Elvira Nabiullina: Structural reform, banking system challenges and global developments affecting the Russian financial system

Statement by Ms Elvira Nabiullina, Governor of the Bank of Russia, at the 25th International Financial Congress, Moscow, 30 June 2016.

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Good afternoon, distinguished colleagues!

This year we are hosting the 25th jubilee forum and at the same time the first one. We have changed its name, i.e., the banking congress became the financial one, and expanded the range of discussed topics in intention to embrace all the sectors of the financial market.

On the one hand, this transformation was about to happen since the central bank functions as a mega-regulator and we are seeking to have a constructive dialogue with all the sectors of the financial market. On the other hand, this is a reflection of the global trend: the non-bank financial sector starts playing an ever greater part in global markets and regulation of this sector draws ever more attention from regulators throughout the world to minimise risks and ensure its stable development.

Financial stability is coming to the fore in central bank policies. As you might remember, The Black Swan by Nassim Taleb enjoyed popularity a few years ago. It should be noted that despite the fact that there are a great number of world experts and analysts studying the situation and possible risks, the 'black swans' are not uncommon in the financial markets.

Three years ago, the Federal Reserve's decision to curtail the quantitative easing policy, quite unexpected for the market, became such a 'black swan'.

Two years ago, both the market and experts witnessed quite an unprecedented fall in oil prices.

Last year saw a rather high market volatility caused by the reassessment of risks related to the situation in China.

This year is not yet over but a 'black swan' has already flown out. I mean Brexit, which has also turned out to be quite unexpected for the market.

We should try to foresee risks. However, it is not always possible.

That is why it is important to ensure resilience of the system facing various risks, even unexpected ones, and have tools to stabilise the financial markets and the economy as a whole.

As far as Brexit is concerned, in our estimates, its explicit impact on the Russian economy and financial system will be rather limited. We have already seen that Russian markets withstood the surge of volatility in global markets caused by the outcome of the referendum in the United Kingdom. Long-term implications will depend upon specific arrangements between the UK and EU and their influence on the global economy and financial markets.

Brexit, however, can be seen in a wider context, i.e., as a manifest of public appeal for changes related not only to politics, but also largely to the economy, since the low growth rates of the world economy lead to a loss of confidence and dissatisfaction among people in many countries.

Increased public discontent being actively exploited by populists is mainly linked to the non-dynamic development of the global economy over this decade.

The reasons are different: ageing of the population and the reduction of the economically active population; low growth rates in countries used to be the powerful drivers of growth in previous years, such as China; the lack of new breakthrough technologies; accumulation of various structural imbalances; the on-going reduction of debt burden accumulated before the 2008 crisis (so-called deleveraging) and so on.

The problem is that low growth rates affect the poor more adversely than the rich. Income disparity in the world has soared since the mid-1980s. The latest OECD report emphasises this fact. The Gini coefficient in OECD countries grew by almost 10% to 32. According to World Bank estimates, in 2000–2012 the Gini coefficient in Russia increased from 37 to 41.5.

It would not be an exaggeration to say that a vicious circle is being shaped: low rates of economic growth strengthen centrifugal and disintegration forces and provoke events like Brexit, which downgrade the outlook for world economic growth even stronger.

A growing demand for 'easy' economic decisions has also been observed in Russia. For example, giving promises that the printing of 1–2-3 trillion rubles and their issue as cheap loans will ensure sustained acceleration in economic growth rates without serious inflation implications. This is even based on pseudo-scientific foundation. Another example of such an 'easy' decision is the proposals to forcedly reduce the exchange rate. I should note that the implications of 'easy' decisions will run counter to the promises made. Russia had such an experience in the 1990s suffering a deep economic recession accompanied by high inflation. That is why we should treat such recipes very cautiously.

And what is more important – they do not allow to respond adequately to internal and external challenges facing the Russian economy.

As far as global challenges affecting Russia are concerned, we should first of all highlight a long-term reduction in hydrocarbon prices and ***the slowing economic growth in China***. These challenges nourish each other with regard to having an adverse impact on commodity prices.

As a result of the 'shale revolution' OPEC has lost its opportunity to influence oil prices. The latter started to be determined by the profitability threshold of the majority of shale projects.

Moreover, energy-saving technologies and an active use of alternative energy sources will also affect oil prices in the long run. One cannot brush aside this prospect the way it was with the 'shale revolution'.

A quick return to high oil prices is not expected, so the Russian economy must learn to live amid low prices for oil and gas. Overall, we should abandon the habit of connecting optimistic target forecasts with growing oil prices, rather than own efforts to restructure the economy.

The second external challenge facing Russia is the changed growth model and the slowing economic growth in China, which also affect the Russian economy due to the downward pressure on commodity prices. According to our estimates, 1 percentage point of China's slowing GDP may cause a loss of almost 0.5 percentage points in annual rates of economic growth in Russia in the medium term. It should be noted that this is true if the current structure of our relationship and the current structure of trade turnover persist.

The Chinese economy now ranks second in the world and the role played by that country in the global economy and financial markets has increased considerably. The challenge for Russia is to reorient to the fast growing sectors of the Chinese economy related to consumption and post-industrial economy (the so-called tertiary sector).

Low growth rates of the world economy intensify the need to carry out structural and institutional reforms in many countries to remove the obstacles to a faster economic growth. Insufficient attention was paid to such transformations over the past decade. It seemed that nothing should be changed and the global economy showed a confident growth.

Structural reforms are a formidable challenge. They are often painful, infringe on somebody's interests, and face counteraction. Each country should judge for itself what structural reforms are the most important ones and which of them may be implemented with due account of political, cultural and other factors.

A special emphasis should be made on ***monetary policy challenges facing the central banks throughout the world***. Easy monetary policies helped stabilise the situation in advanced countries, but the quantitative easing programmes were introduced as short-term interim measures allowing to gain time for structural reforms. As you know, however, nothing is more permanent than the temporary and structural reforms show little progress, while the easy monetary policy now involves more risks than benefits due to its longevity.

Monetary policy in itself is not able to set the economies of advanced countries back to resilient growth, since there are structural limits and there is no room for reducing interest rates any further, i.e., they have already been negative in many countries. Nonetheless, low interest rates in advanced countries were conducive to fast accumulation of external debt in the emerging market economies subjected to capital inflow and bubble formation.

On the one hand, we realise that an exit from the easy monetary policy is fraught with an about-turn in capital flows and consequently the need to tighten monetary policies in emerging market economies. This may bring down the global economy's growth rates even further. Moreover, as a result of a quick monetary policy normalisation holders of these countries' bonds may incur losses and financial stability risks cannot be ruled out.

On the other hand, a refusal to normalise monetary policy may lead to stagflation. Thus, as a matter of fact, the central banks of major countries will have to repeat the exploit of Odysseus: to pass between Scylla and Charybdis.

This situation is fraught with mounting volatility in global markets and the Bank of Russia takes this into account while pursuing its monetary policy.

We are moving consistently towards our target: annual inflation of 4% in late 2017 and further.

Why do we need low inflation? (Although 4% inflation is low only for Russia, it is much lower in the overwhelming majority of countries).

First, low inflation abates macroeconomic uncertainty and risks for business. Second, it stabilises household incomes, in particular those of the lowest-income families, and third, contributes to development of long-term lending and long money in the economy. As a matter of fact, low inflation is an integral part of the investment type of economic growth.

Considering all the external and internal challenges, a very cautious, moderately tight monetary policy needs to be pursued to achieve the inflation target. This is not the only one. Decreasing inflation expectations of households and businesses are largely conducive to inflation reduction. Therefore, confidence in Bank of Russia policy is very important. We are open for dialogue. We try to explain our actions, show how they influence interest rates and the economy as a whole, and to convince people, proceeding from facts, that Bank of Russia forecasts on inflation are coming true. Inflation has slowed down to about 7% (as we predicted a year ago) and inflation expectations also gradually abate.

As a matter of fact, we have switched from measures to prevent the inflation spiral from unwinding to the policy of persistent reduction of inflation and inflation expectations and we are sure that our consistent and smooth actions will help us reach the 4% inflation target in late 2017 without having an adverse impact on economic growth. The consistent and predictable monetary policy is a factor of reducing general uncertainty for business and, hence, the best environment for decision-making, i.e., the best conditions for growth in lending and investment activity.

A desire to help the economy through premature cutting interest rates may have an opposite effect. We should stick to sound conservatism here. In order not to reproduce unstable imbalanced growth output and labour productivity should grow faster than income and demand. This will provide incentives for businesses to optimise costs and look for profitable segments. Our policy is spearheaded precisely at this.

It goes without saying that a more responsible fiscal policy (given the smaller budget deficit we will be able to cut rates faster) and competition development would be conducive to faster inflation reduction.

Now, let me say a few words about current issues of monetary policy: they are more technical, but no less important, since they are related to the transition from the structural liquidity deficit to its structural surplus. I would like to emphasise once again that this transition does not affect the central bank's ability to manage the money market rate and with its help to influence all the other rates in the economy, lending and deposit activity, the economy, and inflation.

However, in order to ensure this ability the Bank of Russia should change its operational activity and start to actively mop up liquidity. These operations comprise deposit operations, issue of Bank of Russia bonds and sale of assets, for example, the OFZ portfolio. Given the expected structural surplus growth, we have also decided to raise the required reserve ratio by 0.75 percentage points from 1 August. In order to stimulate deposit dedollarisation we decided to leave the difference between the ratios on ruble- and foreign currency-denominated deposits intact. We also have plans to cancel ineffective exceptions to this ratio with regard to exemption from provisioning of legal entities' deposits and bonded loans with maturities of more than three years but with built-in options for early redemption.

Our monetary policy allows us to flexibly respond to external and internal challenges, though its impact on the economy is limited.

The central bank is compelled to touch upon the structural reform topic. Why so?

First, unlike some countries we cannot afford fiscal or monetary stimulus for growth due to the persistently high inflation (against the target) and budget deficit.

Second, even if we could implement these measures, they would not result in sustainable growth, because it is potential growth rates that are currently low – about 1.5–2%, according to our estimates – following structural restrictions.

Third, many structural reforms directly impact the way we will move to our inflation target. For example, with better competition or tighter regulation of natural monopolies' tariffs, we may avoid triggering inflationary pressure while cutting rates more dramatically.

Monetary and fiscal policy may ensure macroeconomic stability, but it is insufficient for sustainable economic growth. ***The most important structural reform is improvement of business climate***, primarily measures to promote competition, deregulate the economy, reduce the share of state-owned and state-controlled companies, and protect property rights and minority shareholders.

The quality of business climate is the reason for insufficiently developed equity financing and capital market in our country. Let me remind you that by debt burden Russia is in the upper range in the list of peer countries, but lags considerably behind them in terms of capitalisation.

If corporate governance and protection of minority shareholders' interests are challenged, shares of such companies will be hardly sold. The fact that our companies earn profits but abstain from investing them in their own business comes from macroeconomic uncertainty, including tax regime, while investments in other businesses, including through financial mediators, are constrained by high risks arising not only from the vague prospects of these business projects, but also poor protection of such interests.

In fact, budget consolidation is an important structural reform that impacts the monetary policy. We need a ***budget rule*** to ensure sustainably low inflation and stable real ruble exchange rate amid wobbling oil prices and commodity cycles. In this respect we are absolutely at one with the Ministry of Finance.

Although the dependence of the Russian economy and the exchange rate on oil prices has been down recently, it is still high. A budget rule (accumulation or spending of budget reserves when oil prices exceed or fall short of a certain benchmark, say, $50 a barrel) would allow us to reduce the economy's dependence on oil price fluctuations to a greater extent.

Certainly, a ***medium-term budget balancing programme*** is very important to us. Uncertainty over budget expenditures, deficit and its future funding sources trigger considerable inflation risks. Importantly, the budget rule and the medium-term budget balancing programme would mitigate inflation risks and allow the Bank of Russia to pursue a looser monetary policy, all else being equal.

Indexation of tariffs for utility and **natural monopoly services** below the inflation target of 4% would help mitigate fiscal and, consequently, inflation risks.

Structural reforms designed to ***increase mobility of working population,*** vocational training and conversion courses are important for dragging inflation down and boosting efficiency in the economy. They will allow accelerating employees' movements between companies of different industries, facilitating recruitment, reducing unemployment and shadow employment. In its turn, that would drive economic growth and drag down inflationary pressure inflicted by wage growth.

Thereby, there is a set of structural measures which are not only important for the economic growth, but also may have a positive impact on inflation and, consequently, rate reduction in the economy.

I would like to dedicate the second part of my statement to development of banking regulation and supervision and announce some important changes the Bank of Russia intends to introduce shortly.

Let me begin with banking system challenges, the global developments affecting the Russian financial system and requiring new solutions.

All over the world, the banking sector is going through a serious transformation in the aftermath of the latest global crisis: regulation has been tightened; capital burden has increased, making banks in many countries unattractive for investments. Despite soft monetary policies in the leading economies, the banking system is wary of boosting lending.

Disproportionate regulation made parallel banking, including asset management, more attractive. Thereby, banks transfer risks to other market participants, though it is not always clear.

Moreover, if banks give up certain activities following the new regulation, it may result in a loss of liquidity, among other things, in such an important sector as bond market. As a result, possibilities of bond offering shrink and the market becomes more volatile and exposed to shocks.

Another challenge for the banking sector is a rapid fintech evolution that transforms relations between customers and financial institutions. New players (e.g., retailers) launch financial products and services. New technologies add elevated threats of cyber-frauds and cyber-attacks to traditional banking risks.

These are global challenges.

Meanwhile, the Russian banking system also faces specific challenges, namely:

- slack economic dynamics which shrinks banks' earning capacity;
- high debt burden of traditional borrowers;
- persistently restricted access to external financial markets;

– weak players (some players faced difficulties following the worsened economic environment adding to the problems accumulated in the financial sector and not yet solved. The Bank of Russia has to stick to active supervision to check these problems);

– another challenge is priority funding of financial institution owners' businesses rather than competitive projects;

– unavailability of long money in the economy due to underdeveloped collective savings (pension funds, unit investment funds, life insurance).

The challenges I have mentioned affect not only banking, but the whole financial system and require different approaches in regulation and supervision.

We shall restore a healthy financial market, clear from weak and unscrupulous financial institutions. This is an ongoing process, but it still takes time to be completed.

I would say that ***the Russian banking sector's higher resistance to serious external shocks*** is among our most important achievements in bank regulation and supervision. The banking system is stable, has a good capital stock and does not need regular easing to function efficiently. Stress tests held by the Bank of Russia and major credit institutions confirm that.

However, the banking system's relative well-being does not mean that the banking sector resolution is over. Problems accumulated by banks turned out to be more significant than we expected.

As I have mentioned, here belong sizeable loans to companies connected with banks' owners. Not all of these companies are successful, and their projects remain unimplemented for years.

Similar to owners, large creditors often use their funds deposited with banks to fund projects of their owners or chief executives, shifting all the risk to the banks.

Complications in obtaining relevant information from a foreign jurisdiction by the supervisor allowed banks to accumulate sizeable assets abroad (loans to non-residents, large correspondent account balances with foreign banks, securities in foreign depositories, letters of credit and other transactions outside the RF jurisdiction). A detailed inspection reveals that most transactions with non-residents are of fiduciary nature, and a foreign company or bank is not the ultimate recipient of funds. As a result of such transactions, funds are ultimately used for loans to owners or fictitious increase in the bank's capital.

Currently, the supervision's main objective is to timely reveal such fiduciary transactions which undermine financial stability of credit institutions.

Today, we are completely rebuilding the whole system of bank supervision, accelerating supervisory decision-making, and, moreover, striving to enhance the proactive nature of the supervision.

The development provides for a shift from *post factum* analysis of banks' statements and periodical sampling analysis of some assets to online analysis of all bank operations and analysis of bank business model with account taken for stress-testing. For this purpose an up-to-date unified supervisory IT system and a centralised data storage capable of accumulating information about all bank transactions and operations will be created.

The key element of supervision reorganisation is separation of the risk assessment centre from the centre for supervisory decision-making.

Stress tests conducted by both the Bank of Russia and credit institutions are to play a special role soon. They will cease to serve only monitoring purposes and their outcome will determine bank requirements.

Preventive measures (i.e., when banks do not violate prudential ratios, but are exposed to elevated risks of future violations) will first be applied to large banks with assets exceeding 500 billion rubles.

First inspections of major banks are to start next year in the context of implementation of the second pillar of Basel II. The Bank of Russia will assess the quality of internal capital adequacy assessment procedures worked out by banks and their application in 2016.

If the Bank of Russia inspection reveals insufficiency of the available capital to cover the risks assumed taking account of stress-testing outcome, or that the low level of risk-management procedures does not allow banks to assess the risks assumed correctly and they may face capital shortage in future, the Bank of Russia will establish targeted elevated capital adequacy requirements for such banks.

So far, stress tests conducted by banks shall meet basic requirements, but we are adjusting parameters of stress scenarios and stress-test requirements. Their outcomes will be progressively taken into account in supervisory decision-making.

The outcomes of banks' stress-testing are supposed to be taken into account in assessing possibilities of bank mergers, agreeing on a resolution plan, and taking other significant supervisory decisions.

Another important line of our activity is improving the system of bank resolution.

Our resolution analysis (and over the past three years we took 28 resolution decisions) shows that investors usually do not invest in capital of banks under resolution, do not develop their business and sometimes use the balance sheet of banks under resolution for bad debts while forwarding a sizeable share of funds for resolution purposes to their own projects.

That is why we have tightened control over the ongoing financial resolution. Supervision will be focused on all the transactions between the bank designated as a turnaround manager and the bank under resolution. The turnaround manager will be prohibited to deteriorate financial position of the bank under resolution with its bad assets. We are also establishing stricter requirements for financial standing of turnaround managers.

However, stricter control does not remove systemic deficiencies of financial resolution, namely:

– longtime presence in the market of undercapitalised banks under resolution (up to 10 years);
– high cost: the current lending scheme provides for allocation of 1.6-fold more resources than acquiring a share in the capital, that also has indirect implications and aggravates structural liquidity surplus;
– consolidation of banks under resolution is impossible as they have different turnaround managers appointed under bankruptcy proceedings;
– insufficiency of financially sound turnaround managers;
– higher DIA debt burden;
– long loan maturities;
– and the last one is the above-mentioned use of banks under resolution as a 'bad asset depot' by turnaround managers.

Also, all of these are indeed systemic shortcomings of our mechanism, the one that has been around for many years. This resolution mechanism has seen no change since the time it was set up. It is still grounded in long-term soft credits extended in large amounts to entities wishing to take part in a financial turnaround.

It is time for us to make the next step – the one to enable us to overcome these problems.

The Bank of Russia stands ready to assume broad responsibility for the impact of bank resolutions, acting, in addition to its role of the main funding source, as a central enabling facilitator to this process.

In the run-up to the coming autumn Duma session we will come up with a package of amendments to legislation to allow the Bank of Russia to set up a special-purpose Banking Sector Consolidation Fund. This fund would be a participant in the equity of banks under resolution. Also, a dedicated management company would be created to provide operational management to a bank under resolution.

In such a scheme, the central bank would oversee the bank turnaround programme. Capitalisation support would come in quickly, available immediately; where necessary, resolution would involve both reorganisation and merger. Either of these would be followed by sale of banks, recovered to a satisfactory financial condition.

Thanks to the new model to migrate to, the processes of bank resolution are sure to become less inexpensive, faster, more manageable and overall more effective. We will see banks under resolution being reorganised so as to ensure that financial recovery yields maximum results and raises investment appeal of such banks. Concurrently, this will predetermine optimisation of the banking sector's structure.

Both commercial banks and private investors would be able to enjoy the outcomes as they acquire well performing banks and those with capital top-up.

Apparently, the mechanism will be the subject for discussion with the bank community. Looking forward, I would like to tell you that we have looked into potential risks this approach involves.

Here are our key findings.

The risk of banking sector becoming nationalised.

In our understanding, we are running no such risk, for two reasons. First of all, because of the minor role of the banks under resolution in the total banking sector. The 28 banks that became subject to resolution accounted for a mere 4 per cent of the banking sector's liabilities. And we do not expect their importance to become any stronger.

Further, as I have noted, resolution should result in the sale of banks in the market; therefore, we expect there to be no significant impact from the new approach on the correlation of public to private participation in bank capital.

Further on, on conflict of interests, that is, the risk that the quality of supervision over banks reorganised by the Bank of Russia-controlled institution may deteriorate. With a view to avoiding this risk, we intent to construct a 'Chinese wall' to separate Bank of Russia supervision activities from the Fund's management company. We would draw on our experience with such 'Chinese walls', for example, the one between monetary policy and supervision – a fully working arrangement. But, most importantly, the banks under resolution in the new model – once their capital is restored – would be obliged to comply with all regulations, and they should expect no easier ride. In such a way, we would get unprivileged supervision, that is, the one that grants no special status-related discounts to banks under resolution.

Let me now pass on to regulation, where we plan to implement a number of meaningful initiatives.

As you know, our efforts to implement Basel standards are ongoing. This year, for the first time ever, we have passed the Basel Committee test that recognised Russian legislation as fully compliant with Basel. This is not to say, however, that Russia-specific risks and challenges fall outside of our focus.

We seek to spare banks the burden of unjustly excessive regulations, sustaining balanced regulatory change with the purpose of excluding the negative impact on credit institutions' capital adequacy and their capacity to lend to the economy.

In our opinion, the present moment is the right time for proportionate regulation to be rolled out in the banking sector, that is, the extent of regulatory requirements for banks should match the set of banking activities and the volume of risks a bank assumes.

To this end, we suggest that a new credit institution type be identified – a regional bank. This category would cover rather small lenders with a limited range of most standard banking operations.

These banks should build their operations on the business model of attracting funds from individuals and legal entities in a specific region so these funds are placed with minimal risks and convert into loans to households and businesses (mainly medium and small) in the same region.

Such banks would be authorised to place funds in the interbank market only through a central counterparty. Regional banks would also be prohibited from making cross-border transactions; neither would they be able to open branches / structural subdivisions outside the region wherein the bank is registered and outside its adjoining regions.

We deem it appropriate to discuss with the bank community the possibility to considerably streamline regulation for such banks so they are exempt from compliance with technically complicated international standards.

Importantly, this suggestion is not about softening the regulation for regional banks – it is about its simplification.

Concerning the other banks (save for systemically important) which we call banks of federal importance, the plan is to increase the minimum required capital to 1 billion rubles, with international standards to be rolled out subsequently.

By the way, from the slide here you can see that minimum capital requirements in our EurAsEC partner countries are higher than in Russia. And even once the billion-rule is implemented, in three countries they will still be above this one billion.

The introduction of proportionate regulation comes with a transition period of up to two years, in which time banks would be able to decide how they see their future; a similar transition period will certainly be required to implement the increased minimum capital requirement.

We propose to discuss details at the congress.

Now with regard to ***consolidated supervision***. The current supervision and inspection extend to more than individual credit institutions and cover banking groups. At the same time, ***the Bank of Russia still lacks the mandate for supervision over bank holding companies*** and, in a wider sense, over financial groups made up of non-state pension funds, insurance companies, and the so-called parallel banks – which have the same owners.

The lack of supervision over such associations, together with the lack of their responsibility to comply with prudential standards, is behind the current concealing of problems, which gives rise to an incentive for their owners to structure associations of finance companies, in an arrangement allowing them to escape compliance with required ratios, internal control or risk management requirements.

The Bank of Russia believes it is time to do away with the unequal regulatory field that is subject to an association's organisational structure.

As a result, it would make no difference to owners of financial institutions, whether their financial institution's parent company is under Bank of Russia supervision or whether a holding's parent company is established by the owners.

Our position is that financial groups should have regulatory standards and requirements to enable control of risk and capital management systems, as well as requirements for business reputation of a parent organisation's Board members and executives.

There are good reasons to enable the central bank to take corrective actions against a parent organisation or participants in financial groups if they violate regulations.

Where the operations of a bank / financial holding company also include non-finance companies (industrial, construction, commercial), such holding would need to set up (or designate) a management company, which will consolidate the statements of the holding's financial institutions and to which the powers to manage such companies would be assigned.

A similar management company for bank and financial assets would need to be created by owners of parallel financial institutions, as well as by holdings and associations where the parent organisation is located overseas.

It is important to us that this management company should be in the Russian jurisdiction. We envisage no need for any separate licensing of its activity, as long as it would be covered by the requirements for reporting consolidation, requirements for consolidation-based calculation of required ratios and their observance, as well as those for risk management systems, internal controls and the composition of management as are currently applicable for regulated financial institutions.

The Bank of Russia should be authorised to take regulatory action against such parent organisation.

We will detail our plans for regulation of banking and financial holding companies in a separate consultation report to be released shortly for public discussion. We will be ready to discuss the report in detail with all market participants.

On a final note on the banking sector, I would like to announce another initiative, which is perhaps of a minor scale than those announced today, but still very topical. I have said that the banking business is undergoing a rapid new technology-caused transformation as we see the emergence of new areas in the banking business. Therefore, undoubtedly, both the regulator and the bank community need to be abreast of all recent trends and best business practices.

This is the reason we have decided to launch an establishment that would be akin to a corporate university. This facility will operate on a permanent Bank of Russia-based platform, inviting global and Russian industry leaders to enable opinion exchange on development trends. My hope is that the bank community will assist us in developing the agenda for this platform.

Given that I have presented today a fairy large volume of innovations in banking regulation, we decided to cover the other financial sectors separately in tomorrow's session. Today, let me only guide you through our key priorities.

One, advancement of the bond programme.

Two, generation of long money sources through retirement savings and life insurance.

Three, improvement of corporate governance, which is essential in capital market development.

Four, efforts to better quality of financial consumer protection, a field with a lot of room for improvement, as well as improvement of interaction with us as a regulator, including through the Bank of Russia online reception.

On a separate subject, let me note the need to counter unfair practices in the financial market, the drive to strengthen managerial responsibility in the industry and tighten business reputation requirements. The global challenges to the financial system I mentioned at the beginning include rapidly advancing non-bank financial institutions and the emergence of new types of financial intermediaries. These spell the need for a cross-sectoral approach of the regulator. And, developing such cross-sectoral approaches is one of our priorities. We plan for our tomorrow's discussion to centre on this first cross-sectoral document of ours – the Guidelines for the Development of the Russian Financial Market. The document is sure to be of interest to representatives of all financial institutions.

And, to conclude, I would like to brief you on the current efforts to develop the national payment infrastructure. You will know that this autumn we are launching Mir, the national payment card, full scale. It is essential that this payment instrument is easy to use. Hence our objective to ensure that of all cards it is Mir that would enable the operation of social media applications as developed in many regions. In this connection I am pleased to announce that in a few minutes on this stage the Bank of Russia and the Government of St Petersburg are going to sign the agreement for Mir to operate as a platform for the citizen of St Petersburg card.

And that brings me to the end of my presentation. I appreciate your time. Let me wish all of you every success in your endeavours.

Presentation by Bank of Russia Governor Elvira Nabiullina