Elvira Nabiullina: Bank of Russia's strategic objectives and plans for the next five years

Speech by Ms Elvira Nabiullina, Governor of the Bank of Russia, at the International Financial Congress, Moscow, 13 July 2017.

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I would like to speak about the Bank of Russia's strategic objectives and plans for the next five years. The present situation suggests that we focus on the planning horizon and determine the overall strategy for financial market development because the Russian economy currently stands on the cusp of a new cycle.

The economy has rebounded to deliver positive growth rates although, in truth, they remain low. This year we expect growth of 1.3-1.8%. The agenda of stabilisation and adaptation to external shocks, which has dominated in recent years, has naturally transformed into discussion on how to start up the engine of economic development. That is why the theme of this year's congress is "Finance for Development". I expect that the two days at the Congress will help us gain a greater understanding of the changes occurring in both the Russian and global financial system.

I will start by addressing global economic development. This year marks ten years since the onset of the financial crisis.

Contending with the onslaught of the crisis – like waves crashing in one after another for many years – and the economic consequences thereof, the central banks of many countries were forced to take unprecedented steps to stabilise and reverse course. It is only now, ten years later, that they are taking steps to move away from these measures.

What is everyone afraid of? That growth will remain rather low and unstable.

Indeed, after a long period of crises and stagnation, the global economy is entering a new cycle. But what is the aftermath?

First. A higher debt load than in 2007. In developed economies, the primary problem is government debt, whereas many countries with emerging markets struggle with corporate debt.

Second. Developed economies are contending with exceedingly low inflation and even deflation.

Moreover, there are bubbles in individual markets that threaten to grow owing, among other things, to the effects of long-term soft monetary policy.

Fourth. Low growth rates in productivity and investment. This not only limits opportunities for development but also hampers growth due to increased debt burden.

Fifth. Developed countries are seeing increased inequality in the face of stagnating middle-class incomes, a trend observed over the past 30–40 years and often labelled the result of globalisation. It is clear, however, that unequal access to the opportunities afforded by new technologies also played a role. In this regard, the digital revolution and the new wave of job automation, which changes the traditional profile of the labour market in a number of professions and sectors, bring about significant social risks. As a result, we are observing an upswing of populism in politics, which in itself generates new economic risks and harbours continued financial market volatility.

Sixth. An important point for us. The global economy is entering its new cycle at a low phase of the commodity (primarily oil) super cycle. So far, there has been no truth to the predictions that low commodity prices will have a positive impact on global growth thanks to the positive momentum enjoyed by raw material-importing countries exceeding the negative impact on exporting countries. However, it is important to note the technological progress in the oil industry both in terms of supply (e.g. the development of shale technologies; incidentally, the decreased investment in shale oil in the face of low oil prices has once again begun to grow) and in terms of demand (the development of the electric car and alternative green energy markets). In fact, in the medium term the balance of these factors remains highly uncertain. Therefore, the markets are constantly shifting their expectations about medium-term trends (almost every quarter) and thus the oil market remains relatively volatile.

Lastly. The global economy is entering a new cycle with growing cyber-risks capable of threatening both the stability of financial systems and economic growth.

Positive developments include the financial technological revolution (fintech and the cost cutting, increased financial service penetration, and the improvements to their quality it entails), and the financial markets' increased stability in the face of various shocks. This stability has been repeatedly tested over the past year and a half, a period not lacking in political surprises. It appears, the reforms jointly developed and implemented by regulators in the major countries after the global financial crisis truly bolstered the financial system.

The very structure of the global financial markets has undergone dramatic changes over the past decade. The role of global banks and cross-border lending by banks has taken a downward turn. Moreover, capital raising markets (stock markets) saw stagnation and even company delisting.

The role of market lending (bond markets) and asset managers, i.e. the markets impacted by regulatory reforms to a lesser extent, has increased. These markets could potentially become more volatile, however.

In broad terms, what does all this mean for global growth? In our view, it will not be stable. Average growth rates will be lower than in the early 2000s.

The main trend we will see in the coming years will be slow economic recovery and the leading central banks taking a tighter policy stance. This will include increased interest rates and curtailed balances.

For financial markets, these dynamics bring about two contradictory trends. On the one hand, economic growth has a positive impact on financial markets and risk appetite. On the other hand, increased interest rates are cooling the markets. Therefore, despite the overall stabilisation, there is a high probability of financial market volatility.

What does all this mean for the Russian economy?

Our economy will be bolstered by external demand to a lesser extent and will be sensitive to external volatility.

Although, as recent years have shown, our economy has learned to adapt to external shocks, there are nevertheless a host of internal factors that leave us rather exposed.

These include low economic diversification, insufficient flexibility of institutions and rules, a weak competitive environment (where new companies find it hard to enter the market and those lagging behind economically continue to do so for a long time). As a result, even given the potential for growth (which, as you know, the Central Bank estimates at 1.5-2%) there will potentially be significant fluctuations in output in the coming years. Therefore, there is an urgent need for structural changes that will raise the bar of potential growth above 1.5-2% and make it sustainable. The financial sphere is also in need of such structural changes.

What policy response are we seeing in the face of these challenges in the financial sphere?

Above all, focus should be on maximum flexibility. Certainly, the floating rate should be upheld. It is crucial to adjust and constantly re-adjust regulation in established and new spheres based on the principles of proportionality to risks. Since rules quickly become outdated, it is important to gradually transition from management guided by rules to management by principles.

Greater attention should be paid to systemic problems and risks, not just to the stability of individual institutions. Adopting the principle of countercyclicality, using macroprudential tools. Early warning of problems both in the system as a whole and in individual institutions.

Greater transparency in the financial sphere. This means transparency of sources of capital and combatting instances of financial institution owners financing their businesses.

Rejecting dogmas. For example, the dogma that banking regulation is neutral and is aimed at mere risk management. We are starting to gradually transition towards incentive-based regulation.

Supporting new technology: focusing on that with greater protection from cyber risks.

I will now discuss the Bank of Russia's main areas of activity in more detail.

The first area is monetary policy. Its role is sustaining low macroeconomic risks, thus creating a framework where banks, business, and the public can enjoy an increased planning horizon, create long-term money and realise long-term projects.

Over the next five years, the focus of our policy will gradually shift from achieving the inflation target and lowering inflation expectations to keeping inflation close to the target level and maintaining inflation expectations at a low and, importantly, anchored level.

However, while transitioning to a policy of fine tuning, there are a number of challenges we must face.

Ultimately, inflation is clearly a monetary phenomenon and, if we look to the medium term, the average inflation rate depends first and foremost on monetary policy. Average inflation will near 4%. However, it will naturally fluctuate. Meanwhile, inflation fluctuations around the average level can vary in nature, affect inflation expectations in different ways and therefore have an impact on monetary inflation.

As our experience has shown, during times of high volatility it is crucial to avoid rash responses to shocks (shocks being any big changes, both positive and negative). This policy suggests that rushed decisions should be avoided. For example, if at the beginning of the year we had lowered the rate at a faster pace, as many wanted us to, we might very well have faced the need to sharply increase it again shortly thereafter.

However, there are clearly also shocks such as those in 2014 that require a more decisive response.

However, it is important to contend with both the consequences of shocks on inflation as well as the reasons behind them. These reasons are often beyond the Central Bank's control but this does not mean it is impossible to hit upon suitable state policy measures on the whole.

This primarily concerns the dynamics of food inflation and regulated prices and rates. The state policy of developing infrastructure, logistics, market competition (primarily food markets), and the regulation of natural monopolies' rates can go a long way to reduce price volatility and thus lead to a faster reduction in inflation expectations. This, in turn, will allow the Central Bank to draw the key rate closer to the equilibrium-neutral level faster (I would like to reiterate that, in our estimation, it stands at 2.5-3% in real terms or 6.5-7% in nominal terms). We will discuss these matters in more detail at one of the upcoming sessions with Minister of Economic Development

Maxim Oreshkin.

The second area of ??our activity is maintaining financial stability. Here, our focus is also shifting: from reversing the negative consequences from earlier risks to preventing new systemic risks. On this, I would like to highlight three main points:

First. The systematisation of macroprudential regulation. We already have experience in cooling the consumer lending market and staving off bubbles (in 2013), in driving a shift away from bank balances in foreign currency, and implementing de-dollarisation. However, we typically introduced such measures by way of changes to our standard regulatory acts. We are planning to prepare stand-alone regulation as early as this year, encompassing all macroprudential policy measures. In our opinion, this will allow us to streamline the system, foster a countercyclical approach, and make it clearer and more transparent for the market to use these tools.

Second. The introduction of the “payment-to-income” ratio in order to influence the consumer lending market more effectively. The corresponding advisory report we published has already been discussed with the market. We will soon produce solid proposals.

Third. The new regulations related to the credit history bureau. It is the credit history bureau that comprises the key infrastructure for collecting information on borrowers’ aggregate debt. Here there is a fork in the road. Our main objective is to entrust several strategic credit bureaus with the imperative to aggregate information on aggregate debt payments. These offices will be subject to greater regulation, primarily concerning data protection. If the market cannot come to an agreement, we will have to take an alternative route and create a single integrator. Furthermore, we plan to eliminate certain issues with regulation. These include the collection of credit histories in cases of securitisation, license revocation or bank resolution.

Furthermore, in recent years financial regulation has been advanced by adding further objectives that are completed using this regulation. Therefore, alongside the main objective of ensuring the stability of individual banks and financial institutions, ensuring financial stability now falls within the remit. In our opinion, there is currently room for one more addition. Let me explain.

The aim of financial regulation has conventionally been seen solely as risk limitation. Attempts to put in place differentiated regulation that would curtail one area of business but stimulate other, higher-priority ones, have always been met with outcry. But proportional regulation, for example, which we started to develop, stimulates small business lending. This was one of the goals for its introduction. Another example: the discouragement of unsecured consumer lending forced banks to cultivate mortgage lending, among other things.

For example, a large share of bank lending is currently used for mergers and acquisitions. This creates risks for banks, is unlikely to significantly benefit the country, does not create additional gross product or new jobs, and simply facilitates the redistribution of property. Meanwhile, our economy requires more lending for companies’ operations and investment.

Moving forward, we must understand which issues can be solved through regulation and for which it would be the way. This should never, under any circumstances, be pursued by reducing risk protection. We need to strike a balance between limiting risk in some sectors and stimulating others. This is a major conceptual challenge with no unambiguous answer. We will be discussing it here at the congress.

Before addressing the objectives we set ourselves in individual sectors, I would like to say a few words about the most fundamental prerequisite for development – healthy competition. Encouraging competition is our unequivocal priority.

What are we doing to promote competition?

First. Thorough market cleansing. In our opinion, low-quality competition is just as bad as none at all. Honest business should not have to compete with fraudulent market players. Our duty as the financial market's supervisory body is providing an environment where effective and stable financial institutions reap the benefit. This means ridding the market of dishonest players.

Second. Proportional regulation. It levels out the competitive playing field for players of different sizes, and helps the market cultivate niches where different types of financial institutions tie in with different types of clients and their needs. A year ago, in this hall we announced that we were planning to transition to proportional regulation in the banking sector.

For most of the year, we have worked on elaborating the details of this approach. What is more, Mr Aksakov has already announced that the Duma has adopted the necessary changes to the legislation in the current session, and within a year and a half the banks will be able to choose the type of license they will work under, and subsequently, what regulation will be applied to them. We expect that banks with a basic license will mostly work with small businesses and household finances. Moreover, we are now working on and support the idea of ??introducing small business insurance in banks to bolster entrepreneurs' confidence in small banks.

Third. Encouraging competition. This involves developing the capital market, which can offer alternative or complementary products to bank lending. With the development of equity financing and the bond market, private investors will enjoy a wider range of financial investment instruments. Thus, product competition will benefit both real sector enterprises as well as various investors.

I would now like to address the objectives that we set for ourselves in the banking sector.

We are seeing positive trends in the banking sector. In June, both assets and lending to the economy continued to grow, consumer loans increased significantly, and mortgage lending saw rapid growth. Household deposits also rose. Typically, the share of household deposits in bank liabilities exceeded that of corporate funding.

Looking at the results of the first half of the year as a whole, banking sector assets increased by 2.2% (adjusted for the impact of exchange rate); lending to the economy rose by 1.8%. The share of overdue loans has stabilised and is starting to decrease.

Banking sector profit in the first half-year stood at 770 billion rubles (this is double that recorded in the same period in the previous year). This is the source of capital growth of the banking system.

These trends show that the banking system is successfully recovering. Lending is already on the rise and will continue to expand.

What objectives have we set ourselves in order to develop the banking sector?

An active supervisory policy and tightening regulation allowed us to boost the health of the financial system. This ensured the stability of the financial system despite the external shocks. We have largely removed banks whose business was built on illegal transactions and those considered chronically unsustainable.

To achieve this, we had to uproot unfair business practices, and force banks to abandon the instruments they used to conceal the real state of affairs or siphon off assets. A whole host of unscrupulous practices, previously considered the norm, have been consigned to history. Certainly, there is still a great deal of work ahead.

Now, with most improvements to the banking system already complete, our regulation and supervision will be more focused on development and stimulation.

By introducing proportional regulation, we envision that it will stabilise small banks and enhance the solvency of their business models. I would like to highlight that while proportional regulation limits the risks that small banks can take on, but they will be subject to simpler regulation. This will ensure a fairer competitive environment.

The second innovation we also announced a year ago here at the congress is the transition to a new bank resolution mechanism and the creation of a fund for banking sector consolidation. We are now ready, both from a legal point of view and in terms of management, to apply the new bank resolution mechanism. We hope that, as the market progressively clears and there is improved early detection of problems, there will be more cases where it is more beneficial to try to recover banks' solvency than simply revoke their license. Moreover, the new bank resolution mechanism itself could promote the development of competition in the banking sector: consolidation will allow relatively large banks to return to the market. We are currently observing the lowest competition rate among the largest banks. Thus, we have made progress in two of the three major objectives we announced at last year's congress. The third objective we spoke about last year was establishing qualitative supervision over financial groups – we have prepared a draft bill that is being discussed in the government. We hope this innovation will be introduced next year.

I would now like to address the objectives that we are yet to complete.

The most pressing problem is lending to business owners. The standard N25 restricting financing of one's own projects was introduced this year but is still only applied in a preferential mode.

Lending to owners is dangerous for two reasons. First, the bank will turn a blind eye to risks linked to its own company when issuing it a loan i.e. the risk of non-return. Second, our practice has shown that if the owner's project really experiences difficulties the last place it returns money is the affiliated bank. These are not marketable loans but loans extended by unwritten rules. Banks cannot refinance or resell them.

In the end, this is the cause of bankruptcy for many banks. It is one of the factors that led to the collapse of relatively large banks, whose licenses we revoked. We want the banking community to know that our intentions in this field are serious and we will continue to take a tighter stance. Therefore, I advise those whose business model is built on lending to owners to seriously consider finding alternatives.

Yet another problem is the quality of banks' capital. We need to be confident that our banks have real, not borrowed, capital. Therefore, as of this year we will be introducing tighter regulation on the quality of capital. When calculating a bank's capital, we will not take funds from non-transparent sources into account.

There is another whole host of problems associated with collateral. Let me clarify.

In the Russian banking system, a significant proportion of lending is secured lending. On the one hand, collateral is a good way to motivate borrowers to repay loans. However, we are witnessing the fact that many banks, when issuing loans, are immediately factoring the collateral in as part of the loan repayment. In some cases, loans are issued to enterprises on the verge of bankruptcy in view of the quality of their collateral.

This is fundamentally wrong because the source of loan repayment should be the borrower's operating profit, not their collateral. Should the latter be the case, the banking system would turn into a mere big pawnshop.

This problem is further complicated by the fact that collateral value can be used to lower potential loss reserves. A lot of collateral is also low liquid. Moreover, in Russia, the value of collateral is often overestimated.

Problems arise when, just prior to a crash, assets are withdrawn as collateral. Despite the restrictions and injunctions imposed on banks, managers and owners can still withdraw assets through collateral agreements. The regulator currently only has the right to limit or prohibit banking operations. It has no jurisdiction over transactions with collateral or other property. Therefore, the Central Bank will seek the right to limit transactions with collateral alongside other banking operations within its framework of supervisory measures.

Otherwise, this is what happens. We lower the required reserves due to collateral taken into account. When this collateral is easily withdrawn, the quality of the loan drops sharply. In cases where the bank's license is revoked, the bankruptcy estate receives nothing. The rights of depositors and creditors are compromised. In our opinion, collateral should only be taken into account when calculating reserves if the Central Bank has the right to impose a moratorium on operations with it.

Similarly, bankruptcy law must undergo improvement allowing honest creditors faster access to collateral acquired under a contract or other assets by court decision.

I would like to reiterate that the regulator is of the firm belief that secured lending should not dominate the lending profile. This is precisely how the banking system will contribute to economic development.

Lombard loans should not establish themselves as the mainstay of banking business. Banks need to work with clients and examine their business models rather than expect to acquire their assets.

I would like to address our priorities in supervision. Over the course of the year, the Bank of Russia reengineered its supervisory activities: it established a risk analysis service (which assesses the quality of loans and the values of securities and derivatives, as well as collateral). We are already seeing certain results.

We are now centralising supervision – we have created an ongoing banking supervision service in order to accelerate the use of supervisory response measures and establish a uniform supervisory practice in Russia.

We call the model we are pursuing advisory supervision. Advisory supervision allows us to identify problems at an early stage and help the bank's owners develop a plan for their solution.

However, to achieve this, banks must also take responsibility: working transparently with the regulator. In fact, we tend to have friendlier interactions with banks if they are willing to provide reliable and complete information about their operations. This is because advisory supervision instruments are built around banks' internal procedures: internal stress testing, internal capital adequacy assessment procedures, and risk management. Be aware that if a bank has already violated standards, we will not hesitate to adopt supervisory measures over simply advising them. Advisory supervision involves joint work in the early stages of problem identification.

The Bank of Russia will also seek the right to motivated judgment to ensure supervision is proactive and that the instruments we develop to facilitate extensive analysis of the situation in banks and provide early detection of problems are effective.

Considering there is a great number of situations, for example those that involve proving the relatedness of parties, it is impractical to rely on formal rules alone. Unfortunately, this reliance is often the case: when the Bank of Russia's supervision has detected that the bank was experiencing problems but, without the right to professional judgment, wasted time collecting formal evidence, which may result in bank owners receiving the time to siphon off assets.

Last week, the Bank of Russia produced a report for public discussion. It outlines our approach to applying professional judgment within the supervision process (incidentally, not restricted to banking supervision alone). I hope that following discussion with the professional community and legislative bodies, the necessary changes will be made.

I would now like to address the development of other sectors of the financial market.

Starting with what, in our opinion, is the key area – creating sources of long-term money in the financial system e.g. the funded pension system, investment of insurance reserves and various forms of investment (primarily collective).

We are putting a great deal of effort into preserving the funded pension market. Accounting for demographic trends, the funded component is the only way to ensure a reasonable pension level. This is extremely important for broadening the horizon of investment in the economy.

We have fully corporatised non-state pension funds.

Now, all funds concerned with compulsory pension insurance are participants of a guarantee system. The financial stability of non-state pension funds continues to increase thanks to strict admission to the guarantee system, constant monitoring of non-state pension funds, as well as initiating stress tests. We will be overseeing this progress.

To assure future pensioners of their income, we plan to introduce fiduciary responsibility for NPFs. To broaden the horizon of their investment, we will change the remuneration system to fend off the false motivation behind recording income for a short period of time.

These measures are the groundwork for ensuring that NPFs are stable and work to benefit their clients. But it is not enough. In our opinion, a convenient, large-scale voluntary funded pension system is needed to preserve the funded pension market given the expected long-term freezing of the funded component of pensions.

In conjunction with the Ministry of Finance, we have spent a lot of time developing the Individual Pension Capital system. This involves voluntary pension deductions via automatic subscription. In our opinion, it is crucial to establish centralised administration of the system. It will provide a single window for customer service, and standardise and automate work, providing the public with a convenient service. Incidentally, we believe that having centralised administration would reduce the number of incidents where the public’s rights are infringed when transitioning from one non-state pension fund to another. As we see it, the draft bill is currently nearing completion. The government is working on removing disagreements and, all being well, the draft bill will soon be submitted to the Duma.

Moving on to the insurance market.

It is demonstrating growth and is, on the whole, marked by positive trends. However, there are problematic segments: mainly OSAGO. Resolving the issues linked to OSAGO is one of our near-term objectives. As of this year, it is mandatory for insurance companies to sell the OSAGO policy in electronic form. This helped provide access to the policy in problematic regions. In the first half of the year, seven times the number of electronic policies were issued than over the course of the whole previous year. The priority of repairs over payments, introduced in April, is intended to remove unscrupulous agents from the market. We expect that these measures will stabilise the situation.

The strategic objectives to develop the insurance market are aimed at ensuring the long-term sustainability of insurance companies and protecting the rights of policyholders.

There is also another gap in legislation. Unlike in the banking sector, there is no legal mechanism for the resolution of insurers. We plan to introduce one in the near future. The corresponding draft bill has been developed and is being discussed.

The Bank of Russia's priority objectives in the long-term include introducing Solvency II principles to the risk-oriented approach to regulating financial stability and the solvency of insurers.

Microfinance is a financial service that carries great social significance. Notably, those who turn to microfinance organisations are mostly poor people and the use of microloans arises in very difficult situations (literally, when the cash will not last them until their pay day). Therefore, the Bank of Russia's policy in this market is primarily aimed at protecting consumer rights. The first objective is reducing borrowers' debt burden and limiting the marginal cost of the loan. The limits we introduced have already significantly lowered the cost of microloans but we plan to reduce it further.

Another of our areas of focus is combatting illegal, so-called "black" creditors. In this field, legislation has been adopted that ensures the prosecution and responsibility of illegal creditors. We are working together with law enforcement agencies and are now focusing on public awareness. About a month ago, we launched a joint project with Yandex – the microfinance organisations on our register are marked with a special symbol in the search results so that it is easier to understand whether a given microfinance institution is legal or not.

Moreover, this year saw Mir cards issued on a large scale. In Russia, they are accepted by all payment terminals and ATMs. The issue is proceeding at a good pace: over 10.6 million cards have already been issued. In the last month and a half alone, over 2 million cards were issued. Mir is a competitive system and offers all the services on the domestic market that the public are used to after using international payment systems.

Our strategic objective in the coming years is ensuring Mir cards are accepted internationally, firstly within the Eurasian Economic Union.

We are making progress in this area with our partners in the Eurasian Economic Union. Last week, the first cross-border transactions using Mir cards were carried out with Armenia's ArCa payment system. This is the first project we have undertaken to organise equal intersystem interaction. (I believe the citizens of the two countries will benefit from new financial opportunities. I would like to express my gratitude to the Central Bank of Armenia and the management team of the ArCa payment system for their incredibly effective collaboration and promotion of this project).

Moving on to developing financial technologies

Technology has an increasingly large impact on the financial sector. Russia is progressing in line with global trends. In some cases, we are even ahead of some of these trends: for example, Russian banks already offer cutting-edge mobile applications. According to Ernst & Young, the Russian market is currently in third place globally in terms of financial technology development.

It would be foolish to miss out on the technological revolution. We have work ongoing in three areas.

The first two (where we are highly engaged, which is hopefully evident to you) involve supporting fintech and preventing cybercrime in the financial sphere. The third involves the so-called *regtech* i.e. new regulatory and supervisory approaches for us to elaborate in order to provide adequate risk management of financial institutions that are becoming increasingly like technology companies.

What is the Bank of Russia doing to support financial technologies?

We have repeatedly talked about our principles of regulation and supervision over fintech – first you need observation then regulation in proportion to risks. We engage in constant dialogue with the market and created Fintech, an association for financial technology development. The next step for us to accomplish in the coming years is to create a national fintech infrastructure i.e. the necessary elements that will be beneficial to and in demand by all market players and will ensure that players of all sizes have convenient access to the market. The national infrastructure will foster competition in the market, encourage new financial ecosystems and, as a result, provide cheaper and better quality products to the public.

What elements are included in the national infrastructure?

Remote identification for both financial and public services. We are working on this with the Government.

This involves creating a platform for instant retail payments so that consumers can easily make payments and transfers regardless of where they hold their account.

It also involves creating marketplaces offering financial products and services to individuals and helping them to choose cost-efficient and safe purchases.

Lastly, it involves developing the national payment system. It is our aim to create an entirely new payment infrastructure type for Russia.

What is more, effectively countering cyber threats is increasingly important. We've seen malicious programs paralyse even the largest companies for hours and days. This year, the congress will include a session devoted entirely to information security in the banking sector (more generally in the financial sphere) for the first time. Our near-term priorities include establishing information security standards for financial institutions, continuing work on identifying threats and helping the market to develop effective strategies to deal with cyber-risks.

I would like to add a few words about regtech.

Up until now, all financial regulation and supervision mainly concerned prudential aspects: capital, liquidity, profitability, and asset quality. The shift that digitalisation brought about in the financial industry touches not just on the emergence of fintech companies but also the widespread use of new technologies by existing financial institutions. For example, big data, risk-oriented decision-making systems, credit decisions, the use of complex mathematical models in the risk management system, and working with open interfaces and cloud computing.

All this suggests that soon there will be high proportion of risks that are technological in nature rather than financial. We need to be ready to face these risks. Our objective is to elaborate uniform standards for working with databases, data quality, and develop the requirements on models applied in data outsourcing, and requirements on information security. This is a great deal of work. We will develop approaches while engaged in dialogue with the industry.

The revolution in the use of data has had an impact on both financial institutions as well as regulators like us, the central bank. We need more data about deals and transactions. Then, we need to use modern data analysis methods.

For this, we will optimise the reports that are submitted and introduce formats that are convenient for the market such as XBRL. I would like to highlight the fact that we will be working to improve quality control and data management systems and you will benefit from lower regulatory costs.

The last area of work I would like to mention is one of the most important: protecting consumer rights.

Our objective in this area is absolutely clear – financial decisions should not lead to misfortune in consumers' lives. Therefore, we suspend fraudulent market players, limit the risks that the public take on themselves, and delve into specific situations related to public complaints. But it is not enough. We need instruments to prevent practices that may be formally legal but are designed to deceive the client, sell the wrong product, at the wrong price, with unspecified risks.

We are preparing to establish a second vertical supervision framework for financial institutions – the so-called behavioural supervision.

Our next steps will be:

- introducing rules about selling financial products and services to various categories of consumers, in particular about providing the information about the product that is being sold;

- reinforcing the role of self-regulating organisations that should develop basic standards about providing services and monitoring their implementation.

We would be glad to see law passed regarding a financial ombudsman. Discussion thereof has already been very drawn out. We propose developing this new mechanism on a step-by-step basis: First, introduce OSAGO to the ombudsman's remit, then microfinance products, then banks and other institutions.

Certainly, it is impossible to create a system that effectively protects consumer rights without improving financial literacy, reducing the number of "unforced errors" that members of the public make when choosing financial services and vendors. Therefore, we will particularly focus on financial literacy. We have already launched a number of programmes, ranging from educating schoolchildren and students to creating a specialised website.

Access to financial services has been given separate priority status because it is vital for Russia. Special attention will be paid to the uniform development of access to services in different territories, cities and towns and reducing disparity. I would also like note it is unacceptable that some people lack access to financial services owing to disability. Unfortunately, such examples still occur.

To conclude, I would like to summarise the overall focus of the measures that we plan to take in various areas in the coming years. How will our work differ from that in previous years?

I started my speech by saying the Russian economy is entering a new cycle and the Central Bank's approaches to work should rise to meet these new conditions. Our work will be consistent, we will continue to resolve the problems we have already identified, where progress has been made. However, we also need to think about a new stage in the Bank of Russia's operation.

In recent years, we worked on solving a number of entrenched problems and were partially successful in eliminating the consequences of external shocks. For example, we removed weak and unscrupulous players from the financial market, completed building the necessary elements of the national infrastructure of the financial market, and transitioned to inflation targeting.

Now that the economy and the financial system have become stable, we have more opportunities to focus on development issues. We will prioritise competition issues, new technologies, financial accessibility, developing long-term money instruments and the capital market. Indeed, what we can do together to foster development of the financial sector and what the financial sector can do to foster development of the economy will be the subject of our discussion here at the congress. I look forward to the productive work and successful outcomes we will share. Thank you for your time.