



Regional Aspects of Banks Activity: Comparative Analysis of International Operation of Russian and Kazakh Banks

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ABSTRACT

The tendencies of the recent several years include strengthening and sharpening of a number of negative tendencies in the financial and credit area. First of all, this is the transition of inflation from one country to another, increase in political and economic risks, transfer of crises and financial shocks from parent banks to foreign subsidiaries, decrease in the efficiency of the activity of primary banks in a number of countries because of strengthening of non-commercial goals in the activity of banks, etc. Herewith, the impact of regional peculiarities of the activity and risks related to them grow. Based on the application of the method of comparative analysis, regional peculiarities of the activity of Russia and Kazakh banks were researched. The research of foreign regional peculiarities in the activity of banks accentuates on Eastern and Central Europe and CIS countries. According to the results of the research, it has been revealed that international operation of the largest Russian banks is actively developing. However, it is seriously influenced by regional specificity in the activity of banks branches. International operation of national banks of the Republic of Kazakhstan is considerably weaker. However, the representation of foreign banks branches on the financial and banking market of Kazakhstan is considerably greater than in Russia.

Keywords: Regional Peculiarities of the Banking Activity, Efficiency of Banks Branches Activity

JEL Classifications: G21, E52, G01

1. INTRODUCTION

The research of the activity of leading foreign banks for the recent years shows two tendencies:

- Activation of the activity of banks in other countries
- Expansion of multi-agent consortiums of banks.

These tendencies are interrelated, and the expansion of national banks activities requires fuller accounting of various regional factors of influence. They include the following ones:

- Taxation legislation of the countries where there is a banking group and its separate structural subdivisions (branches, subsidiaries, etc.)
- Inflation rates where there are banking groups
- Changing of currency rates
- National legislation of the countries where there are structural subdivisions of the banking group

- Regional peculiarities of financial markets functioning
- Regional peculiarities of the investing structure
- Tendency and dynamics of the capital outflow according to the countries with structural subdivisions of the banking group
- Differences in the structure of the credit portfolio according to countries and regions, and
- Goals of local regulators.

The importance of the factors that must be taken into account when solving the issue related to expanding/narrowing banking interventions on external markets in relation to the national system, when selecting regions and areas of the banking activity expansion, as well as when estimating the efficiency of the banks activity was assessed in respect to the situation of the development of the leading banks of Russia and Kazakhstan.

2. THEORY

Regional aspects of banks activity are widely researched in works of foreign researchers according to several key areas.

Firstly, these are researches devoted to the development of processes of trans-nationalization of the financial and credit area influenced by globalization (Allen and Rai, 1996; Amel et al., 2004; Berger et al., 2003), and development of the multi-bank holding system (Ashcraft, 2008).

Secondly, researches of regional peculiarities of banks functioning under conditions of the global financial crisis, their competitiveness and provision of their stability are described in works of Berger et al. (2009), Berger et al. (2009), Angelini and Cetorelli (2003), Beck et al. (2004), Beck et al. (2006), Frey and Kerl (2015). Besides, they show the mechanism and consequences of the transfer of crises and financial shocks from parent banks to foreign subsidiaries depending on their regional belonging (Jeon et al., 2013; 2014a; 2014b; Mingaleva et al., 2014).

Thirdly, issues related to the impact of non-traditional types of banks activity in separate regions on their commercial efficiency are studied by Gulati and Kumar (2011), Hančlová and Chytilová (2015), Kirdina and Vernikov (2013).

Finally, it is necessary to single out a number of researchers made by scientists from various countries. They are devoted to the analysis of regional peculiarities of functioning of the banking system of the Eastern and Central Europe, the CIS countries, China and the leading banks of Russia and Kazakhstan. Their comparison with a number of foreign countries are analyzed in recent works of Anzoategui et al. (2012), Fang et al. (2014), Ziyadin (2012).

3. RESEARCH METHODS

The research is based on the methods of the bibliographical description and comparative analysis. The method of comparative analysis is applied to estimate basic areas of the development of national banks of Russia and Kazakhstan according to the regional characteristic and the efficiency of the activity of foreign branches of national banks.

The work makes a comparative analysis of regional aspects of the activity of Russian and Kazakh banks taking into account the estimation of the key factors of influence.

The analysis is made on the basis of statistical data about the results of the financial activity of banks of Russia and the Republic of Kazakhstan provided by the Sberbank of Russia (Sberbank. The Official Site) and Halyk Bank of Kazakhstan, using the materials of the International Monetary Fund (IMF) (Global Financial Stability Report, 2015), International Finance Corporation (International Finance Corporation), Financial Market and Financial Organizations Regulation and Inspection Agency of the Republic of Kazakhstan (The Official Site), rating and informational agencies including Finmarket, The Banker, Forbes Kazakhstan, and International Finance Corporation

(Finmarket. The Official Site; Forbes Kazakhstan. The Official Site; International Finance Corporation; The Banker. The Official Site 2016).

4. RESEARCH

4.1. Regional Structure of Foreign Banking Activity

Researches of the recent years confirm the hypothesis that a multi-bank holding company is significantly safer than a stand-alone bank or a bank affiliated with a one-bank holding company (Ashcraft, 2008). It considerably stimulates large banks not only to activate inter-banking interrelation but also to expand their international operation.

The basic motives for the expansion of regional activity of Russian and Kazakh banks on international markets include the following:

- The necessity to finance foreign trade activity and service national companies on external markets
- The necessity to diversify business
- The necessity to attract additional long-term sources of financing, and
- The growth of profit.

However, in addition to purely commercial tasks, parent banks of the Russian Federation financially support the CIS countries where they have subsidiaries. For example, the Ministry of Finances of Byelorussia raised a syndicated loan in the amount of RUB 6 billion to activate integrational relations of Russia and Byelorussia as well as to stimulate economic growth in the country (Sberbank of Russia, State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank),” OJSC “Gazprombank” and OJSC “Alfa-Bank” became members of the syndication). These banks were ordered to organize a placement of state bond of Byelorussia nominated in the Russian currency on the Russian stock market (Sberbank. The Official Site). Similar events took place in other countries that are members of the CIS.

Purposes on expanding the regional activity of Russian and Kazakh banks on foreign markets are achieved in various forms - from establishing correspondent relations to initial public offer (IPO) of the company shares to be sold to general public (IPO), opening subsidiary banks, representative offices and branches. Herewith, it is characteristic of the Russian banking system that mainly banks with the state participation (Sberbank of Russia, VTB Bank, Vnesheconombank, Gazprombank, etc.) act as representative offices, branches and subsidiary banks in foreign countries. On the contrary, in Kazakhstan these are firstly banks with the private form of ownership, for example, the Halyk Bank that is rather active in other countries and has a number of foreign representative offices.

Table 1 shows the regional structure of the Halyk Bank according to the types and regional areas of the activity as on March 31, 2015 (Halyk Bank. The Official Site).

Table 2 shows the regional structure of JSC “Sberbank of Russia” according to the types and regional areas of the activity as on March 31, 2015 (Sberbank. The Official Site).

Table 1: Regional structure of the Halyk bank

Subdivision of the bank group and registration country	Type of activity and share in the capital
Registration country - Kazakhstan	
JSC "Halyk Bank of Kazakhstan"	Banking activity, 100%
JSC Altyn bank (subsidiary of JSC "Halyk Bank of Kazakhstan") (JSC "Altyn Bank")	Banking activity, 100%
JSC "Halyk Finance"	Broking and dealing activity, 100%
JSC "Halyk Leasing"	Leasing, 100%
JSC "Kazteleport"	Telecommunications, 100%
LLP "Halyk Inkassatsiya"	Cashing services, 100%
JSC "Halyk Life"	Life insurance, 100%
JSC "Kazakhinstrach"	Insurance, 100%
JSC "Accumulative Pension Fund of Halyk Bank of Kazakhstan" ("APF")	Benefit assets accruing and management, 100%
LLP "Halyk Project"	Doubtful and bad assets management, 100%
Foreign subdivisions	
JSC "NBK Bank" - Russia	Banking activity, 100%
JSC "Halyk Bank Kyrgyzstan" - Kyrgyzstan	Banking activity, 100%
JSC "Halyk Bank Georgia" - Georgia	Banking activity, 100%

Table 2: Regional structure of JSC "Sberbank of Russia"

Subdivision of the bank group and registration country	Type of activity and share in the capital
Registration country - Russia	
JSC "Sberbank of Russia"	Banking activity, 100%
"Setelem Bank" LLC	Banking activity, 74.00%
LLC "Sberbank Capital"	Financial services, 100%
CJSC "Sberbank Leasing"	Leasing, 100%
LLC "PC Yandex. Money"	Telecommunications, 75.00% minus RUB 1
LLC "Sberbank Investments"	Financial services, 100%
LLC "Sberbank Life Insurance"	Financial services, life insurance, 100%
Insurance Company	insurance, 100%
CJSC "Rublevo-Archangelskoye"	Construction, 100,00%
LLC "Auction"	Services, 100%
CJSC "Non-state Pension Fund of Sberbank"	Financial services, 100%
Foreign subdivisions	
Deniz Bank (DenizBank AS) - Turkey	Banking activity, 99.8%
Sberbank Europe AG - Austria	Banking activity, 100%
Sberbank Switzerland AG - Switzerland	Banking activity, 99.15%
SB JSC "Sberbank" - Kazakhstan	Banking activity, 100%
OJSC "BPC-Sberbank"- the Republic of Byelorussia	Banking activity, 98.43%
JSC "Sberbank of Russia" - Ukraine	Banking activity, 100%
Troika Dialog Group Ltd. Cayman Islands	Financial services, 100%

Establishing correspondent relations with foreign banks is an important area of expanding regional activity of large banks in addition to opening branches, representative offices and subsidiary banks. So, the subsidiary JSC "Sberbank of Russia" (Kazakhstan) has correspondent relations with three banks in the USA, two banks in Germany, a bank in Russia and one in Switzerland (Sberbank. The Official Site).

4.2. Efficiency of International Operation of Banks According to Regional Characteristic

The estimation of the efficiency of the activity of basic Russian banks has shown that profits from the international operation of subsidiaries of JSC "Sberbank of Russia" Group sustainably grow. As on March 31, 2015 the revenues from operations with clients on the territory of all foreign states where JSC "Sberbank of Russia" performs its activity was RUB 96.3 billion that is about 13% of all profits of the Group, and increased more than twice in comparison with the similar date of 2014 (RUB 47.9 billion). Herewith, the tempos of growth in terms of the foreign segment were higher than the internal Russian one: The revenues from operations with clients on the territory of the Russian Federation was RUB 591.9 billion and increased by 35% in comparison with the same date of 2014 (on March 31, 2014 the revenues were RUB 438.3 billion).

Studying issues related to the bank competition showed the following. It is still difficult for Russian and Kazakh banks to settle in the financial space of the developed countries due to the limitation of their capital, low quality of management and lack of competitive bank products. However, they can successfully function in CIS countries. For example, Forbes Kazakhstan magazine acknowledged SB JSC "Sberbank" (Kazakhstan) as the leader on the stress resistance among the Kazakh banks. Besides, the bank became a leader of the Private Banking and Wealth Management Survey 2014 rating of the Euromoney magazine in the category best private banking services overall in Kazakhstan (Forbes Kazakhstan, Sberbank. The Official Site).

In 2014 according to the opinion of Bank Administration Institute (BAI), another foreign subdivision of JSC "Sberbank" - DenizBank was acknowledged as the most innovational bank of the world, and it also became the Bank of the Year in Turkey in 2014 according to the rating in the Banker magazine (The Banker. The Official Site).

As for structural subdivisions of the Halyk Bank, its subsidiary "Halyk Finance" was named a non-doubtful winner of two most prestigious categories of the Cbonds agency in 2015 - "Best Investment Bank of Kazakhstan" and "Best Analytics for Financial Markets of Kazakhstan." It is the second consecutive year when Halyk Finance wins in the category "Best Investment Bank of Kazakhstan." It proves the leadership of Halyk Finance on the Kazakh market of securities. Generally speaking, the Halyk Bank is the second bank among banks of the CIS (following JSC "Sberbank of Russia" [the Russian Federation]) and the first among Kazakh companies in terms of the net profit according to the results of the annual global rating of two thousand largest public companies of the world made by the Forbes magazine (Forbes Global, 2000). According to the "Forbes Global 2000" Rating of 2015, the Halyk Bank holds position 1,608 with the profit of \$637 million (Forbes Kazakhstan. The Official Site).

In their research of 2012 Anzoategui et al., made the conclusion that banks in Russia are less competitive than those in Brazil but more than those in China and India. Herewith, they came to the conclusion that the inter-banking competition is stronger in those regions where banks are less concentrated and where the level of financial and economic development is higher (Anzoategui

et al., 2012). A similar conclusion is made in the work of Kirdina and Vernikov, Ezrokh who estimated the competition on the domestic banking market in Russia (Ezrokh, 2015; Kirdina and Vernikov, 2013). The estimation and comparative analysis of the development of the Kazakh banking system, studying of basic problems associated with the development of the banking activity in this country, including the effect of the world global economic crisis on the condition of banking systems of Kazakhstan and other CIS countries on the basis of statistical data of the IMF for the period of 2009-2012 made in works of Talimova and Kalkabaeva (2015), Ziyadin (2012), also correlate with the conclusions made in the process of this research.

In order to increase financial results of the activity of basic subsidiaries and to increase the efficiency of managing the activity of Sberbank of the Russian Federation, the whole Group was divided into operational segments of the activity (that are based on banking operations) according to the criteria of the organizational structure of the Group and geographical location of structural subdivisions of the bank. They include Central Office, 16 territorial banks and subsidiaries. The general structure of operational segments of JSC "Sberbank of Russia" according to the regional feature is shown in Appendix. In 2014 new Model of Managing International Business of Sberbank of the Russian Federation was approved, and the Policy of Managing International Business that specifies goals, tasks and general principles of managing the foreign chain of the Sberbank Group was accepted.

5. CONCLUSION

1. Strengthening of globalization and trans-nationalization of the financial and credit area in respect to Russia and Kazakhstan appeared in the activation of entering foreign credit and financial markets by national banks, becoming trans-national, growth of the number of subsidiaries and branches, international capital transfer, etc.
2. Regional terms and conditions of the activity and related risks differ. That's why it is necessary to pay special attention to regional peculiarities of financial and credit area in the activity of banks.
3. International operation of the largest banks of Russia is being actively developed. However, it suffers a serious impact of regional specificity in the activity of banks branches. International operation of Kazakh national banks is considerably weaker. However, the representation of branches of foreign banks on the Kazakh financial and banking market is considerably bigger than that in Russia. Herewith, there is mutual participation in the banking systems of Russia and Kazakhstan.
4. In order to decrease the risk of the transfer inflation, crises and financial shocks from other countries, both Russian and Kazakh banks on foreign markets perform only banking activity and mainly function as representatives, branches and subsidiaries.
5. The basic motives and areas of expansion of the activity of Russian banks on financial markets of other countries include the task related to the provision of the growing external turnovers. At the initial stage of the integration of the Russian

banking system into the global one was characterized by striving of Russian banks for settling on the territory of the CIS and European countries, and over the recent years in the countries of Asia (China and India) and Africa. Kazakh banks also perform their activity on financial markets of those countries Kazakhstan has the strongest economic relations with.

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