International Financial Congress

Bank of Russia

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Program

Panel discussion 1

Financial Architecture: Challenges of Today

Financial markets have been transforming under the influence of various factors: technological progress is changing financial products, sales channels and business models, while geopolitical tensions are re-shaping the global monetary system, and the rise of digital assets, which are notoriously cross-border in nature, exposes the limitations of financial regulators' capacities. What does the future hold for the global finance? What will competition look like in a world without borders? How will regulators adapt in the new era of financial ecosystems? And what will be the principal challenges for monetary policy and financial stability?

Panel discussion 2

Business Models and Future of Investments in Finance

Virtual banks, artificial intelligence, remote channels for providing financial services, ecosystems, BigTech – these are just some of the factors disrupting and at times fully derailing traditional financial intermediaries' business models. Will they rise to the challenge? What should the successful business model of a financial institution look like today? And does it make sense for investors to put their money in financial-sector assets right now?

01/ Macroeconomics and monetary policy

1.1. Five years of inflation targeting in Russia: space for improvements

The Bank of Russia had switched to inflation targeting in late 2014. In these five years, inflation had been decreased to the target level and has been maintaining near the target. In parallel, interest rates and inflation expectations have been steadily decreasing. This session will be dedicated to the experience of inflation targeting in Russia and other countries as well as possible improvements to the approaches currently in use.

1.2. Impact of technological advancements on monetary policy

New technologies are transforming the financial market's structure, therefore they may also have an impact on monetary policy transmission mechanisms. Can we predict the nature of such impact today, and will it require altering the existing approaches to monetary policy?

1.3. How the "low-for-long" interest rates affect the emerging markets

Low interest rates as well as large-scale liquidity injections by major central banks contribute to investors' interest in buying risky assets. How does it 1) affect interest rates in the emerging markets, and 2) jeopardise the financial stability of emerging economies, and their debt markets in particular.

1.4. Zombie companies and related risks for growth and financial stability

In Russia, many inefficient companies do not quit the market. They become zombie firms instead, with no chance of growing or paying off their debts. To which extent do such companies distort market competition by hampering effective redistribution of labour and capital between businesses and sectors? And can the problems of a few zombie companies eventually grow into a major macroeconomic issue?

1.5. Macroprudential toolkit: what should be implemented? How do we do it? And when is the right time?

In the recent years the Bank of Russia has undertaken several macroprudential measures, mainly in retail lending. In 2019, the requirements for financial companies to calculate PTI ratio of borrowers were introduced. Currently, the Bank of Russia is working on improving the implemented macroprudential instruments and studying the feasibility of additional tools. The discussion will cover the approaches to macroprudential regulation, and the effectiveness of using certain tools in different situations.

1.6. Price stability: navigating between low inflation and economic bubbles

We have seen that low interest rates do not always increase the inflation but can spur the emergence of bubbles in financial markets instead. What are the factors at play and how can various policy measures be combined in order to avoid potential negative scenarios?

1.7. Macroeconomic policies in the context of regional heterogeneity

Russia alongside with other large countries witnesses a significant cross-regional differences in economic conditions and trends. What are implications of this for macroeconomic and macroprudential policies? How this heterogeneity may be accounted for in the policy decision-making?

02/ Banking sector

2.1. Using supervisory stress testing to assess the banking sector’s stability

Bank of Russia is intent on developing the supervisory stress testing (SST), which plays a key role in banking supervision in the developed economies. SST allows estimating the capital requirement for certain banks and the whole banking system in case of an economic downturn, and to elaborate measures that would mitigate the risks and enhance the financial system’s resilience. The session will discuss the use of SST in Russia and its further prospects, particularly in connection with other risk management tools, such as the internal capital adequacy assessment (ICAAPs) and financial recovery planning.

2.2. What will banking look like in ten years' time?

The rapid pace of progress has brought about profound transformations of the banking industry: new products and sales channels emerge, while customers' needs and expectations continue evolving. Amid fiercer competition, traditional banking operations promise ever-smaller returns, and banks have to look for new activities to engage in, such as building their own "ecosystems". Meanwhile, non-banking companies are venturing into areas that used to be banks' exclusive domains. Where will these trends take us in the next ten years, and what will financial intermediation look like in the future?

2.3. Project finance in residential construction: one third of the implementation completed. What has been accomplished and what lies ahead?

During this session we will review how the shared-equity construction market has evolved in terms of the funding structure, dynamics of project financing, construction volume, and prices. We will also discuss the qualitative changes, how risks have been redistributed and whether the reform has been driving new business growth. Moreover, of course, we will try to resolve the questions yet unanswered and to find ways to address the new challenges arising as the mechanism is being implemented.

2.4. Operational risks: an underestimated threat?

As the technology deployed by banks keeps developing at a rapid pace, new threats and vulnerabilities affect their processes and systems, having negative impact not just on the banks but also on their clients. Since it is hard to estimate banks' losses due to operational risk (especially indirect losses), and there is no data on the actual losses, the Bank of Russia is planning to introduce requirements for managing operational risk including cyber risks. The new framework would feature both qualitative requirements for operational risk management procedures and requirements for databases on operational risk events. Moreover, as a part of implementing the Basel III standard (2017), we plan to implement the new Basel standardised measurement approach (SMA) based on banks' data on direct losses.

2.5. Evolution of supervision: new and emerging opportunities

Over the last few years, supervision has transformed significantly, due to both regulatory innovations and changes in the managerial processes. Supervision aims to provide proactive assistance to credit institutions in order to help them improve their performance, while still ensuring full protection of the lenders' and depositors' interests. What are the new and emerging opportunities in this respect?

2.6. Managing concentration risks under national and international standards

Concentration risk is one of the major risks for the Russian banking sector, and its occurrence has led to some large bankruptcies of credit institutions in recent years. The Bank of Russia pays particular attention to evaluating the level of concentration risk taken by credit institutions, and the quality of managing this risk. The Bank of Russia believes that there should be stricter regulations of concentration risk for systemic institutions. If one of them suffers significant losses due to concentration risk, the "contagion" may spread all over the market. The Bank of Russia intends to introduce new risk concentration ratio on consolidated level under the Basel Committee on Banking Supervision Standard "Supervisory Framework for Measuring and Controlling Large Exposures" as a ratio of the sum of all exposures of a bank to a single counterparty or to a group of connected counterparties to the bank's Tier 1 capital.

2.7. Is there any contradiction between prudential regulation and stimulating growth?

Businesses often complain that even though banking regulations aim to contain risks, they often end up standing in the way of economic growth. To which extent is this true? And what steps does the Bank of Russia take to ensure that prudential regulation both maintains financial stability and supports robust economic growth?

03/ Insurance companies

3.1. Financial stability of insurance undertakings: new requirements following the introduction of Solvency II

In 2019, the Bank of Russia altered its approaches to regulation of risk –weighted assets when evaluating insurers' financial sustainability. Moreover, the Bank of Russia is reviewing new initiatives to amend approaches to calculating the volume of insurance reserves. The goal of introducing a risk-based approach to regulating insurers' financial sustainability aims is to make the insurers more resilient and to enhance the protection of consumers.

3.2. Why does it take the insurance sector so long to accept new technology?

To stay competitive today, insurers must keep up with the pace of technology.
Online promotion of insurance services, automatic generation of individual insurance products and insurance rate, and the rapidly developing tools for remote claims settlements – these are the technologies that make insurers' operations more effective and client-oriented. But even though insurers are beginning to introduce such new solutions to their business processes, there are still quite a few factors in the way of their full-scale implementation: online activities of insurance agents are subject to restrictions, automated exchange of information with federal executive authorities' databases is not allowed for insurers, risks of insurance fraud remain high, and the industry as a whole remains remarkably conservative in its focus on personal communications with clients.

3.3. Do we need a guarantee system for life insurance?

The Bank of Russia seeks to increase consumers' trust in establishing long-term savings with insurance undertakings and to protect the investments of life insurance consumers, and to this end we have suggested introducing a guarantee system for the life insurance market. Such system is supposed to make the public more interested in long-term savings with insurance undertakings. Is the market interested in such a system?

3.4. Disclosing information on insurance products

In the coming years, one of the key growth factors for the insurance market will be an increase in consumer trust towards insurance companies and products, the level of which still has room for improvement. This kind of trust largely depends on properly understanding the product and its value for the consumer. Disclosing full and objective information on an insurance product is supposed to bring new customers to the market and spur recurring sales. But should everything be disclosed and what is the right way to do it?

04/ Collective Investment

4.1. Impact of fiduciary liability insurance on investing

The session will cover how fiduciary duty has re-shaped the process of investing. The participants will also discuss how management companies and non-government pension funds should look for the best deals available. One of the key issues: how to raise investors income in the fiduciary duty environment.

4.2. Investment business amid decreasing returns

The session will cover possible transformations in the business models of management companies and pension funds in the era of low interest rates, changes in investment strategies and business optimisation.

4.3. Guaranteed pension plans

How do we create a voluntary pension product that would be accessible to millions? The session will cover the key parameters of such new pension product.

4.4. Business, risks and monitoring: looking for a balance

The session is going to cover the issues of building risk management and internal control systems in management companies, non-government pension funds and professional securities market participants, related expenses, establishment of proportional legal requirements on risk management and internal control.

05/ Professional securities market participants

5.1. Asset management: issues and development areas

The participants will discuss the existing types of asset management and the practices present in the market today, paying special attention to the international experience. The discussion will also seek to dissect the essence of the standard management strategies to determine whether they constitute a product or a service.

5.2. New platforms in the financial market: similarities and differences in regulation

The session will review the activities of investment and electronic platform operators in the context of the existing and planned legislation regulating crowdfunding, online marketplaces and digital financial assets. The participants will discuss among other things whether it is necessary to introduce specific regulatory requirements for such platforms and arbitrage problems concerning organized trading regulation.

5.3. Granular data vs. reporting by professional securities market participants

The session will cover the transition from traditional reporting to collecting granular data, using the example of professional securities market participants. What are the benefits for the professional securities market participants (e.g., reduction of reporting forms, decreasing number of the Bank of Russia requests)? What are expected costs and risks (including information security risks)? Is it possible to transfer the data through cloud infrastructure? How should the regulation be adapted for new conditions?

5.4. Registrars and depositories: new regulatory reform

The session will focus on the new initiatives with regard to reforming the existing system of keeping of the records of the rights to securities proposed by market participants. The discussion will cover the system of keeping of the records of the rights to securities currently in use and the international experience, including the issues of protecting the clients’ assets, establishing common approaches to keeping of the records of the rights to securities, bringing closer the functions of registrars and depositories, and reducing the costs for businesses. Another issue on the agenda is whether it is necessary to develop and launch a unified database for clients’ assets.

5.5. Developing “socially responsible” investments: the role and potential of professional securities market participants and financial infrastructure organisations

Financial intermediaries have traditionally helped investors enter financial markets, so they can also be instrumental in developing “socially responsible” investments in Russia. This primarily concerns asset managers and investment advisors, who play an important role in investment decisions. The session will review the capacity of professional securities market participants and infrastructure institutions with regard to promoting sustainable/ESG-friendly investments (i.e. investing that is mindful of environmental, social and corporate governance concerns.) and potential risks concerning observance of such principles.

06/ Microfinancing

6.1. Moving towards socially responsible lending: new opportunities and prospects

The participants will discuss legislative amendments with respect to microfinance organizations market “socialization”, PTI ratio market players experience, business models transformation - lenders structure changes analysis, the institution of the “financial ombudsman” established by market players for their own needs as well as new microfinance products and technologies development.

6.2. Evolution of online microfinance organizations: the role of online lending in promoting financial inclusion and risks posed by online loans for customers

The discussion will cover microfinance market online sector development which is considered to foster growth of the market. Participants will share their opinions on online sector challenges emerging as online sales channels are expanding and provide proximate solutions aimed at facing such challenges. Such microfinance organizations market development problems as level of online default debt, anti-fraud issues and technologies development aimed at lenders and creditors risk lessening shall be paid attention to. The discussion is considered to cover online microfinance organizations role in financial inclusion endurance.

6.3 Self-regulating organizations as an inseparable institution of microfinance market development

The discussion will cover the establishment and development of the monitoring mechanisms for self-regulating organizations, the market's own capacities in terms of facing unfair practices and unfair market players , practical aspects of self-regulating organizations activity and their interaction with market players and regulation amendments in the area.

6.4. Microfinance organizations role in retail lending

This session will cover the topic of various assessments and forecasts of the role of microfinance organizations in retail lending market taking into account on-going market changes. Microfinance market peculiarities and prospects, including cohesion of microfinance and credit organizations regulation shall be paid attention to.

07/ Cross-sectoral discussions

7.1 Corporate governance: merely a regulator's requirement or an essential precondition for successful operations? Corporate governance: a regulator's whim or an essential precondition for successful operations?

Financial market regulators have long been paying attention to the issues of corporate governance in financial institutions. A successful corporate governance model for a bank, an insurance undertaking or a pension fund must centre around the interests of consumers, depositors and lenders. Today, regulators do not merely establish prudential regulations, but get increasingly involved in financial institutions' corporate governance policies.
What may be peculiarities of the corporate governance requirements in different financial market sectors? In which aspects of corporate governance "soft" regulation is enough, and when legislative requirements, restrictions and monitoring on the part of the regulator are required trick?

7.2. Succession and continuity of capital

The generation of entrepreneurs who created successful companies during the period of transition to market economy is starting to leave the stage. Who will replace the founders and current owners of major banks and financial institutions: new owners, successors or hired managers? How can one ensure a seamless transition from old owners of successful financial businesses to the new ones, while bringing the tech aspects of its operations to a new level in the interests of depositors and consumers, and avoiding any destabilisation and damage to the stakeholders' interests?

7.3. Can regulatory burden be reduced any further?

Last year, the Bank of Russia started working on optimising the regulatory burden over the financial market by eliminating outdated or excessive requirements, reducing the volume of reporting to be submitted, shifting towards data-centric reporting, etc. The participants will discuss the timeline for the changes, market participants' expectations, and the potential for such reforms of the regulatory framework.

7.4. Cyber resilience, information security and cyber culture

These days the operation of financial institutions dependent on information technologies, which makes cyber resilience and information security key factors of trouble-free functioning.
The session will cover the following topics:

- International experience in cyber resilience regulating.
- Cyber exercises: stress tests in new conditions.
- How service providers (telecom operators, partners and software providers) impact on financial institutions' cyber resilience. Cyber risks mitigation.
- Customer interests as core element of cyber resilience. Is it real to raise the cyber culture level (if necessary)?

7.5. Offering complex financial instruments to retail investors

At times, it is difficult to fully grasp all the parameters and risks of financial instruments, which may distort retail investors' expectations. Making a rational investment decision requires a toolkit for providing proper information, especially with regard to products that are hard to understand and novel for most retail investors. For instance, many developed economies use the KID (key information document) format for such purposes. The session will also discuss establishing requirements for providing information through regulations and self-regulating organisations' standards.

7.6. Sustainable development principles and financial market: what's next?

Short-termism orientation in capital markets is a factor hindering long-term sustainable economic development. That's why governments, regulators and companies switch to long-term planning horizon and development of long-term finance segment. Sustainable development is on the agenda of economies, becoming the basis of financial strategies. The participants will discuss green finance prospects, ESG-factors integration to the policies of institutional investors as well as integration of the principles of quality investment in infrastructure (QII) into infrastructure financing. Particular attention will be paid to climate risks - new threat to the financial stability.

7.7. Main trends in financing and supporting SMEs

Development of SMEs is highly important for economic growth and social security, and the Bank of Russia implements measures to support the financing of SMEs and participates in government SME support programmes. The session will touch upon both accomplishments and challenges in developing an effective system of financing businesses as well as ways of making government SME support measures more effective. The following areas of financing SMEs will be covered: bank lending, microloans, stock market, leasing and crowdfunding.

7.8. Payments driving the development of ecosystems. Is there any room for competition?

The role of payments seems to go beyond that of a settlement tool: they are increasingly becoming a core product for launching and developing ecosystems. What can new payment mechanisms provide to consumers and the market? Why are ecosystems more attractive than traditional banking services?