementation of the following promising instruments for investment into practice of the Russian commercial banks [7]:

- syndicated lending;
- mezzanine financing;
- structured investment products, including fiduciary loans;
- derivative financial instrument for risk hedging - credit derivatives.

Let's review some of these instruments in detail.

Syndicated lending is an effective instrument for organization of a large loan transaction, when the financial resources of one of creditor bank are insufficient in order to meet the investment needs of a client or the overall credit risk per a creditor bank is too large [8].

The idea of the syndicated lending is to combine several banks for granting a loan that enables to accumulate the necessary amount of financial resources and allocate risks between all parties of the transaction.

In order to define the banks participating in syndicated lending, it is necessary to determine the functions that should be basically performed by the banks - participants on the market [9].

The advantages of the syndicated lending for all the participants of the transactions are obvious. For banks they are: the extension of the credit expansion in the context of infinite resources; increase of the competitiveness and maintaining the priority on the banking market; diversification of default risks and minimizing the latter; improving the quality of credit portfolios of the participants and assessment of the borrower.

Syndicated loans attraction has also a number of benefits for borrowers: attracted resources are more long-term and cheap in comparison with traditional loans, due to the fact that the sources of credit are diversified; the term for organization of the syndicated loan is less compared to the bond issuance because it does not require registration of the prospectus in the Central Bank of Russia; a borrower creates a public credit history from a large number of creditors [10].

Another promising instrument for investment, in our opinion, could be mezzanine financing, which is a method of financing (financial support) projects in which the investor provides the borrower with funds in the form of debt financing with simultaneous acquisition of an option for purchasing the borrower shares or a special project venture (SPV) in the future for a set price and upon occurrence of certain conditions. Therefore, mezzanine financing, being in an intermediate position between shared and debt financing, is considered as a mixed (hybrid) instrument for financing a project.

It is necessary to note that a bank involved in financing the investment transaction may be:

- investor, that is, to purchase a batch of shares of the borrower (to provide shared financing) and, therefore, obtain powers of control over the company activities and the right to receive income in the form of a profit share from the project, the amount of which is not determined in advance and would depend on the outcome of the company activities and the effectiveness of the project in the future;
- creditor, that is, to provide the borrower with debt financing in the form of, for example, a long-term loan or to serve as a purchaser of the borrower bonds. The bank-creditor does not acquire the powers of control over the company activities (except for the rights arising from the content of the credit agreement or bond prospectus), but receives regular interest income, amount of which may be negotiated depending on the market situation. The requirements of the lending bank are usually secured by a pledge of property of the enterprise-borrower and in case of bankruptcy of the borrower they will be satisfied in the first place, compared to investors.

All the negative consequences related to the bank's participation in capital and investment lending can be resolved with the help of mezzanine financing. In this case, the bank serves both the lender and the investor. [11].

The problem of minimizing risks while performing investments can be partially solved by introducing the structured investment (financial) products to the Russian practice.

The main point of structured financial products is a combination of traditional property and derivative financial instruments, which make them rather flexible. As for the investment activities of the bank, a loan, a promissory note or a bond can serve as a traditional financial instrument. The abovementioned instruments can appear on the balance sheet of the bank as a result of use of funds and they establish a certain amount of claim rights towards the borrower arising from the content of the basic instrument to the

bank. However, the main conditions on executing the transaction can be caused by any external factor or an effective date of any event [12].

The simplest example of a structured investment product may be an index of long-term credit. It is a loan with the interest rate tied to a specific market indicator, for example, the refinancing rate, LIBOR rate, RTS indexes, gold prices, oil, the food basket cost, currency pair, etc. However, such loans are used in practice as a means not to restructure the long-term loans (not to change the interest rate that while creating RPBD is a factor reducing the credit quality) in an unstable and uncertain financial situation that the bank is facing while planning an investment transaction, for example, for 10 years ahead.

Investment products with embedded derivatives not detachable from the main contract (Embedded derivatives) deserve to be disseminated more widely and.

Embedded derivatives refer to a contract term that specifies the exact value of liabilities not in absolute amount, but by calculation on the basis of the exchange rate by applying a currency clause. Currency clause refers to a contract term according to which the obligation should be performed in a specified currency (the obligation currency), but in the amount equivalent to a certain amount in another currency (currency equivalent) or conventional units at an agreed exchange rate.

In the field of banks mortgage lending the structured products can be used. These structured products combine the terms of the credit transaction that requires the borrower to use schemes of life insurance, property, etc.

Given the importance of the credit risk management which is inherent in the bank investment activities, it is advisable to use the derivative financial products based on credit derivatives in the practice of investment financing [13].

The basis of credit derivatives is a credit event: default (renunciation of fulfillment of obligations), the decline in the market or basic value of an asset, the downgrading of the credit rating of the borrower, etc. According to the terms of the transaction, upon occurrence of one of these events, for example, in case of downgrading of the borrower credit rating, a party that has sold a derivative (risk hedging), shall compensate the difference in the asset value to the party who purchased the derivative according to a previously agreed scheme. This term has a positive effect not only for the lending bank but for the borrower as well: if decrease in the asset value is temporary, the bank financing the project receives sufficient amount of resources to maintain liquidity without resorting to selling the debt, and therefore the information about the borrower to a third party [14].

It is necessary to include the following to a number of credit derivatives which are used most effectively in investment transactions: credit swap; total return swap; credit-linked note; the option and the forward for credit spread; index swap.

CONCLUSIONS

As a result of the work of the analysis of indicators characterizing the role of banks in meeting the needs of business entities in the area of investment, we came to the following conclusions. In the course of the last 9 years (2010-2018) only change in bank assets can be compared with a general demand of the economic entities for investment [15]. The rate of growth in bank assets outruns the GDP trend, and the ratio of assets to GDP within the analyzed period has increased more than 1.2 times and reached 90.6%.

Statistic data on the volume of investment transactions carried out by Russian banks over the past decade indicate that banks investment activities are among the fastest growing ones.

In order to address the problems of building the investment potential of article banks developed a set of recommendations on the implementation in practice of the Russian banks new financial schemes that enable banks to overcome the negative impact of the factors constraining the scope, pace and opportunities for participation of banks in investment processes (inadequate capitalization, the lack of long-term resources, availability of a wide range of regulatory restrictions). Among these prospective ways and investment instruments were:

- syndicated lending;
- mezzanine financing;
- structured investment products;
- credit derivatives.

CONFLICT OF INTEREST

There is no conflict of interest.

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