

# Contemporary Empirical Aspects of Banking and Insurance as Financial Market Segments: a Case Study of Belgorod Region

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**Abstract**—The paper analyses contemporary empirical aspects of the financial market development in terms of its main segments, based on the case of an individual region of Russia. The research is focused on the recent changes in the region’s financial market. The time period under study includes months before and after the first COVID-19 pandemic. The financial markets of various Russian regions are proved to follow major trends which are characteristic of the national financial market. A number of specific features are revealed, including infrastructural changes in the region’s financial market, and the market participants’ activity. Positive dynamics have been revealed in private deposits, despite the trend toward a decrease in average interest rates, which bears witness to people’s confidence in the region’s banking segment. The latter has supported a revival of demand for consumer goods and a revitalization of business activities in Belgorod region after the COVID-related restrictions were lifted. Banking and insurance as segments of Belgorod regional financial market are the objects of the study. Statistical and analytical data available at Russia’s Central Bank website and some regional research findings are used as the information source. The authors’ conclusions and recommendations may differ from the official stance of Russia’s Central Bank.

**Keywords**—*region’s financial market, banking as a market segment, insurance as a market segment, competition development.*

## I. INTRODUCTION

Russia’s financial market of the last few years may be described as a quickly developing one. This trend complies with the Roadmap for the Implementation of the Major Lines of the Russian Federation Financial Market Development for 2019-2021 approved by the Central Bank of the Russian Federation [1]. As a result, new financial products and services emerge in the market, while forms and patterns of service-rendering are changed. The innovations implemented lately include, in particular, remote authorization and Fast Payments system. Besides, banks have laid the foundation for

the Marketplace system, which is a new financial products sale channel.

The above changes concern regional financial markets to a large extent. Taking into consideration the development specifics in each region, it would be both scholastically and empirically grounded to reveal such specifics in order to see what development indices were typical of the financial market’s main segments before COVID-19 first wave, and how they changed afterwards. This explains the timely character and significance of the research both for scholars and for experts in finance, the latter representing financial market participants and executive authorities responsible for the region’s socio-economic development.

## II. LITERATURE REVIEW

The paper deals with the empirical aspects of the main financial market segment development. We have used the analytical and statistical data available at the Central Bank of Russia official website.

## III. RESULTS

The financial market of Belgorod region follows the same trends as the national one, with the banking segment prevailing in the market structure.

Internal bank units dominate the region’s credit market. As of 1st July, there were 376 internal bank units in the region.

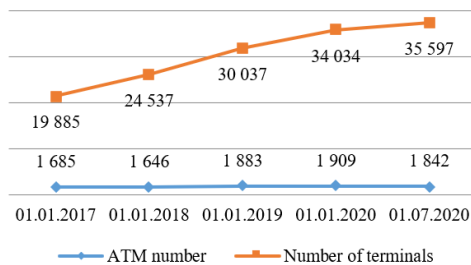
TABLE I. THE NUMBER OF BANK UNITS OPERATING IN BELGOROD REGION

	01.01.2018	01.01.2019	01.01.2020	01.07.2020
Banking institutions, total including:	426	392	380	376
- The Bank of Russia institutions	2	1	1	1

	01.01.2018	01.01.2019	01.01.2020	01.07.2020
- independent credit organizations	3	2	1	1
- branches of credit organizations	6	5	3	3
- additional offices of credit organizations (branches)	280	281	277	277
- other structural units of credit organizations (branches)	135	103	98	94

Source: The Central Bank of Russia official website

There is a clear trend towards a reduction in the number of credit institutions. It mainly results from the remote service infrastructure development, whereby more terminals are available remotely, being an alternative to a branch network.



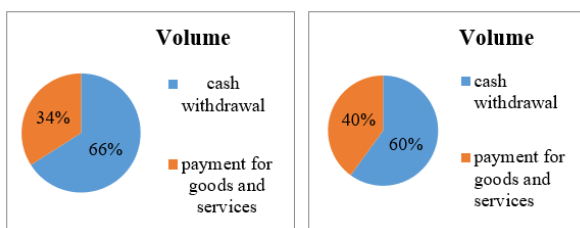
Source: The Central Bank of Russia official website

Fig. 1. Remote service infrastructure dynamics, 1st January, 2017 – 1st July, 2020

Besides, the above trend is connected with the policy of the Central Bank aimed at the country’s banking industry consolidation by disposing of unviable and unfair participants. The increase in epidemic-related risks faced by global and domestic economies shows that strategies used by banking institutions to develop remote customer service channels are timely and reasonable. Indirect results of such strategies include positive trends in the structure of operations where payment cards are used.

Though cash withdrawal remains the main type of payment card transactions in Belgorod region, the share of transactions where cards are used to pay for goods and services has increased lately, becoming a pronounced trend.

As of the end of the first six months of 2020, this share amounted to 40%, which is 6% higher than for the identical period last year, when the epidemiological situation was normal.

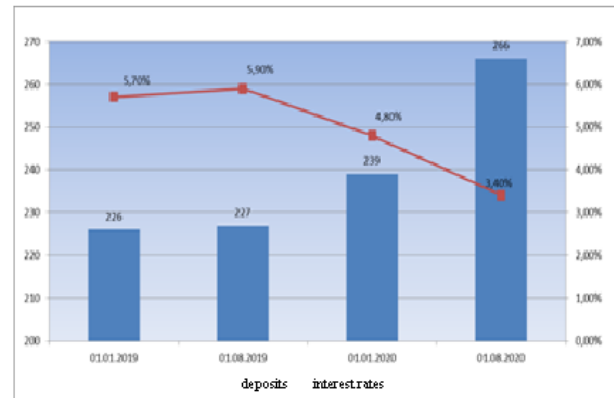


Source: The Central Bank of Russia official website

Fig. 2. Remote service infrastructure dynamics, 1st January, 2017 – 1st July, 2020

Analyzing the changes in the region’s banking sector, it seems reasonable to study the data which reflect the dynamics of credit and debit operations of banking institutions.

Private deposits make up another significant component of commercial banks resource base. In the last few years, there has been a positive trend toward more private deposits in banks despite lower average interest rates.



Source: The Central Bank of Russia official website

Fig. 3. The dynamics of private deposits (bln rub.) and average interest rates (%), 2019-2020

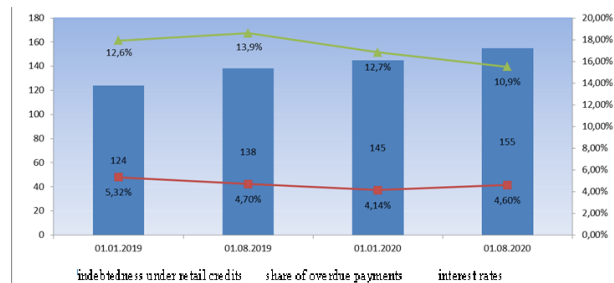
This trend has been triggered by a rise in people’s monetary income per capita. As compared to the identical period of the previous year, this index grew by 5.9% for 2019, and by 2.9% for the first six months of 2020, according to the Statistical Bulletin issued by the Territorial body of Federal State Statistics Service in Belgorod region “Monetary income and expenses of the population for the 2nd quarter of 2020”.

Another significant factor of the positive dynamics in private deposits is growing balance in escrow accounts.

Speaking about 2019 and 2020, the retail credit market participants in Belgorod region remain active. Moreover, their activity has increased as compared to identical periods of the previous years.

Mortgage (residential) loans have been a major driver in the dynamics of outstanding loans in Belgorod region.

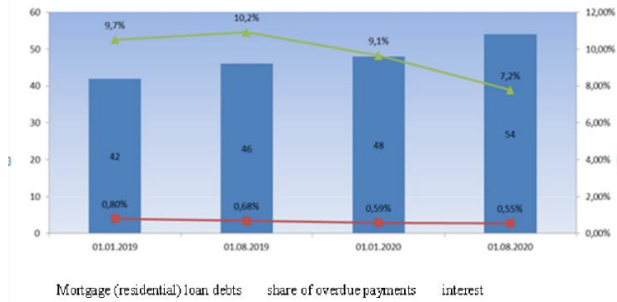
On the whole, it was both the reduction in the key interest rate and the implementation of government support programs that helped support the mortgage industry.



Source: The Central Bank of Russia official website

Fig. 4. The dynamics of retail credits (bln rub.) and the share of overdue payments (%), 2019-2020

A rise in mortgage debts in the 2nd quarter of 2020 partially resulted from the concessional mortgage loan program which began in May, 2020 and was designed for purchasing apartments in new residential buildings, with interest rate not exceeding 6.5%. Another factor was the preferential mortgage program for taxpayer-funded employees in Belgorod region. All of the above led to a rise in the mortgage (residential) loan debts to 54 bln rubles, as of 1st August, 2020. As compared to the beginning of the year, the increase equaled to 12.5%.



Source: The Central Bank of Russia official website

Fig. 5. The dynamics of mortgage (residential) loans (bln rub.) and the share of overdue payments (%), 2019-2020

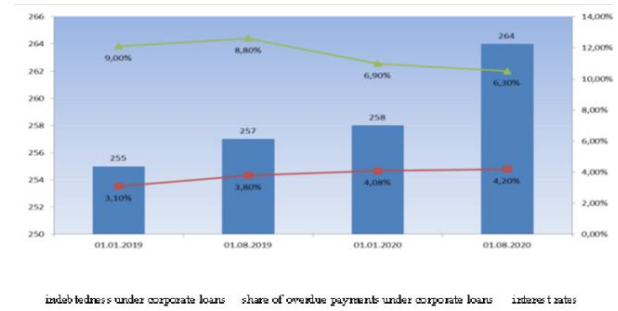
It should be stressed that despite the increase in credit indebtedness, the household debt load in Belgorod region, calculated as the ratio between a borrower's debt and the average income, remains below the nation's median value. For instance, on 1st April, 2020, household debt load in the region equaled to 10.3%, while the median value for Russia amounted to 12.8% [2].

In these unfavourable economic conditions, apart from contributing to the revival of consumer demand, the region's banking sector supported the economic recovery processes at various economic entities of Belgorod region. There has been a growth in corporate lending since the beginning of 2020.

For the seven months of 2020, the indebtedness of legal entities has increased by 3.5%, with overdue payments rising insignificantly. These changes in corporate credits are connected with the revival of business activities in the region. Another reason is the companies' need to regain part of the circulating assets which were lost during the peak of the pandemic owing to drops in revenues.

On the whole, 2020 displays a positive trend both in private and corporate bank lending in Belgorod region, despite the epidemiologic situation and tightening of non-price lending terms.

Expansion of the segment makes it possible to solve many private financial problems connected with the acquisition of wealth [8]. The latter was revealed in the 2nd quarter of 2020 during a survey conducted by Belgorod Division of the Central Bank of Russia in 10 banking institutions of Belgorod region.



Source: The Central Bank of Russia official website

Fig. 6. The dynamics of corporate credits (bln rub.) and the share of overdue payments (%), 2019-2020

The survey results showed that alongside with eased monetary policy, nonprice lending terms have either remained unchanged or become tightened in some segments. This is connected, in the first place, with a high degree of macroeconomic uncertainty, given the COVID-19 pandemic, and hence, higher credit risks for banks. Such risks may be expected to decrease as soon as the national and regional epidemiologic situation returns to normal.

As of 1st July, 2020, the insurance industry as the region's financial market segment was represented by 19 insurance companies. All the underwriters operating in Belgorod region are registered in other regions.

511 thousand contracts of insurance were signed in Belgorod region for the first six months of 2020, which is a little lower than for the same period last year.

TABLE II. MAJOR INDICES OF INSURANCE COMPANIES OPERATING IN BELGOROD REGION

	01.01.2019	01.01.2020	01.07.2020
Contracts of insurance, thous. units	1 155	1 185	511
Insurance premiums, mln rub.	7 828	6 578	3 193
Payments under contracts of insurance, mln rub.	2 337	2 992	1 476
Complaints	1 488	1 307	384
Contracts of insurance, thous. units	1 155	1 185	511
Insurance premiums, mln rub.	7 828	6 578	3 193

This fact is mainly connected with the COVID-related lockdown in the 2nd quarter of the 2020 which reduced the number of customer visits to financial institutions.

For the last few years, the amount of insurance premiums has reduced, alongside with the growing number of payments under contracts of insurance. It falls within the national trend. Typically, the biggest volume of insurance premiums is paid under Life Insurance and Compulsory Third-Party Liability Insurance contracts. At the same time, these is a rising trend of accident and sickness insurance.

Another positive development is a decrease in the number of complaints filed by consumers of insurance services with the Service for Consumer Rights Protection and Financial Services Availability at the Bank of Russia. For the first six months of 2020, the number of such complaints amounted to 29% of the total complaints filed in 2019. It may indirectly

prove that despite the epidemic-related restrictions in 2020, the region's insurance industry has adapted to the new reality and improved customer relationship significantly.

#### IV. CONCLUSION

The analysis of the banking and insurance segments of the region's financial market amidst the first wave of COVID-19 pandemic has shown the expedience of remote customer service infrastructure which has been developed for the last few years.

Positive dynamics have been revealed in private deposits, despite the trend toward a decrease in average interest rates, which bears witness to people's confidence in the region's banking segment. The latter has supported a revival of demand for consumer goods and a revitalization of business activities in Belgorod region after the COVID-related restrictions were lifted.

The study shows that though the economic situation in the 2nd quarter of 2020 was quite complicated, the regional financial institutions managed to avoid a rise in overdue payments under retail and corporate credits. This was achieved due to the government support measures for individuals and business entities, as well as due to the debt restructuring programs that commercial banks offered to the borrowers who were unable to pay because of the pandemic.

Generally, 2020 reveals a positive trend in the main credit and debit operations, despite COVID-related restrictions.

The region's insurance industry has also adapted to the epidemic-related restrictions, though there is a slowdown in

business activity. All insurance services which are in demand have been provided by the insurance companies. Besides, they have improved customer relationships significantly.

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