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Money & Markets

Banking Russia's biggest bank is also its most successful

Sberbank Proves That Bigger Can Indeed Be Better

Once considered the dinosaur of Russia's banking industry, today Sberbank is the market leader in nearly every available financial service.

BEN ARIS SPECIAL TO RBTH

Sberbank is the biggest lending institution in Russia, yet also has one of the lowest nonperforming loan ratios in the sector. Other Russian commercial banks complain that they struggle to compete with Sberbank's speed of service and prices, and customers praise the efficiency of the local branches. This is not your babushka's Sberbank; it seems like the Soviet dinosaur is in the midst of a revolution.

Anton Karamzin, Sberbank's deputy chairman, says that one of his bank's advantages is a new data processing center that can leverage its huge volume of transactions, giving Sberbank one of the most accurate risk-assessment tools in the industry.

Buying high-tech solutions to deal with business issues is a pretty standard strategy, but Karamzin points out that the larger part of Sberbank's success is the fundamental attractiveness of the banking business in Russia. The bank just has to manage this opportunity.

"The credit quality of the Russian consumer is one of the best in the world. Russian banks suffer from less fraud and bad loans than other European countries because Russians don't like to load up on debt," Karamzin said.

According to Karamzin, 20 years after the fall of the Soviet Union, Sberbank is in a position to take advantage of these quality consumers."Sberbank is four years through a five-year strategic development plan, and we are now starting to see the results," Karamzin said."The plan covers every aspect of the bank's life and we are doing this systematically, as we want to create a selfperpetuating system that will



Sberbank Deputy Chairman Anton Karamzin

continue to function when the current management team eventually leaves."

The goal is to make Sberbank as agile as a small bank, even though it is the second-largest bank in Europe after the U.K.'s

Moving money and managing risk is all about manipulating numbers, so banking lends itself to I.T.

HSBC in terms of assets and three times larger in terms of the number of branches. "If you measure Sberbank's size in proportion to Russia's G.D.P., then we are already by far the largest bank in the world," Karamzin said.

The answer to the conundrum of how to run a huge institution as if it had the sensitivity and nimbleness of a small regional player is I.T. Moving money and managing risk is all about manipulating numbers, so banking is a business that lends itself to I.T. like no other. For the bank's 170th birthday in November 2011, Sberbank launched the world's eighth-largest data processing system at a cost of an astounding \$1.2 billion.

The data processing center is the most expensive change the bank has made, but probably just as important in the long run is the upgrade of the bank's operating system. In the 1990s, Sberbank had an 80 percent market share of deposits, but the start of banking reforms in 2004 saw that reduced to 46 percent as commercial banks ate into its business. However, in the last two years Sberbank has reversed the trend and is currently pushing at the 50 percent mark as it aggressively expands its product offerings.

Under former chairman Andrei Kazmin, the ultraconservative bank was very reluctant to get into the business of unsecured credit card lending. Current chairman German Gref finally launched credit cards in 2008, and in April this year the bank became the segment's market leader with 18 percent of all credit cards in Russian wallets today. The story is

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the same in pretty much every banking product — mortgages, car loans, and credit for small and medium-sized enterprises.

"One out of every four people in the country banks with us. We are the financial system," Karamzin said."We have a system now where every step in the bad loan recovery process is recorded in the system together with the recovery plan schedule and deadlines. If, say, some deadline goes overdue by one day anywhere in any region, then it is immediately flagged in the system. We know here in Moscow, and can call down to the regional branch to ask what has gone wrong."

The classic approach to turning a company in a new strate-



Sberbank celebrated its 170th anniversary by opening a new I.T. center.

Sberbank Stock Price (in \$) on the R.T.S.



gic direction is to focus on two or three strategic goals and push them through, but Sberbank is too big for that. "If we did it that way, the simple inertia of the bank would pull it back to its old habits. We have to do everything at once. We currently have 740 strategic projects running concurrently," Karamzin said. "It's like flying a plane and fixing the engines in mid-air. It takes military discipline to make it work."

But the new system seems to be working. Under the old regime,

the control mechanisms were repeated at every level — from the federal center to regional hubs, down to the subregional branches. Today the new system is fully integrated into a single national whole.

Karamzin adds that Russia is still at the beginning of developing its banking system: "Consumer loans grew by 40 percent last year, but penetration of banking services into the economy is still extremely low. The Russian banking sector can still grow many times over."

MOSCOW BLOG

Putin's New Cabinet Offers More of the Same



o far, the reaction to the new Russian government has ranged from neutral to negative. Perennial hopes that Russia would finally launch a radical and rapid course of economic reform and political liberalization failed yet again to materialize — but this was no real surprise. The Kremlin doesn't do radical. Business leaders, at least, praised the stability that the new cabinet brings. For most existing investors, continuity is important. They have learned how to operate in this environment and don't want radical changes.

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Nevertheless, a couple of appointments have been singled out for upbeat commentary.

The promotion of former presidential economic advisor Arkady Dvorkovich to the post of deputy prime minister for industrial and energy policy is seen as a big step forward for the liberal camp, as Dvorkovich, like his former boss German Gref, only talks sense.

One surprise was the appointment of relative unknown Alexander Novak to oversee the energy portfolio. At the same time, the move of Igor Sechin, who formerly oversaw the energy portfolio, from the government to Rosneftgaz, the holding company that owns the state's stake in oil major Rosneft, has led some to speculate that Sechin will de facto be in charge of energy.

However, all this talk of power is to miss the point of Vladimir Putin's government's. In Boris Yeltsin's day, running the Kremlin was all about power, but under Putin, Russian politics is increasingly about policy.

Of course, power still counts for a lot, but to understand where Russia will go under this new cabinet, it makes more sense to look at what sort of policy changes the new government will pursue.

Firm Finds Success Blowing in the Wind

In 2008, when the price of oil was hovering around \$200 per barrel, few Russians were concerned about green energy. But Vladimir Kanin was the exception.

ARTEM ZAGORODNOV RUSSIA BEYOND THE HEADLINES

This month's Russian-American Innovation Technology Week, which will be held in Philadelphia, Pa. and Boston, Ma., from June 14–21, will formally welcome Optiflame Solutions as the first Russian company to become a resident of America's oldest and biggest city-based technopark, the University City Science Center. Located in Philadelphia, the technopark will celebrate its 50th anniversary next year. St. Petersburg-based Optiflame, which manufacturers devices to generate wind power, was founded in 2008 by Vladimir Kanin, a mathematician-turned-venture capitalist who wanted to create cheap, safe wind power for the world to use

"The technopark gives us an unprecedented opportunity to tap into American talent after passing through a rigorous acceptance process," said Kanin.

After receiving a degree in math from Omsk State University in



Vladimir Kanin founded Optiflame Solutions in 2008 with the profits from the sale of an I.T. start-up he founed in 2004.

1997, Kanin led a number of successful I.T. startups in Russia. One of his companies, Aero Solutions, which specialized in radio-frequency identification, was bought out by Systematica in 2007 for \$2 million.

"In 2008, I was sitting on a pile of money we had earned from selling Aero Solutions," said Kanin." I wanted to invest it into some project rather than buy myself a new house or car. With fuel prices where they were, we were all worried about how the third world would pay for energy."

"You can thank the iPhone and other modern phenomena,"Kanin continued,"but the third world has an exploding demand for energy." The problem with meeting this demand via wind, nuclear, hydro or other power sources has to do with safety or price or both. "Most people don't realize you can't place wind turbines in populated areas, like on top of skyscrapers,"Kanin said. "There's a famous video on

IN FIGURES

is the number of safe wind generator prototypes Optiflame Solutions can build, thanks to a grant from the Skolkovo Foundation. The prototypes vary in size and price.

million in profits from the sale of an early start-up, Aero Solutions, gave Vladimir Kanin the capital to found Optiflame Solutions in 2008.

49 years have passed since the University City Science Center – one of the oldest technoparks in the United States – was founded outside Philadelphia, Pa.

"Most people don't realize you can't place wind turbines in populated areas," said Vladimir Kanin. YouTube about a bird that was killed on a wind farm. That's saying nothing about children who could get hurt."

Optiflame's technology allows for the wind turbine to be encapsulated inside two aerodynamic cones which, the company claims, both increase wind efficiency and render the device safe to human contact. "When we originally came up with the idea, I traveled around the world to find out which of the major companies, like G.E. and Honeywell, were developing such a product and was shocked to find none," recalled Kanin.

A grant from Russia's Skolkovo Foundation allowed Optiflame to begin development of two models, which vary in price."We're setting up shop in Philadelphia because of the highdemand for green technology in the region - it's one of the greenest cities in the U.S. and to tap into the local labor market, which is awash in talented engineers and scientists," said Kanin."We'lldevelop the technology at home, and then sell the production rights to someone who can build it cheaper and better. It's Ricardo's Theory of Comparative Advantage at work."

Find more information at **ma-rbc.org**

It seems that energy policy will be about collecting taxes from the natural-resources sector.

Take the Dvorkovich-Novak-Sechin triangle. Sechin will clearly be responsible for operational issues pertaining to developing the sector as Novak is not an oil man. but rather comes from the Finance Ministry. Considering these facts together with Dvorkovich's background as an economist, it seems that energy policy will be about collecting taxes from the natural-resources sector. This theory is bolstered by the appointment of Andrei Belousov as minister for Economic Development. A well-respected economist, Belousov is close to Putin and supports the president's preference for big state spending. In other words, the plan seems to be to make money off oil to spend on big state initiatives.

Overall, observers can expect more of the last decade. Steady progress toward reform, but nothing to make banner headlines and plenty of mistakes in implementation.

