



Bank of Russia



RESULTS  
IN BRIEF

THE BANK OF RUSSIA'S WORK

2020



Electronic versions of the document [The Bank of Russia's Work: Results in Brief](#) and [The Bank of Russia's Annual Report](#) for 2020 are available on the Bank of Russia website.

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## OPENING REMARKS BY THE BANK OF RUSSIA GOVERNOR



*For the first time, the Bank of Russia presents the document The Bank of Russia's Work: Results in Brief for 2020.*

*It briefly describes the results of the Bank of Russia's work in all main areas. Such a format provides an easy-to-understand overview of the efforts taken by the Bank of Russia in response to the challenges facing the Russian economy and banking system in 2020.*

*Last year will be remembered as the year of the coronavirus pandemic. In spring, almost all countries introduced restrictions in many industries and lockdowns for people and closed state borders. These measures were necessary, but they led to drastic economic consequences. World GDP contracted by 3.3%, which is its deepest decline since the Great Depression.*

*Governments and financial regulators implemented support measures to aid the economy and households and took actions to stabilise the situation in financial markets.*

*Already in April, the Bank of Russia shifted towards accommodative monetary policy. Over the year, the key rate was reduced by 200 bp to 4.25% p.a. This made it possible to provide cheaper credit resources to the economy and promoted a faster start of economic revival.*

*The Bank of Russia ensured the financial stability and smooth operation of financial institutions through macroprudential policy instruments and regulatory easing. This complex of measures was implemented across all sectors of the financial market – from banks and pension funds to the payment system and microfinance. Both chambers of the Federal Assembly promptly adopted laws needed to implement anti-crisis measures.*

*As a result, the financial system was able to provide support to households and companies, first of all by restructuring current loans and issuing new ones.*

*The key results of the year are the mitigation of the pandemic's impact on households and businesses, the continuing reliability of the financial sector, lending expansion, and a stronger role of the stock market.*

*However, the pandemic also made us adjust certain plans. The Bank of Russia postponed deadlines for a number of projects in order to focus on addressing the aftermath of the pandemic. Moreover, it suspended a range of regulatory innovations so as not to increase burden on financial institutions. Nonetheless, work in key areas continued. There are objectives that may not be postponed: these are digitalisation, financial inclusion, and enhancement of financial consumer protection. The Faster Payments System and the Mir payment system were actively advanced, project finance continued to be implemented in construction,*

*the reformation of credit history bureaus was carried out, the reform in compulsory motor third-party liability insurance was completed, etc.*

*In 2021, the Bank of Russia will continue to implement a policy ensuring price and financial stability and develop the financial sector, contributing to the recovery of the national economy and Russians' welfare and their return to a stable growth path.*

**Bank of Russia Governor**



**Elvira Nabiullina**

## SPECIFICS OF PURSUING ANTI-CRISIS POLICY IN THE CORONAVIRUS ECONOMY

The Bank of Russia's main objective in the conditions of the coronavirus pandemic that started in March 2020 was to pursue anti-crisis policy aimed at stabilising markets and supporting the economy and households. At various stages of this period, the Bank of Russia was combining monetary and macroprudential policy measures, liquidity provision, operations in the foreign exchange market, and regulatory easing. Some of these measures were implemented in close coordination with the Government and the Federal Assembly of the Russian Federation. The latter continuously supported these measures at the legislative level.

The spread of the pandemic in almost all countries and the launch of restrictions worldwide caused panic in markets in February–March 2020 and decreased world GDP by 6.2% in Q2 compared to the previous quarter. In this environment, governments and central banks across the globe were urgently introducing large-scale measures to support the economy and households and new non-standard instruments to stabilise markets and maintain financial stability. In the second half of the year, the global economy started to bounce back, although unevenly across countries and industries due to the resurgence of coronavirus cases, as well as differing vaccination rates and the scale of government support in various states.

The situation in the Russian economy and in the Russian financial market was generally in line with global trends. The decline in Q2 reached 9.2% quarter-on-quarter, which was followed by a fairly active recovery in Q3 (6.1% up vs the previous quarter). In 2020 Q4, the economy continued to bounce back (+0.8%), despite the second wave of the pandemic. The pandemic had a slightly weaker impact on Russia's economy as compared to other national economies, which was due to both objective reasons (a smaller portion of services in GDP and flexible restrictions in regions) and active targeted measures implemented by the Russian Government and the Bank of Russia to support the economy.

At the first stage of the crisis in February–March 2020, the main task was to stabilise the situation in the financial and foreign exchange markets. As markets were anticipating restrictions, volatility surged in all countries. The situation in Russia was exacerbated by plummeting oil prices after the collapse of the previous OPEC+ deal at the beginning of March 2020. To stabilise the situation, the Bank of Russia first discontinued foreign currency purchases under the fiscal rule, then switched to proactive foreign currency sales, and later on, using the funds from the sale of the equity stake in Sberbank to the Russian Government, started additional foreign currency sales fully offsetting for the market the reduction in foreign currency revenues, with the oil price below 25 US dollars per barrel. In other words, the Bank of Russia hedged the market risk of an oil price downfall below 25 US dollars per barrel.

The decrease in the reserve assets resulting from foreign currency sales by the Bank of Russia in the domestic market was offset by a rise in the gold price and a positive foreign currency revaluation. Russia's international reserves expanded by 41.4 billion US dollars over 2020, to total 595.8 billion US dollars (see the Table).

**RUSSIA'S INTERNATIONAL RESERVES**  
(BILLIONS OF US DOLLARS)

	2019	2020				2021
	01.01	01.01	01.04	01.07	01.10	01.01
Reserve assets	468.5	554.4	563.5	568.9	583.4	595.8
Foreign currency assets	381.6	444.0	443.6	438.1	444.3	457.0
Monetary gold	86.9	110.4	119.8	130.8	139.1	138.8

To reduce the impact of the surging volatility of the exchange rate and asset prices on banks' balance sheets, banks and other financial companies were allowed not to revalue assets until the end of September and account them at prices as of 1 March 2020. These measures had also been implemented before in the Russian market. They help stabilise financial companies' demand for securities and reduce the impact of volatility on credit activity. In addition to all this, the Bank of Russia also took actions to maintain banks' liquidity.

As short-term proinflationary risks increased amid the ruble weakening, in March, the Bank of Russia decided to suspend the easing of monetary policy at this stage. Nonetheless, it was obvious that small business will be affected the most in such a crisis. Therefore, the Bank of Russia established a temporary subsidised programme for restructuring loans to small business at the interest rate of 4% (later on – at 2.25%) with a limit of 500 billion rubles. In subsequent months, it became possible to use this limit in order to refinance loans granted under government programmes supporting business. These programmes were implemented as the joint projects of the Russian Government and the Bank of Russia.

Amid the tight restrictions imposed at the end of March 2020, the banking sector needed additional incentives to provide support to households and businesses. During this period, the Bank of Russia implemented several packages of anti-crisis measures. They promoted loan restructuring and helped banks and other financial institutions better adjust to remote operation. Specifically, the programmes for loan repayment holidays enabled a large number of citizens and entrepreneurs suffering temporary income declines caused by existing restrictions to avoid payment delays and negative influence on their credit histories.

The Bank of Russia also introduced relaxations in corporate regulation. In particular, in 2020 the Bank of Russia extended the periods for holding annual general meetings of shareholders and permitted companies to hold them remotely. Deadlines established for issuers to disclose information and reporting were also extended. To stabilise the market amid increased volatility, public companies were allowed to buy back their shares at the exchange. The Bank of Russia also cancelled the requirement to reduce authorised capital or liquidate a joint-stock company when its net asset value declines.

At the end of April, it became clear that short-term inflation risks quickly stabilised amid restrictions and, consequently, low demand, whereas disinflationary risks started to prevail in the market. This enabled an aggressive easing of monetary policy to support the economy at the stage of its revival. In summer, the key rate was cut to its record low of 4.25% p.a. In December 2020, interest rates on loans (in rubles to non-financial organisations for more than one year) edged down by 1.5 percentage points to 6.8% p.a., and interest rates on household ruble deposits decreased by 1.4 percentage points to 4.2% p.a.

As tight restrictions were lifted and markets stabilised, a part of regulatory relaxations became irrelevant, namely those allowing banks not to revalue assets on their balance sheets. As was initially announced, these relaxations were cancelled on 30 September. Nonetheless, as it was needed to further promote lending and loan restructuring, the Bank of Russia extended some regulatory relaxations.

The specifics of the situation in Russia were that the balance of risks started to shift towards disinflationary ones rather fast against the background of actively recovering demand. This was driven by supply-side constraints that intensified during the second wave of the pandemic (higher costs, disruptions in production and logistics chains, etc.), higher global prices for grains and other food products, and another round of the ruble depreciation caused by geopolitical factors, etc. The Bank of Russia viewed these factors as temporary ones, yet discontinued the easing of its monetary policy as proinflationary risks again started to prevail over a short-term horizon. Nevertheless, monetary policy remained sufficiently accommodative to support the economy during the second wave of the pandemic.

In contrast to the situation in spring, the autumn surge in proinflationary risks amid lower interest rates, a greater openness of the economy, and the continuing growth of demand had a more significant impact on inflation expectations. This also spurred households' demand for stock market instruments (inflation started to trend upwards, deposit rates remained low, and people were seeking more profitable alternatives). Misselling risks increased. Therefore, in December 2020, the Bank of Russia recommended that market participants should not sell complex financial products to non-qualified investors due to high investment risk.

The economy was bouncing back faster in Q4 than expected by the Bank of Russia. Actually, the second wave did not stop economic growth, which also continued in 2021 Q1. The progressive development of the economy amid rising inflation risks was the reason why it became necessary to start shifting towards neutral monetary policy at the end of 2021 Q1. Owing to large-scale government support measures, lending was increasing faster in 2020 than in previous crisis periods. The segments of lending (e.g. unsecured consumer loans), contracting over previous crisis periods, continued to expand in 2020. Eventually, the increase in lending and economic growth in 2020 Q4 and 2021 Q1 made it possible to end the regulatory easing according to the schedule – by 1 July 2021.

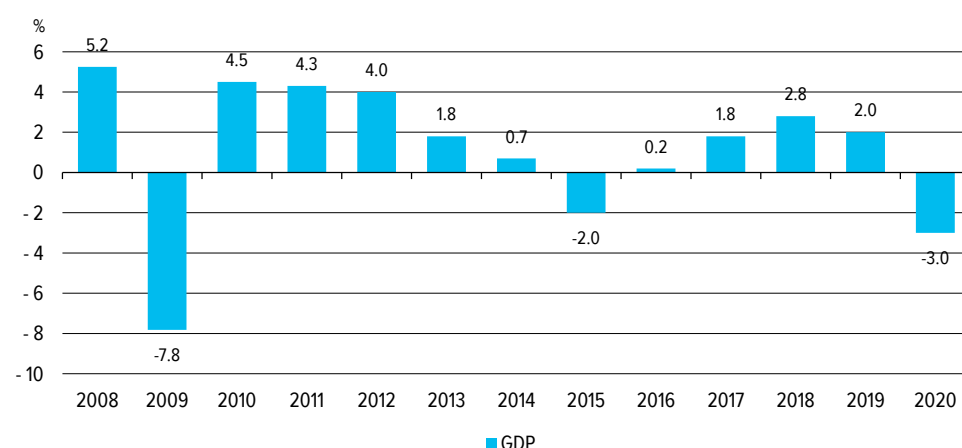
Reviewing the results of 2020, it should be noted that this year became the first crisis period in the history of modern Russia when the Bank of Russia and the Russian Government were able to successfully



implement countercyclical anti-crisis policy to support the economy. This became possible not because of the specifics of the crisis, but owing to the macroeconomic and financial stability achieved over previous years and the sufficient amount of reserves in general. Speaking about the Government, these are low public debt and the fiscal rule. And speaking about the Bank of Russia, this includes lowering inflation to the 4% target and its maintenance close to this rate during several years, implementation of neutral monetary policy and, consequently, creating the conditions for its easing, as well as a sufficient amount of foreign currency and gold reserves. It is essential that the policy for removing weak players from the banking sector strengthened it and enabled it to accumulate a capital cushion needed to accept risks. This is what ensured such an efficient response of the banking sector to challenges. In the future, it is important to factor in all the above, phase out anti-crisis measures in due time, and start accumulating new capital buffers in advance so as to be prepared to any potential scenarios.

DECLINE IN THE ECONOMY IN 2020 WAS LESS SIGNIFICANT THAN INITIALLY FORECAST AND THAN IN MANY OTHER EMERGING MARKET ECONOMIES

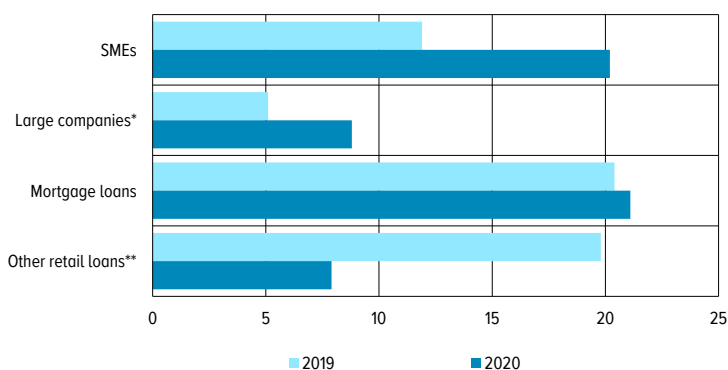
Chart 1



BANKS' CREDIT ACTIVITY REMAINED HIGH

(GROWTH OVER THE YEAR, ADJUSTED FOR FOREIGN CURRENCY REVALUATION, %)

Chart 2



\* Resident legal entities, other than SMEs.

\*\* Household loans, other than housing mortgage loans.

## 1. ENSURING PRICE STABILITY

INFLATION AND ECONOMY		
CONSUMER PRICES ▲	ECONOMIC GROWTH ▼	KEY RATE ▼
<b>4.9 %</b> 3.0 (2019)	<b>-3.0 %</b> 2.0 (2019)	<b>4.25 % p.a.</b> 6.25 (2019)

The Bank of Russia's objective is to ensure price stability and maintain annual inflation close to 4%. Low and predictable inflation is critical for households and businesses to make long-term plans, protects their savings, incomes and investment, and makes borrowing more affordable.

The consequences of the pandemic caused a temporary, yet drastic and rapid decline in demand, which induced considerable downward pressure on price movements. This required the Bank of Russia to shift towards accommodative monetary policy and adopt a package of measures to support borrowers and preserve the financial sector's capacity to provide lending to the economy.

After the key rate decrease by 25 bp in February 2020, the Bank of Russia cut it by 175 bp over the period from April to July, namely from 6.00% to 4.25% p.a., responding to the slump in economic activity. The easing of monetary policy, combined with measures implemented by the Government of the Russian Federation, contributed to the gradual economic recovery and the return of inflation to the target.

Disinflationary risks continued to prevail over a medium-term horizon. However, as various economic segments were reviving gradually, yet unevenly after restrictions were lifted, short-term proinflationary factors started to influence price movements increasingly stronger. These factors were associated with volatile food prices, disruptions in production and logistics chains, and increased companies' costs. Inflation expectations started to grow faster. In this environment, the Bank of Russia discontinued in summer the cycle of monetary policy easing, keeping the key rate at its record low, which was supporting economic recovery.

The key rate cuts and regulatory relaxations resulted in an easing of monetary conditions. Interest rates on corporate loans edged down to 6.8% p.a. in December 2020 (from 8.3% p.a. in the previous year). Yields on corporate bonds also decreased (from 6.7% to 6.1% p.a.).<sup>1</sup>

The balance of proinflationary and disinflationary risks changed by the end of the year, evidencing that the potential for a further easing of monetary policy had been gradually exhausted.

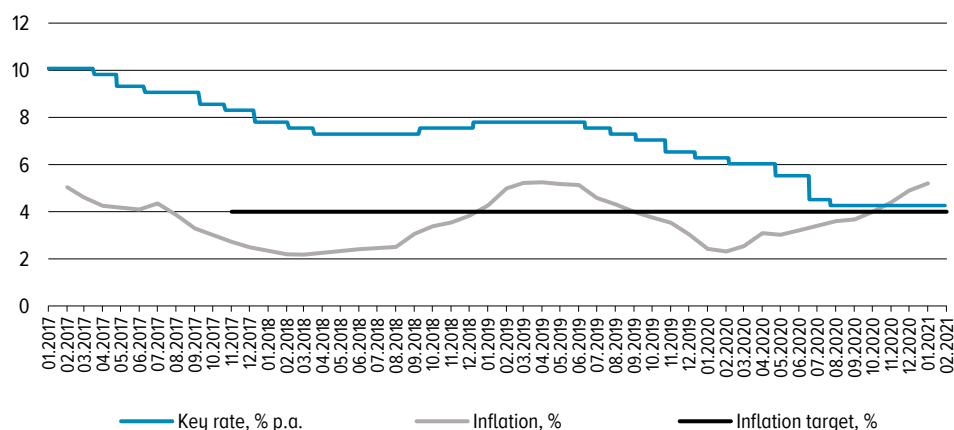
The Bank of Russia provided detailed explanations regarding its key rate decisions, including in Russian regions. The Bank of Russia Governor started to hold press conferences after every such decision.

<sup>1</sup> IFX - Cbonds – the index of effective yield on corporate bonds (is calculated by the news agencies Interfax and Cbonds.ru).

At her weekly press conferences carried out to analyse the current situation and stabilisation measures, the Bank of Russia Governor provided extensive information on the results of financial flows monitoring and regional surveys of companies.

#### THE BANK OF RUSSIA SHIFTED TOWARDS ACCOMMODATIVE MONETARY POLICY TO STABILISE INFLATION AND SUPPORT THE ECONOMY

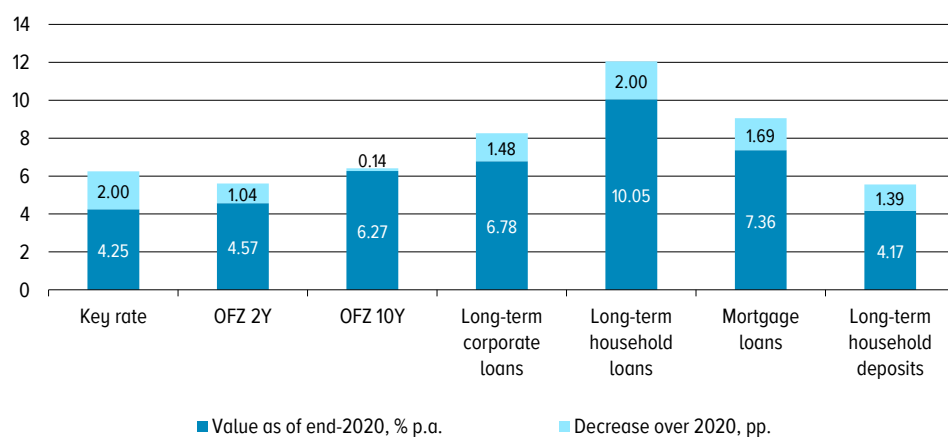
Chart 3



Sources: Rosstat, Bank of Russia.

#### FOLLOWING THE KEY RATE REDUCTION, INTEREST RATES IN THE ECONOMY DECREASED

Chart 4





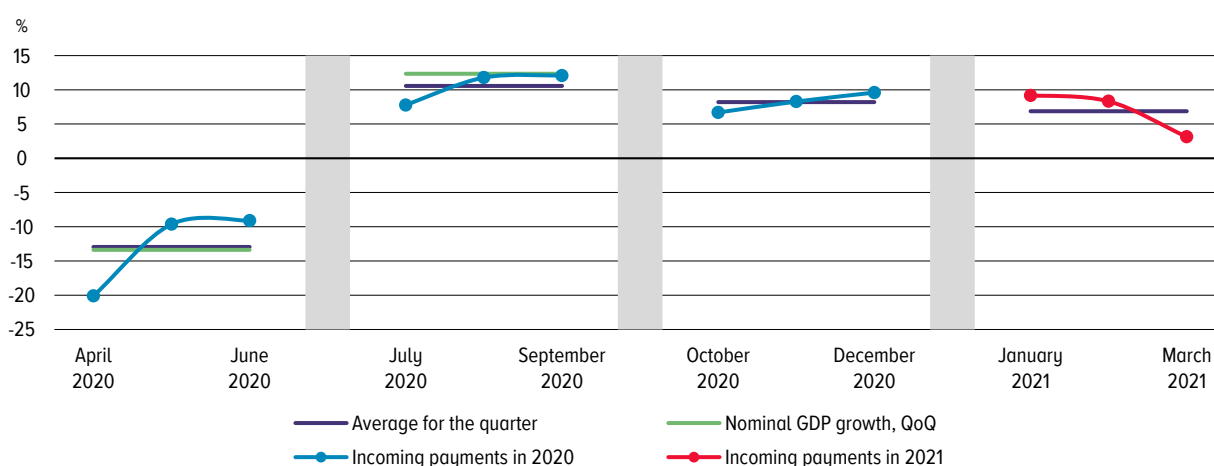
## ENHANCING APPROACHES TO HIGH-FREQUENCY MONITORING OF BUSINESS ACTIVITY

In the conditions of the unprecedented shock for the Russian economy and the global economy caused by the aftermath of the coronavirus pandemic, the Bank of Russia focused its research and analytics on enhancing approaches to high-frequency monitoring of business activity, including across industries and regions.

To tackle these tasks, the Bank of Russia needed to promptly add new sources of information to its economic research, including data of the Bank of Russia payment system. In spring 2020, the Bank of Russia started to release its weekly review [Monitoring of Sectoral Financial Flows](#) presenting assessments of the dynamics of payments in companies from various economic sectors. This helped develop an indicator to track financial flows at the sectoral level almost in real time.

### PAYMENT DYNAMICS REFLECT TRENDS IN ECONOMIC ACTIVITY\*

Chart 5

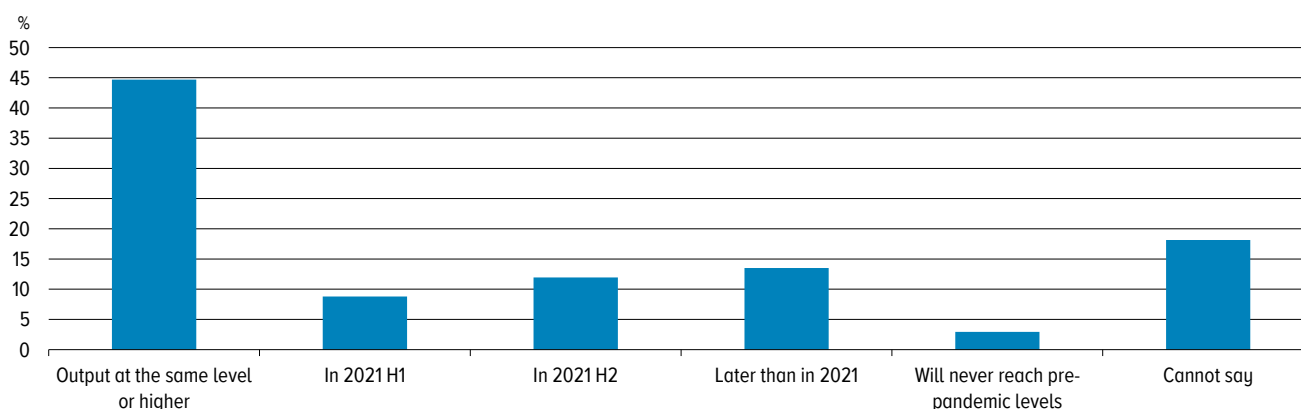


\* In the chart, the growth rate of incoming payments is given relative to the average of the previous quarter (weighted by share of industries in GVA, seasonally adjusted, %).

In April 2020, the Bank of Russia promptly developed an analytical model relying on input-output data coupled with up-to-date information on payments. This model made it possible to estimate the expected recovery path of the Russian economy taking into account pandemic-induced structural shifts and the impact of the slump in hardest-hit industries on business activity in general.

### WHEN WILL YOUR COMPANY RESTORE ITS OUTPUT TO PRE-PANDEMIC LEVELS IT HAD BEFORE RESTRICTIONS?

Chart 6



Note. Based on the findings of the survey conducted on 2 February 2021.

Beginning from 2000, the Bank of Russia's regional branches carry out regular surveys of non-financial companies to collect up-to-date information which is used to analyse and predict inflation and economic development in the country in general and in Russian regions, as well as to analyse non-monetary factors influencing inflation at the regional and sectoral levels. The findings of companies' surveys contain leading estimates of the situation in the economy of Russian regions and enable the Bank of Russia to identify emerging trends and take them into account when making its monetary policy decisions.

The high-frequency surveys launched by the Bank of Russia at the beginning of the lockdown in spring 2020 became a unique source of information to analyse the economic situation at the country-wide and regional levels amid the spread of the coronavirus. The findings of non-financial organisations' monitoring are the basis for the regular report [Regional Economy: Commentaries by Bank of Russia Main Branches](#). It was first released on the Bank of Russia website in December 2020.

## 2. ENSURING STABILITY IN THE FINANCIAL MARKET

### 2.1. ENSURING FINANCIAL STABILITY

#### FASTER EXPANSION OF LENDING TO THE ECONOMY

##### INCREASE IN THE CORPORATE LOAN PORTFOLIO ▲

**9.9 %**

**5.8 (2019)**

##### INCREASE IN THE SMALL BUSINESS LOAN PORTFOLIO ▲

**22.6 % \***

**12.4 (2019)**

\* The growth of the SME loan portfolio, excluding VEB.RF and adjusted for foreign currency revaluation, reached 19.7%.

The pandemic and subsequent uncertainty, disruptions of economic relations, and drastic losses in entire sectors of the global economy induced serious threats to financial stability. In 2020 Q2, forecasts regarding further pandemic spread trends varied. Some experts expected a return to normal life in a few months after the start of the warm season in the Northern hemisphere. Others assumed that the pandemic would persist for 1.5–2 years, requiring tight restrictions over the entire period until the development of a vaccine and mass vaccination.

This uncertainty caused high volatility in almost all markets. In April 2020, Urals oil prices even plummeted to negative territory. The situation normalised somewhat after the signing of the new OPEC+ agreement.

Another feature of last year's situation is the nearly instantaneous spread of crisis developments in the real sector. Restrictions implemented in Russia and worldwide in 2020 Q2 almost completely stopped operation in entire economic sectors, including services, passenger transportation, and others. A large number of companies lost their sources of revenues. The Government of the Russian Federation promptly adopted measures to support the economy. As a result, the economy got through this period more easily, and a critical slump in households' incomes and consumer demand was prevented.

In such a situation, the Bank of Russia set three objectives.

The first one was to maintain financial institutions' stability and make it easier for the financial sector to get through the period of elevated volatility.

The second objective was to restructure loans to individual and corporate borrowers affected by the pandemic. A temporary reduction in debt burden is actually equivalent to additional payments. In a situation of zero revenues and lost sources of income, this measure significantly aided the economy and households.

The third objective was to continue lending. A part of economic sectors were able to continue their operation in the conditions of restrictions, yet needed borrowings to cover their cash gaps. Some sectors had to suspend their operation due to restrictions. Such



shutdowns of businesses for several months required loans for wages and to pay for services, including utilities, etc. The anti-crisis measures implemented by the Bank of Russia and the Government of the Russian Federation did not only prevent a reduction in the portfolio of loans to small and medium-sized enterprises (SMEs), but even helped promote its growth which exceeded the rate of 2019. During this period, other sectors needed resources to expand output due to soaring demand, for instance in the manufacture of sanitisers and face masks.

In this regard, the Bank of Russia implemented the following measures:

- It introduced regulatory relaxations to help banks and other financial institutions more easily get through the acute stage of the crisis. They were allowed to apply fixed exchange rates and fixed values of securities on their balance sheets for regulatory purposes, which mitigated the financial sector's sensitivity to market volatility. For systemically important credit institutions, the Bank of Russia eased the requirements for liquidity coverage ratios and simplified access to irrevocable credit lines.
- Banks were allowed temporarily not to increase their provisions for restructured loans<sup>1</sup> until 1 April 2021, including for both loans restructured according to law<sup>2</sup> and banks' in-house programmes. As a result, banks avoided extra pressure on their capital and were able to restructure loans to a wide range of borrowers without risks to lose their financial stability and capacity to issue new loans.
- The Bank of Russia partially released accumulated macroprudential buffers (capital cushions in the banking sector to be used in the case of crisis developments), which helped banks issue new loans. The Bank of Russia fully released the buffer for mortgage loans in the amount of 126 billion rubles starting in April, and partially released the buffer for unsecured consumer loans in the amount of 168 billion rubles in September.
- As regards retail lending, the Bank of Russia adjusted the regulation so as to enable banks to expand lending to borrowers with low debt-to-income ratios. This provided the opportunity for households to use credit resources for maintaining the level of consumption, on the one hand, and prevented additional risks to social and financial stability, on the other hand. Moreover, targeted social measures implemented by the Government of the Russian Federation aided those households for which new loans amid the pandemic would have been extremely hazardous as that could have drastically deteriorated their financial standing.

<sup>1</sup> To borrowers – non-financial organisations (excluding SMEs) until 1 April 2021, and to borrowers – SMEs and individuals until 1 July 2021.

<sup>2</sup> Federal Law No. 106-FZ, dated 3 April 2020, 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Certain Laws of the Russian Federation With Regard to the Specifics of Changing the Terms of a Loan Agreement'.

## 2.2. REGULATION AND SUPERVISION IN THE FINANCIAL MARKET

### 2.2.1. BANKING SECTOR

<b>CAPITAL ▲</b>	<b>LOAN PORTFOLIO ▲</b>	<b>HOUSEHOLD DEPOSITS ▲</b>
<b>BANKS' CAPITAL CUSHIONS</b>		<b>EXCLUDING ESCROW ACCOUNTS</b>
<b>5.8</b> trillion ₽	<b>64.8</b> trillion ₽	<b>32.8</b> trillion ₽
<b>5.3</b> (2019)	<b>56.7</b> (2019)	<b>30.4</b> (2019)

The Russian banking system has successfully coped with the challenges of 2020 owing to the safety cushions accumulated in recent years and the removal from the market of the banks that were weak players or were involved in dubious transactions. Eventually, Russian banks had sufficient capital cushions to restructure loans to borrowers hit by the pandemic and expand lending. Banks were also supported owing to the temporary regulatory easing, the released macroprudential buffers, and the accelerated switch to the standardised approach to measuring credit risk. As a result of all these measures, banks received over 1 trillion rubles of additional capital, which is equivalent to an increase in their potential for lending by up to 10 trillion rubles.

As of the end of 2020, corporate lending increased by 9.9%,<sup>3</sup> which is significantly more than in 2019 (5.8%). Disbursements peaked in spring when businesses desperately needed financial resources. Project finance in housing construction remained an important driver of the corporate portfolio expansion. This is one of the fastest-growing corporate segments (it expanded 3.5 times over 2020) due to the switch to a new mechanism for financing – bank loans and escrow accounts.

Loans to SMEs were up by 19.7%<sup>4</sup> in 2020 (excluding VEB.RF and adjusted for foreign currency revaluation), totalling 5.8 trillion rubles, and the average interest rate on loans edged down by 2.0–2.3 percentage points. Furthermore, the number of SME borrowers significantly increased (1.7 times) over the year, namely from 275,000 to 465,000. The SME loan portfolio also continued to grow in early 2021.

Retail lending expanded by 13.5% in 2020, compared to 18.6% in 2019. It plummeted in April (-0.7%), mostly in unsecured consumer lending, due to uncertainty at the beginning of the pandemic period. However, this segment recorded elevated growth rates already from July. This was driven by rebounding business activity after the lifting of tight restrictions, the easing of monetary conditions, and the effect of preferential mortgage lending programmes.

<sup>3</sup> Hereinafter, growth rates in the banking sector are given adjusted for foreign currency revaluation for credit institutions operating as of the latest reporting date (including earlier reorganised banks).

<sup>4</sup> The growth of the SME loan portfolio including VEB.RF data and not adjusted for foreign currency revaluation reached 22.6%.

Banks' mortgage loan portfolio expanded by nearly 21%<sup>5</sup> as of the end of 2020, with its overall amount reaching 9.5 trillion rubles (47% of retail loans). Approximately 30% of mortgage loans were granted within government programmes, including the subsidised 6.5% Mortgage Lending programme.

Despite the objective challenges facing banks' borrowers due to the pandemic, the portion of non-performing and bad loans in the corporate portfolio decreased to 9.9% over 2020 (from 11.0%). In unsecured consumer lending, the portion of non-performing loans (overdue for more than 90 days) was up to 8.8% (from 7.5%), which may be considered an admissible rate given the circumstances, while in mortgage lending this percentage remained unchanged – below 1.5%. Non-performing loans do not pose any significant risk as they are reliably covered by loss provisions: corporate loans – by 75%, and retail loans – by 88% (or by 98% and 111%, respectively, if all provisions for the portfolios are taken into account).

Loan restructuring is a key channel of support provided by the banking system to households and businesses during the pandemic. Beginning from the end of March 2020, the overall amount of loans restructured due to the pandemic approximated 7.2 trillion rubles (11% of banks' total loan portfolio). Restructured loans do not create any systemic risk for banks. Taking into account the already formed provisions for these loans, additional provisioning may reach 1.4 trillion rubles (in total, about 2% of the overall loan portfolio with current profitability and the capital cushion of 5.8 trillion rubles).

Even despite decreasing interest rates in the economy last year, banks had no difficulties with funding. The overall inflow of funds in accounts was higher than in 2019. However, the growth of household deposits (excluding escrow accounts) slowed down (to 4.2% in 2020, from 9.7% in 2019). This was associated with outflows in spring after the introduction of restrictions, as well as the rising demand for investment alternatives. Contrastingly, legal entities' funds surged, namely by 16% (vs 7% in 2019). Escrow accounts reflecting households' investment in real estate increased by more than one trillion rubles over 2020 amid the active sales of housing under construction, partly supported by mortgage lending.

In 2020, the banking sector's profit totalled 1.6 trillion rubles (return on capital – 16% in annualised terms), which is 6% less than in 2019.

The measures promptly taken by the Bank of Russia to adjust the regulation were primarily aimed at mitigating the aftermath of the pandemic for banks and their borrowers.

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<sup>5</sup> The figures are adjusted for securitised loans.



Specifically, the Bank of Russia temporarily allowed credit institutions not to increase loss provisions for restructured loans<sup>6</sup> so as to encourage banks to make concessions to their borrowers facing hardships.

The Bank of Russia reduced the rate of insurance premiums to the compulsory deposit insurance fund<sup>7</sup> and eased the approach to the criteria for paying insurance premiums at higher additional rates.<sup>8</sup> This enabled banks to save funds, as a result of which they were able to expand lending to the real sector of the economy.

As early as March 2020, the regulator promptly made the decision to ease the procedure for complying with the liquidity coverage ratio and to expand opportunities for receiving Bank of Russia irrevocable credit lines.

In addition, the Bank of Russia released a part of the macroprudential buffers, which helped banks create additional provisions.

These and some other measures timely implemented by the Bank of Russia made it possible not only to overcome the existing economic problems as painlessly as possible, but also to support the development of the banking system.

The Bank of Russia also continued to enhance the banking regulation in order to adjust risk evaluation more accurately. The Bank of Russia implemented a new standardised approach to measuring credit risk for corporate borrowers, mortgage loans, and such top-priority areas as SME lending and project finance. Moreover, the regulator lowered the loss provisioning requirements for SME loans secured by JSC RSMB Corporation. These decisions made it possible to release capital and promote the development of these lending segments owing to the lower risk ratios applied and reduced provisioning.

The regulator also approved new operational risk management standards that will enable a more accurate calculation of capital requirements depending on the amount of losses induced by operational risk events.

As regards banking supervision, the Bank of Russia introduced temporary measures decreasing supervisory burden for credit institutions. At the acute stage of the crisis, the regulator suspended inspections, reduced the number of regulatory enquiries as much as possible or considerably extended the deadlines for submitting replies, and increased the periods for compiling prudential regulatory reports and submitting them to the Bank of Russia.

The Bank of Russia was continuously monitoring the situation in banks based on their internal data and management statements, as well as by

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<sup>6</sup> For loan loss provisioning purposes, credit institutions were allowed to make decisions not to decrease their assessments of borrowers' financial standing, the quality of debt servicing and/or the quality categories of loans, other assets and contingent credit liabilities, the specifics of the realisation of which depend on borrowers' activity areas and the parameters of the programmes used by banks to restructure loans. They are effective until 1 April 2021 for borrowers – non-financial organisations (excluding SMEs), and until 1 July 2021 for borrowers – SMEs and individuals.

<sup>7</sup> The new level of the rates became effective in 2020 Q3 and was also extended to Q1 and Q2.

<sup>8</sup> Banks will pay insurance premiums at the higher additional rate if they have a doubtful or unsatisfactory score of their risk management system (PU4) and/or indicator of the state of internal controls (PU5) as of the assessment date for two consecutive reporting quarters (instead of one quarter as was established before).

analysing news, information from credit institutions' websites, and clients' complaints about banks' work.

The regulator continued to further develop the practice of advisory supervision to prevent negative trends and developments in credit institutions' operations. A particular focus was placed on the process of banks' adaptation to the pandemic's impact on their activities.

Furthermore, the findings of the supervisory stress tests carried out by the Bank of Russia in largest banks (accounting for over 80% in assets) showed that the sector had a sufficiently high stress resistance, although indicators slightly varied across banks.

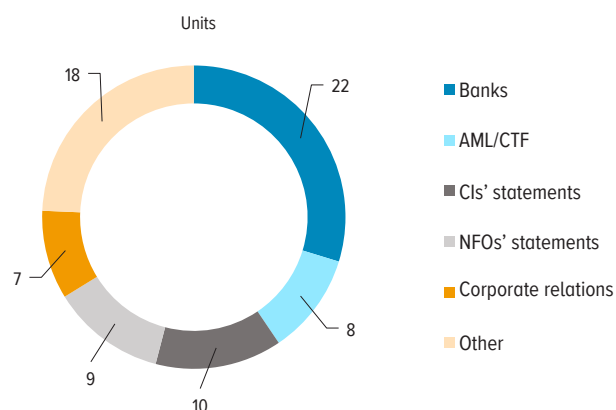
### THE BANK OF RUSSIA'S EFFORTS TO STREAMLINE REGULATORY BURDEN

In 2020, the Bank of Russia supported 142 initiatives suggested by market participants. The regulator has already implemented 74 initiatives. This work is planned to continue until the end of 2021. In particular, the regulator has eliminated collisions and excessive requirements in banking regulation, and reduced administrative burden. The Bank of Russia approved suggestions aimed at streamlining banks' and non-bank financial institutions' reporting and at simplifying the disclosure of information by issuers. Some of the approved initiatives are related to the procedure for admission to the financial market, the work of professional securities market participants, insurance companies and microfinance organisations, as well as anti-money laundering and counter-terrorism financing (AML/CTF).

According to expert assessments by the Not-for-profit Fund Forum Analytical Center prepared jointly with market participants, the economic effect of the 22 implemented initiatives exceeded 13 billion rubles a year.

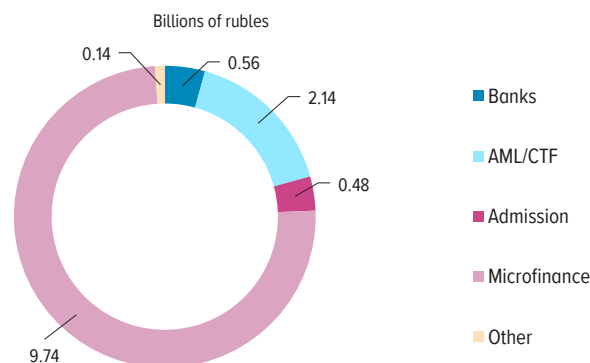
AS OF LATE 2020, THE BANK OF RUSSIA  
IMPLEMENTED 74 INITIATIVES

Chart 7



THE ECONOMIC EFFECT OF THE IMPLEMENTED  
INITIATIVES WAS MOST SIGNIFICANT FOR  
MICROFINANCE MARKET PARTICIPANTS

Chart 8



## 2.2.2. INSURANCE

INSURANCE PREMIUMS ▲	PAYMENTS ▲	NUMBER OF AGREEMENTS ▼
1,538.7 billion ₽ 1,481.2 (2019)	658.5 billion ₽ 610.9 (2019)	175.1 million 208.1 (2019)

A key event in the insurance market in 2020 was the customisation of rates in compulsory motor third party liability insurance (OSAGO). Owing to the law<sup>9</sup> approved at the Bank of Russia's initiative, insurers started to determine the price of an insurance policy depending on the factors characterising a particular driver. With this approach, insurers may set lower rates for accurate drivers and higher rates for those whose driving involves risks and violates road rules. As a result, the average OSAGO premium for individuals' cars decreased over September–December, as compared to August.

In 2020, the Bank of Russia drafted proposals on enhancing the legislation providing for the establishment of a guarantee system in the life insurance market. It will help protect life insurance policyholders' investments and increase confidence in the institute intended for the formation of long-term savings through insurance companies. The concept of the system implies that it will guarantee the monetary rights of the clients of an insurer if its licence is revoked in the amount of up to 1.4 million rubles (if an insured person dies – in the amount of up to 10 million rubles).

Moreover, the Bank of Russia continued to take efforts aimed at enhancing insurers' reliability. The Bank of Russia issued a regulation that establishes new approaches to assessing insurers' financial stability and solvency and a method for calculating their equity and takes into account the risk of changes in the asset value when the capital adequacy ratio is determined.

The Bank of Russia published the framework of new requirements for calculating insurance reserves, which will enable a more accurate calculation of insurance obligations and, accordingly, a more precise assessment of insurers' financial stability.

A major milestone for the sector was the federal law<sup>10</sup> approved in 2020 which strengthens the Bank of Russia's powers of supervision over insurers, including to prevent funds withdrawals from companies with appointed provisional administrations.

During the period of the pandemic, the Bank of Russia implemented measures to support individuals – clients of insurance companies. Specifically, it was allowed to purchase OSAGO policies from 1 March through 30 September without diagnostic certificates or technical

<sup>9</sup> Federal Law No. 161-FZ, dated 25 May 2020, 'On Amending the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners' and on Suspending Certain Provisions of the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners'.

<sup>10</sup> Federal Law No. 442-FZ, dated 22 December 2020, 'On Amending Certain Laws of the Russian Federation to Provide for Interim Measures Protecting Insurance Agents' Assets for the Fulfilment of their Obligations'.

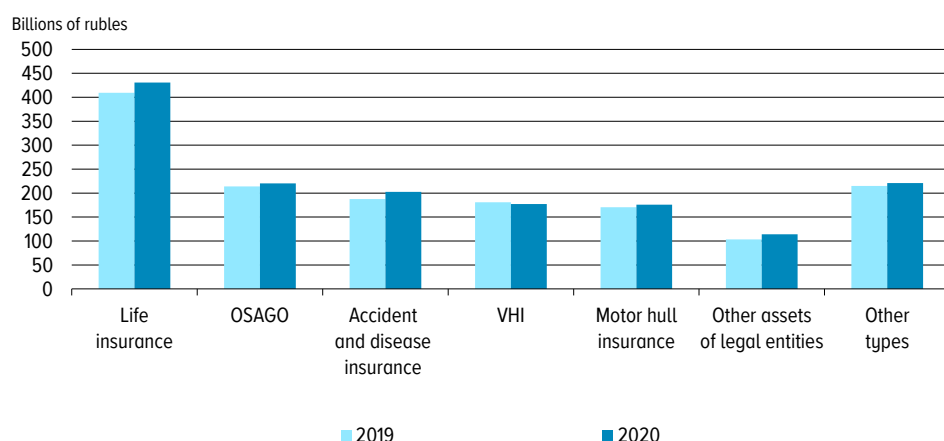
inspection certificates (provided these documents were later on submitted to the insurer). The regulator also recommended that until the end of 2020 insurers should approve clients' applications for extending periods for the settlement of insured events and grant them payment deferrals under voluntary insurance agreements without charging penalties and forfeits for improper performance of such agreements during the period of insured persons' temporary incapacity for work. In addition, the Bank of Russia approved supervisory easing to alleviate the adverse impact of the pandemic on insurers.

In 2020, the Bank of Russia continued to analyse the market of investment life insurance (ILI) and endowment life insurance (ELI). These insurance products are in great demand. However, when insurers sell them, they often delude consumers about the specifics and main parameters of the policies offered (misselling). Beginning from 2020 Q3, the monitoring of ILI and ELI has been carried out on a monthly basis. According to this analysis, the ILI market is contracting, while the ELI market is growing: over 2020, payments totalled 189 billion rubles (-6% vs 2019) and 137 billion rubles (+25% vs 2019), respectively. Average returns on ILI policies that expired during 2020 reached 4.6% and 3.2% p.a. for three- and five-year policies, respectively.

The Bank of Russia plans to adjust the regulation of the investment component in ILI similarly to structured products, including in order to avoid arbitration. To this end, it is necessary to adopt legislative decisions establishing restrictions on selling ILI products to inexperienced investors that would be equivalent to the requirements applied to structured products. Furthermore, the Bank of Russia plans to stipulate additional requirements for disclosing information on returns on ILI and ELI policies and for risks that must be covered by insurance.

Despite the pandemic, insurance remained a profitable segment of the financial market. Over 2020, its net profit totalled 201.3 billion rubles and insurance premiums were up 3.9% (1,538.7 billion rubles) compared to 2019.

THE AMOUNT OF INSURANCE PREMIUMS WAS 3.9% UP OVER 2020, WITH ALMOST ALL MAIN INSURANCE TYPES DEMONSTRATING GROWTH *Chart 9*



### 2.2.3. NON-GOVERNMENTAL PENSION FUNDS AND INVESTMENT FUNDS

NPF PENSION SAVINGS ▲	NPF PENSION RESERVES ▲	NPF CAPITAL AND RESERVES ▲	APPLICATIONS FOR UNSCHEDULED REPLACEMENT OF INSURERS IN MPI ▼
<b>2,973</b> billion ₺	<b>1,493</b> billion ₺	<b>479</b> billion ₺	<b>113,000</b>
2,854 (2019)	1,414 (2019)	461 (2019)	260,000 (2019)

Over the period of the pandemic, the portfolios non-governmental pension funds (NPFs) remained stable even in Q1 when stock markets were suffering the most drastic decline. As of the end of 2020, NPFs' weighted average returns exceeded inflation, equalling 7.2% and 5.8% on pension savings and pension reserves, respectively.

The Bank of Russia continues to monitor how NPFs invest pension resources. They shall be invested on the best possible terms. In 2020 Q3, the regulator approved the methodology for controlling NPFs' equity transactions in addition to the earlier implemented methodology for evaluating transactions with bonds and deposits. Over the year, the regulator detected a small number of transactions concluded by NPFs with breaches of their fiduciary duty. Based on the results of supervisory work, all NPFs agreed with the Bank of Russia's arguments and transferred voluntary compensations to pension resources for the damage.

The problem of the unscheduled replacements of insurers by individuals in the system of mandatory pension insurance (MPI) started to become less acute in 2020. There was a steady downward trend in such replacements, and violations of NPF clients' rights were less frequent. According to the Pension Fund of Russia (PFR), individuals submitted 113,000 applications for the unscheduled replacement of MPI companies in 2020, which is twice as less as in 2019 and 44 times less than in 2017.

In 2020, the Bank of Russia drafted proposals on enhancing the legislation providing for the establishment of a system that would guarantee NPF clients' rights. This will better protect NPF clients' rights, boost confidence in the industry, and encourage people to increase their future welfare using non-government pensions.

In addition, the Bank of Russia continued efforts to implement the NPF resolution procedure. Eventually, the State Duma adopted the relevant law in 2021. The Bank of Russia is now enabled to apply the mechanism for financial resolution in order to prevent NPF bankruptcy.

As amendments to the legislation were approved in 2020 replacing the registration of the trust management rules of unit investment funds (UIFs) for qualified investors by the Bank of Russia for the coordination of these rules with specialised depositories, this helped reduce regulatory burden and promoted the development of the collective investment market. Furthermore, the regulator prepared the requirements for such rules that replaced their standard form beginning on 1 February 2021. In addition, the Bank of Russia implemented the requirements for identifying

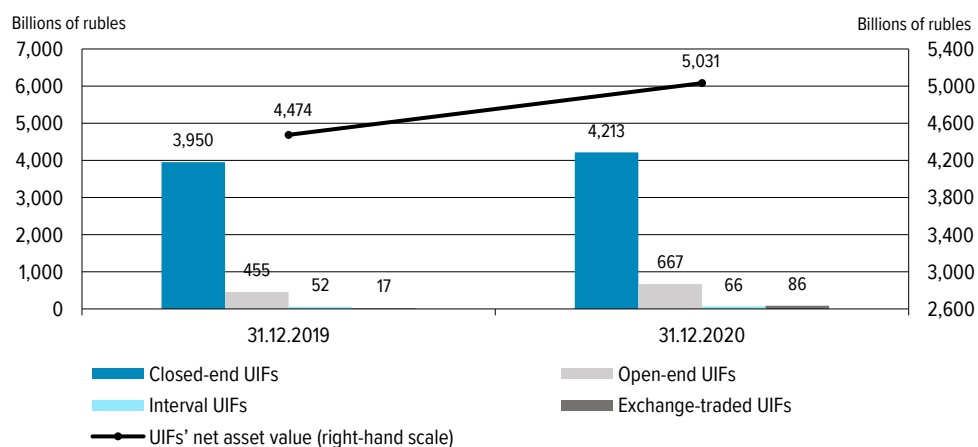


and managing a conflict of interest between management companies and specialised depositories.

In order to mitigate the aftermath of the pandemic, the Bank of Russia introduced temporary regulatory and supervisory easing for management companies and NPFs.

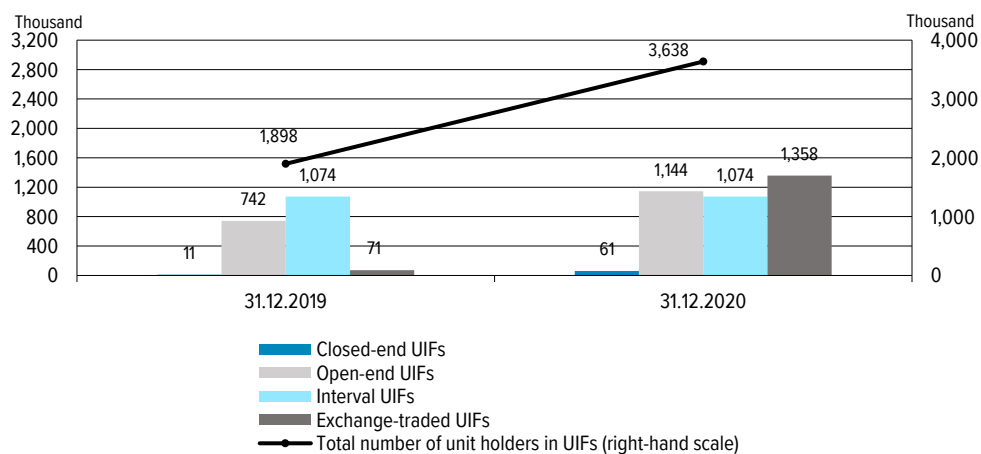
#### UIFS' NET ASSET VALUE EXCEEDED 5 TRILLION RUBLES

Chart 10



#### IN 2020, RETAIL INVESTORS DEMONSTRATED ELEVATED INTEREST IN THE UIF MARKET

Chart 11



## 2.2.4. SECURITIES MARKET

BROKERAGE		TRUST MANAGEMENT	
CLIENTS ▲	CLIENT ASSETS ▲	CLIENTS ▲	AMOUNT OF PORTFOLIOS ▲
<b>9.9 million</b> 4.3 (2019)	<b>14,301 billion ₺</b> 11,337 (2019)	<b>562,000</b> 341,000 (2019)	<b>1,532 billion ₺</b> 1,149 (2019)

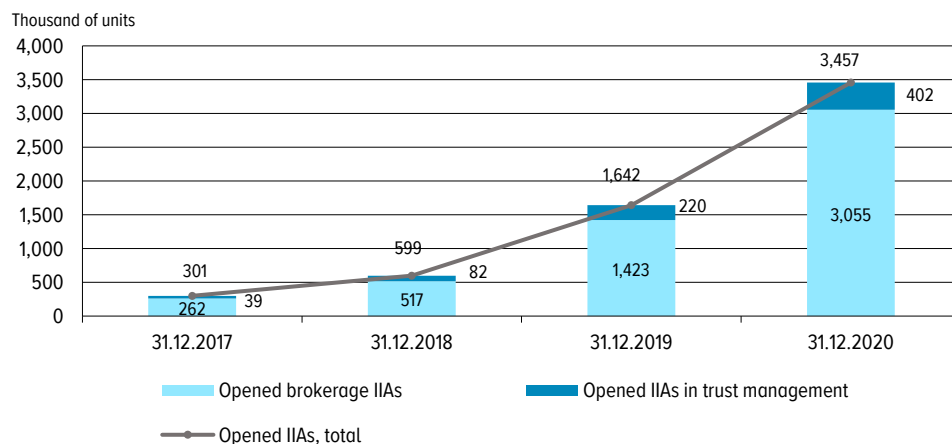
In 2020, individuals increased their demand for investment alternatives amid declining deposit rates. The number of retail investors surged more than twofold, to exceed 10 million by the end of the year. Given the significant inflow of individuals to the stock market, the Bank of Russia focused on the protection of non-qualified investors' rights, namely the procedure for selling complex investment products to newcomers. Over the year, the Bank of Russia carried out the assessment of structured products and their inherent risks. In December 2020, the Bank of Russia recommended that market participants should not sell complex products to inexperienced investors due to high investment risk.

In order to enhance the financial stability of market participants, the Bank of Russia adopted a range of regulations. The Bank of Russia established the requirements for the internal control system of professional securities market participants, with the largest number of requirements introduced for large companies. In addition, the Bank of Russia set the mandatory liquidity coverage ratio for brokers using client assets for their own benefit. Beginning on 1 October 2021, they will be obliged to hold an amount of high-quality liquid assets that would be sufficient for them to continue operations in the case of a significant outflow of funds.

In December 2020, the Bank of Russia approved a new version of the Basic Standard for Brokers' Operations in the Financial Market. It stipulates the exact procedure how a broker shall inform a client about any additional characteristics of a transaction prior to its conclusion.

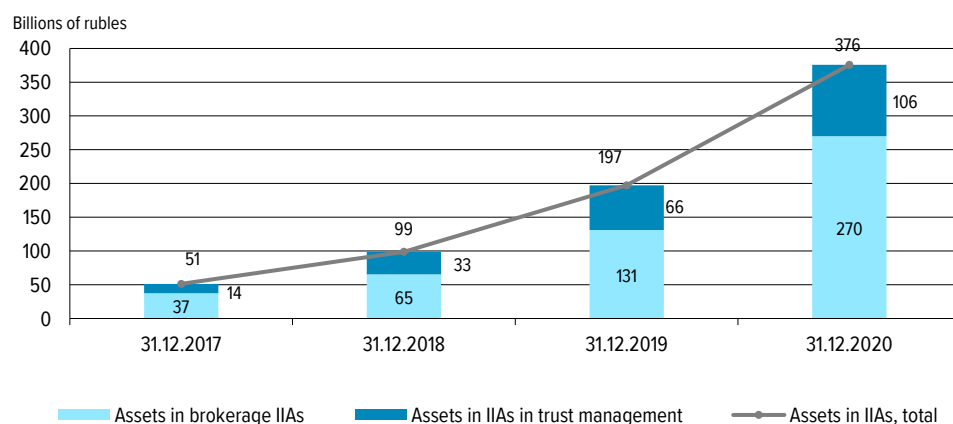
THE NUMBER OF OPENED INDIVIDUAL INVESTMENT ACCOUNTS (IIAS)  
MORE THAN DOUBLED VS 2019

Chart 12



### IN 2020, THE GROWTH RATE OF ASSETS IN INDIVIDUAL INVESTMENT ACCOUNTS (IIAS) WAS RECORD HIGH

Chart 13



### 2.2.5. MICROFINANCE

PORTFOLIO OF LOANS TO MFI* ▲	SME LOANS IN MFI PORTFOLIO ▲	VOLUME OF ISSUED MFI LOANS OVER YEAR ▼
352 billion ₺ 318 (2019)	77 billion ₺ 55 (2019)	711 billion ₺ 722 (2019)

\* Microfinance institutions comprise the following: MFOs – microfinance organisations (MFCs – microfinance companies, MCCs – microcredit companies); CCCs – consumer credit cooperatives; ACCCs – agricultural consumer credit cooperatives; and pawnshops.

In 2020, the authorities approved federal laws that legally stipulated important changes in the microfinance market, such as the differentiation of powers to supervise microfinance market participants' activity depending on their typical risks. According to the new laws, self-regulatory organisations (SROs) received expanded powers to collect reporting and exercise control over microcredit companies (MCCs), small consumer credit cooperatives (CCCs), and agricultural consumer credit cooperatives (ACCCs) if their members and associated members number less than 3,000. The laws also improve the principles for the association of members (unit holders) into a CCC.<sup>11</sup> As regards ACCCs with members numbering less than 200 and ACCCs of the next level, they are no longer obliged to comply with a range of financial ratios. Legislative work in the segment of consumer credit cooperation will be continued.

Changes were most significant in the market of pawnshops. Pawnshops shall now pass a special procedure to be admitted to the financial market. The regulator established the procedure for maintaining the state register of pawnshops and set the fee for entering data on a legal entity into the register, as well as the form and procedure for a pawnshop to submit an application for removing its data from the register.

<sup>11</sup> Federal Law No. 196-FZ, dated 13 July 2020, 'On Amending Certain Laws of the Russian Federation'.

Over 2020, based on the findings of supervisory measures, the Bank of Russia issued 2,017 orders to MFOs, CCCs, ACCCs, housing savings cooperatives (HSCs), and pawnshops to eliminate violations of Russian laws and 121 orders to limit (prohibit) the raising of funds, the acceptance of new members, the disbursement of loans, and other transactions. In addition, the regulator initiated 17 administrative offence cases against MFCs, large CCCs, and their officials.

In 2020, the Bank of Russia continued the work aimed at striking off the state register of MFOs organisations breaching the laws of the Russian Federation, violating financial consumers' rights, and failing to comply with the requirements for financial stability and reliability and to join the self-regulatory organisations of MFOs, as well as those that had issued no microloans over the year. 185 organisations terminated their activity due to their repeated violations of the laws of the Russian Federation, and 353 companies ended their activity voluntarily losing the MFO status based on their own applications.

## 2.2.6. FINANCIAL MARKET INFRASTRUCTURE

ASSETS HELD IN CENTRAL DEPOSITORIES ▲	SHARES TRADING VOLUME ▲	CREDIT HISTORIES IN CCCH ▲
<b>67.6</b> trillion ₽ 55.5 (2019)	<b>36.3</b> trillion ₽ 13.5 (2019)	<b>361.6</b> million 341.8 (2019)

In 2020, the reform of the regulation of the central counterparty (CCP) institute initiated by the Bank of Russia in 2015 was accomplished. The key objective of CCPs is to ensure stability in the financial market and its smooth operation. As of 1 January 2021, the CCP status was granted to three organisations.

As the new laws<sup>12</sup> became effective, the Bank of Russia started to build the system of control over new financial market participants – financial and investment platform operators. Currently, the register lists three financial platforms and 35 investment platforms predominantly offering crowdlending. In 2020, the authorities also introduced the regulation<sup>13</sup> of the operators of information systems, where digital financial assets are issued, and digital financial asset exchange operators.

Credit rating agencies were expanding the range of additional services, including by offering the assessment of financial instruments for compliance with the criteria for financing 'green' projects and assigning ESG ratings. The numbers of credit ratings and methodologies were up: 1,527 credit ratings were assigned, and 63 methodologies are currently used.

<sup>12</sup> Federal Law No. 211-FZ, dated 20 July 2020, 'On Performing Financial Transactions Using a Financial Platform'; Federal Law No. 259-FZ, dated 2 August 2019, 'On Investment Raising Using Investment Platforms and on Amending Certain Laws of the Russian Federation'.

<sup>13</sup> Federal Law No. 259-FZ, dated 31 July 2020, 'On Digital Financial Assets, Digital Currency, and on Amending Certain Laws of the Russian Federation'.

The exchange infrastructure ensured the smooth operation of the stock market amid the soaring demand from private investors and increasing transaction amounts. Accounting infrastructures were able to deploy new electronic frameworks enabling the remote provision of services. Owing to the inflow of investors and the launch of online platforms, depositories expanded their client bases and the numbers of operations performed, despite anti-pandemic restrictions.

In the reporting year, projects were implemented that were aimed at advancing the delivery infrastructure of the commodity exchange market. These are the start of trading in wheat futures necessary to form a universal benchmark grain price and the launch of commercial balancing of gas flows improving the quality of their accounting and ensuring the proper performance of exchange contracts.

With the participation of the Bank of Russia, the authorities approved amendments to the Federal Law 'On Credit Histories'.<sup>14</sup> The amendments provide for establishing the institute of qualified credit history bureaus (CHBs) that will supply data to creditors almost in real time to calculate borrowers' debt-to-income ratios. In addition, all CHBs<sup>15</sup> will assign personal ratings to individuals for the latter to understand their creditworthiness. The law also expands the Bank of Russia's supervisory authority in relation to CHBs.

As fraudsters became more active, the project for assigning verification marks was implemented in 2020 in the Yandex search engine: they confirm that particular organisations are on the regulator's register. The Bank of Russia's Central Catalogue of Credit Histories continued to increase the number of the title parts of credit histories which totalled 361.6 million as of 1 January 2021.

## 2.3. FINANCIAL INSTITUTIONS' RESOLUTION

The Bank of Russia continued its efforts to prevent financial institutions' bankruptcy and prepare for divestment from banks taken on for financial resolution. As a result of this work, the Bank of Russia:

- Prepared and started to implement the plan for selling PJSC Moscow Industrial bank's shares.
- Completed the pre-sale preparation of JSC Asian-Pacific Bank and started the public procedure for collecting investors' bids.
- Determined the framework of the strategy for divestment from the banking group Bank Otkritie Financial Corporation. The regulator engaged investment consultants who will help sell the banks. It started preparations for selling a part of the banking group's equity in 2022.

The Bank of non-core assets (National Bank TRUST) earned approximately 90 billion rubles in 2020 as a result of selling troubled assets.

The Bank of Russia continued the work aimed at recovering losses caused by wrongful acts (omissions) committed by officials controlling

<sup>14</sup> Federal Law No. 302-FZ, dated 31 July 2020, 'On Amending the Federal Law 'On Credit Histories' with Regard to Modernising the System of Credit History Formation'.

<sup>15</sup> Qualified CHBs – since 1 January 2022, CHBs that are not qualified – since 1 January 2024.



credit institutions under financial resolution. Based on the results of legal proceedings, positive court judgements on claims prevailed in 2020.

An important event for the residents and legal entities of the Republic of Crimea and Sevastopol was the prevention of SM BANK Joint- Stock Company's bankruptcy. In order to enhance the efficiency of the financial resolution process, four banks were reorganised. The resolution of these banks is carried out with the engagement of the Deposit Insurance Agency.

## **2.4. ADMISSION OF ORGANISATIONS AND INSTRUMENTS TO THE FINANCIAL MARKET**

The Bank of Russia made it simpler for financial consumers, investors, and the general public to access information on financial institutions' ownership structures. The regulator established a new procedure for the disclosure of this information on the Internet by microfinance and insurance organisations and management companies.

In 2020, the Bank of Russia permitted the admission to the financial market of new agents – investment platform operators and foreign payment system operators. As a result, three financial platform operators, one foreign payment system operator, and 20 investment platform operators entered the market.

The regulator carried out work in such important areas as the development of new approaches to harmonising the requirements and procedure for the admission to various types of financial activity, including by way of notification in compliance with the established requirements, as well as the creation of the single register of financial market participants. The new initiatives will help reduce burden on market participants upon their entrance to the market, provided they submit all information needed for this register to the Bank of Russia, as well as make it simpler to find data on financial market participants and check them for the legitimacy of their operations. The regulator presented its proposals in the consultation paper *Improving Financial Market Access Procedure. New Opportunities for Market Participants* released in 2020. In order to develop a competitive environment in the consumer lending market, enhance the transparency in the pawnshop industry, and protect consumers' interests, the regulator implemented a new procedure for pawnshops, whether newly created or operating, to enter the financial market.

In 2020, the Bank of Russia made an important step towards digitalisation of its interaction with market agents by launching the electronic registration of securities issues and securities prospectuses. The electronic submission of documents via companies' online accounts significantly simplifies the process, reduces issuers' costs, and improves the procedure for considering and storing the documents at the Bank of Russia.

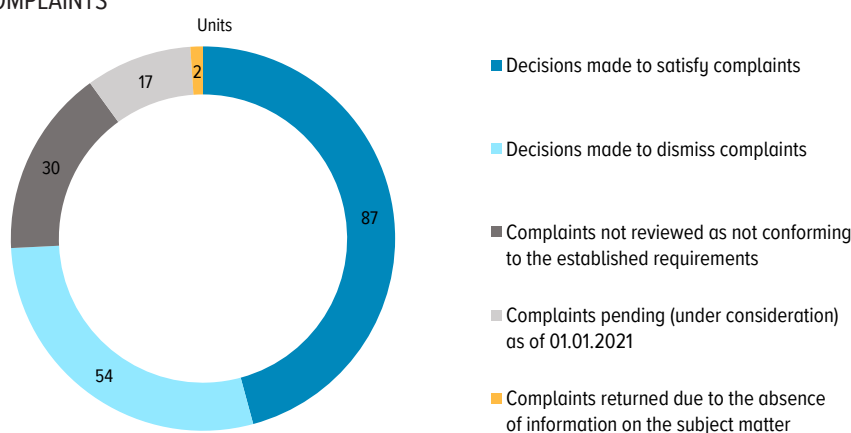
In 2020, the opportunities for establishing a joint-stock company fast and simply were expanded. Now, founders should only apply to

a registrar<sup>16</sup> that will record the issue of shares upon incorporation and submit the documents to the Federal Tax Service of Russia for the registration of a new joint-stock company. This procedure was used to register over 95% of the primary equity issues of joint-stock companies established in 2020. This is evidence that the new rules were implemented timely and are highly requested.

The Bank of Russia Commission continued to review complaints about the regulator's decisions on entities' non-compliance with qualification and/or business reputation requirements. In 2020, the Commission settled 87 complaints and dismissed 54 complaints.

IN 2020, THE BANK OF RUSSIA'S COMMISSION SATISFIED 87 COMPLAINTS

Chart 14



## 2.5. TERMINATION OF FINANCIAL INSTITUTIONS' ACTIVITIES

The Bank of Russia's main objective in the process of control over the termination of financial institutions' activities is to protect creditors' interests. Hence, the Bank of Russia controls, among other things, the activity of financial institutions' receivers (liquidators) checking them for compliance with laws and regulations of the Russian Federation.

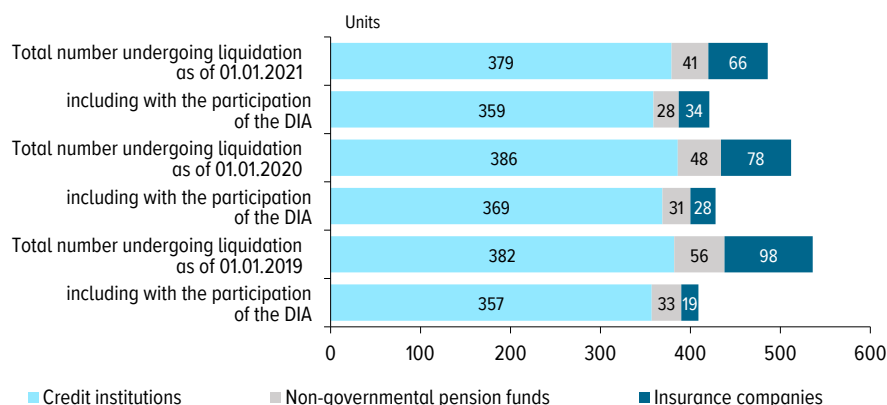
As of 1 January 2021, the Bank of Russia controlled the winding-up of 486 financial institutions (credit institutions, insurance companies, and NPFs), including 421 companies (86.6%) where the functions of the receiver (liquidator) were assigned to the Deposit Insurance Agency.

By the beginning of 2021, the number of credit institutions and NPFs undergoing liquidation decreased for the first time since 2014. Liquidation proceedings were completed in relation to 455 credit institutions whose banking licences had been revoked (cancelled) since 2004, when the institute of corporate liquidators was established. The average percentage of the satisfied claims of their creditors equals 42.9%, including of first-priority creditors – 62.0%.

<sup>16</sup> A professional securities market participant keeping a register of securities holders.

## AS OF EARLY 2021, 486 INSTITUTIONS WERE UNDERGOING LIQUIDATION

Chart 15



## 2.6. COUNTERING MISCONDUCT IN THE FINANCIAL MARKET

The Bank of Russia's top-priority objectives are to promote the steady development of the financial market and protect the competitive environment and financial consumers' interests. Therefore, the regulator focuses on countering misconduct in the market and detects companies providing financial services illegitimately. This work is carried out on a continuous basis.

In 2020, following the inspections performed, the Bank of Russia established eight facts of market manipulation in on-exchange trading. To cease and desist from such actions in the future, the regulator sent 49 orders to trading participants and cancelled four licences of financial market participants and seven qualification certificates of financial market specialists.

The Bank of Russia's Situation Centre for Monitoring Exchange-trading Markets was carrying out real-time monitoring of activity and events in the national and foreign markets. This monitoring enables the regulator to promptly respond to possible shocks and take actions to mitigate risks for the domestic financial market. In 2020, the Bank of Russia developed a methodology and proposed a mechanism making it possible to restrict the maximum admissible price change in on-exchange trading due to an aggressive execution of one order. This helps minimise abnormal volatility spikes in the course of trading, protect private investors against accidental losses, and enhance the integrity of the market. Following the discussion with market participants, such mechanism was implemented on the Moscow Exchange.

A particular focus was also put on the development of the professional ethics of financial market specialists and the implementation of ethical standards and best practices.

The Bank of Russia announced its commitment to the principles of the FX Global Code in order to form a stable, liquid, open and transparent foreign exchange market in the Russian Federation.

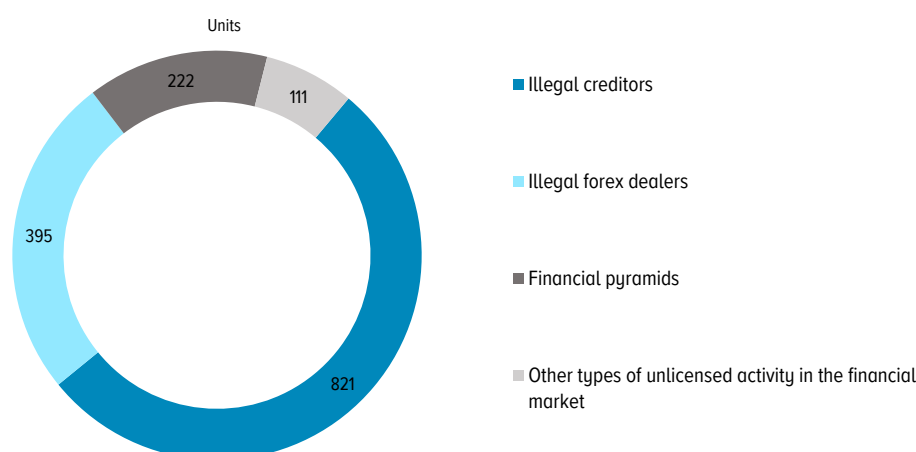
The regulator was taking efforts to combat illegally provided services in the financial market and financial pyramids. Based on the results of the review of people's enquiries and owing to its own monitoring system,

in 2020 the Bank of Russia detected 1,549 entities that had signs of illegal operations or financial pyramids. To suppress the operation of such entities and block their websites, the Bank of Russia forwarded relevant information to the Prosecutor General's Office, law enforcement agencies, the Federal Tax Service of Russia, the Federal Antimonopoly Service of Russia, the Federal Service for Supervision of Communications, Information Technology and Mass Media (Roskomnadzor), and domain name registrars.

Having reviewed the Bank of Russia's requests, in 2020 the competent authorities took 2,340 enforcement actions in relation to the entities involved in illegal operations in the financial market. The efficiency of the work in this area will improve further owing to the efforts of the Interagency Working Group for Combating Illegal Financial Transactions established by the Prosecutor General's Office with the engagement of the Bank of Russia.

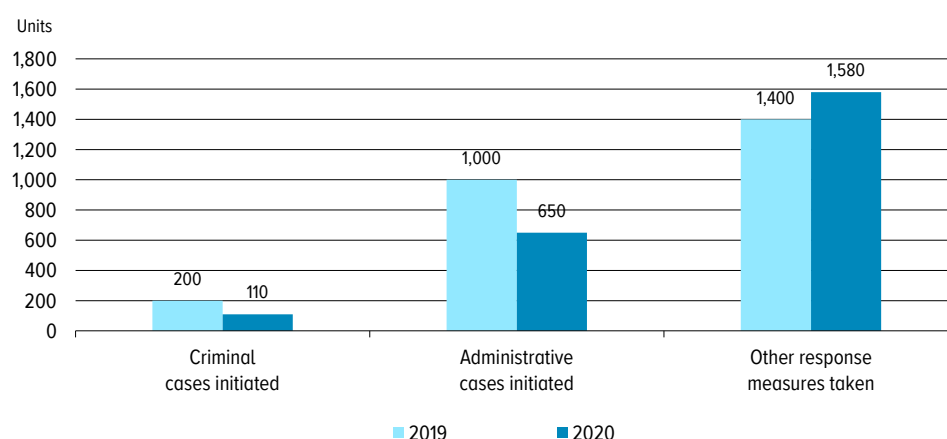
IN 2020, THE BANK OF RUSSIA DETECTED 1,549 ENTITIES THAT HAD SIGNS OF ILLEGAL ACTIVITY AND FINANCIAL PYRAMIDS

Chart 16



2,340 ENFORCEMENT ACTIONS WERE TAKEN FOLLOWING THE REVIEW OF THE BANK OF RUSSIA'S ENQUIRIES

Chart 17



## 2.7. ANTI-MONEY LAUNDERING AND FOREIGN EXCHANGE CONTROL

### DYNAMICS OF DUBIOUS TRANSACTIONS

MONEY WITHDRAWALS ABROAD ▼	CASH-OUTS ▼	TRANSIT OPERATIONS ▼
<b>52</b> billion ₽ 66 (2019)	<b>78</b> billion ₽ 111 (2019)	<b>0.6</b> trillion ₽ 0.7 (2019)

As the Government was taking unprecedented fiscal measures to support the economy during the pandemic, a special focus was put on preventing shady withdrawals of the funds of the fiscal system and public corporations. The regulator continued its consistent work to further reduce the amounts of dubious transactions in the banking sector and cash-outs in other economic sectors, including trade, services, and payment systems.

As a result, compared to 2019, the amount of money withdrawals abroad for dubious reasons decreased by 21% (from 66 to 52 billion rubles), cash-outs in the banking sector – by 29% (from 111 to 78 billion rubles), and dubious transit operations – by 17% (from 0.7 to 0.6 trillion rubles).

Furthermore, the Bank of Russia was taking measures to reduce excessive burden related to compliance with the AML/CTF requirements – for financial institutions, and to mitigate risks of refusals to carry out transactions or open an account – for banks' bona fide clients. Respective amendments were introduced to Federal Law No. 115-FZ, dated 7 August 2001, 'On Counteracting the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'. An important innovation was the modernisation of the institute of notification by financial institutions of the Federal Financial Monitoring Service (Rosfinmonitoring) about transactions subject to mandatory control. The obligation to identify such transactions is distributed among them depending on the nature and specifics of their activities. The reasons why banks may refuse a client to conduct transactions were also clarified. This will help avoid situations where banks refuse clients just to be on the safe side.

In addition, the Bank of Russia updated the list of signs of dubious transactions, reducing their number by 20%. This will optimise the burden for credit institutions and decrease the number of unreasonable refusals.

At the end of last year, a draft law was submitted to the State Duma that provides for the development of the Know Your Customer (KYC) platform. This centralised information service will enable banks to measure a client's risk level more quickly and efficiently and will simultaneously reduce the burden on bona fide entrepreneurs, first of all small businesses, owing to a decrease in the number of repeating requests from credit institutions and preventive restrictions for technical reasons. If the law is adopted during the spring session of 2021, the



prototype of the platform is expected to be created as early as the end of the year.

Significant changes were introduced to foreign exchange laws which need to be further liberalised so as to support and promote the development of Russian exports. Foreign trade participants are now allowed in certain cases not to credit their foreign currency revenues into their accounts with authorised banks, but to use the mechanism for offsetting mutual claims. The approach to imposing sanctions for violating foreign exchange laws was eased. With the engagement of the Bank of Russia, the authorities approved amendments to laws providing for the establishment of the information system Single Point of Contact in foreign trade. This system will simplify the communication between market participants and controlling agencies and eliminate the need to submit the same confirming documents and information to both agents and foreign exchange control authorities.

## 2.8. DEVELOPMENT OF COMPETITION IN THE FINANCIAL MARKET

The pandemic fuelled a surge in the demand for remote financial services and intensified the trend for the integration of all possible services on a single platform. This did not only further boost the advancement of financial technologies, but also strengthened the market power of major market participants boasting cutting-edge technology infrastructure and accelerated their migration to new business models (ecosystems).

The specifics of Russia are that ecosystems are developed on the basis of credit institutions, due to which the search for the best regulation is the objective of the Central Bank. Ecosystem-related risks go beyond the financial sector. It is necessary to find a balance between the development of ecosystems, competition between them and niche financial players, and – globally – competition between Russian and foreign ecosystems.

Over the year under review, the Bank of Russia prepared the consultation paper on [ecosystem regulation approaches](#) that was released at the beginning of April 2021 for public discussion. The regulator will prepare a separate paper on the analysis of risks accepted by the banks developing ecosystems and the introduction of banking regulation.

According to the Bank of Russia's assessment,<sup>17</sup> the competitive environment generally worsened in 2020, first of all in the segments of traditional bank services to individuals. Nonetheless, these changes were not critical. Owing to anti-crisis measures, financial market participants were able to maintain their stability and smooth operation and continued to deliver a broad range of services to individuals and corporates.

The Bank of Russia took part in the adjustment of the approach to selecting banks eligible to deal with public financial resources. The use of

<sup>17</sup> Broken down by type of financial services: Lending, Borrowing, Payments and Money Transfers, Investment Services, and Insurance Services.

credit ratings as a criterion is aimed at ensuring competitive access for financially sustainable banks, including medium-sized and small ones, to the borrowing of budgetary funds, public corporations' funds, and other resources.

Landmark events for the development of competition were the cancellation of the so-called 'banking roaming' for money transfers and the launch of the Marketplace project enabling remote online sales of services on financial platforms.

In 2020, the Bank of Russia sold its controlling equity stake in Sberbank to the Government of the Russian Federation. The transaction was conducted on market terms, with one share worth 189.44 rubles. The value of the transaction totalled 2.139 trillion rubles. Of this amount, the Bank of Russia transferred 1.766 trillion rubles to Russia's federal budget and treasury in the form of funds and other assets within the legally stipulated framework for the allocation of the Bank of Russia's financial result from the transaction.

The Bank of Russia's divestment from Sberbank's equity was needed to eliminate a conflict of interest for the Bank of Russia as the regulator and the owner of the largest bank and to comply with the principle of competitive neutrality, i.e. the regulator's arm's-length relationship with all organisations under its supervision.

The transaction was carried out after the completion of the package of measures aimed at forming the system of corporate governance at Sberbank as a public joint-stock company in accordance with best practices. These principles were stipulated in the company's internal documents and the shareholder agreement signed between the Bank of Russia and the Government of the Russian Federation.

Thus, the parties ensured the continuity of corporate governance at the largest bank and public joint-stock company of the country, while respecting the interests of not only the financial sector in terms of the regulator's arm's-length relationship, but also of Sberbank's minority shareholders interested in the continuation of the company's functioning based on market principles without the majority shareholder's intervention in its operations. Since the sale of the controlling equity stake did not change the beneficial owner, which was and still is the Russian Federation, the federal law did not require the buyer of the controlling equity stake to make a public offering to minority shareholders for them to be able to purchase shares in circulation.

## 2.9. CYBER RESILIENCE OF THE FINANCIAL SECTOR

VOLUME OF UNAUTHORISED TRANSACTIONS ▲	SHARE OF SOCIAL ENGINEERING IN UNAUTHORISED TRANSACTIONS ▼	FRAUDULENT TELEPHONE NUMBERS DETECTED BY THE BANK OF RUSSIA ▲	BLOCKING OF FRAUDULENT WEBSITES INITIATED BY THE BANK OF RUSSIA ▼
9.8 billion ₺	61.8 %	26,397	7,680
6.4 (2019)	68.6 (2019)	14,152 (2019)	8,469 (2019)

During the pandemic period, cyber fraudsters switched their focus to credit institutions' clients, primarily individuals. Cyber criminals almost always failed in their attacks on banks in 2020. This was the result of the advancement of banks' information security management systems and the enhancement of their employees' professional level. Information exchange with the Financial Sector Computer Emergency Response Team (FinCERT) also helped prevent attacks at an early stage owing to the prompt communication of information on detected threats to all financial institutions.

To maintain a high level of credit institutions' information security, the Bank of Russia organised first cyber trainings in 2020. 22 banks took part in them and were able to practice various scenarios of attacks and methods of response to them. Cyber trainings revealed pain points affecting information security, cyber resilience, and operational reliability and helped outline the ways for enhancing banks' business processes and regulation. The Bank of Russia is going to continue such interaction in 2021, as well as to expand the range of participants.

The development of remote financial services amid the pandemic provoked a spike in attackers' activity against individuals. The number and amount of unauthorised transactions peaked in late March – early April, that is, when the lockdown was toughest. In 2020, the Bank of Russia initiated the blocking of 7,680 fraudulent web resources. Moreover, it forwarded information on 377 domains to the Prosecutor General's Office for carrying out inspections and implementing relevant response measures.

As before, thefts in 2020 were predominantly perpetrated through social engineering, due to which the regulator focused on improving individuals' cyber literacy. As a result, the rate of social engineering in unauthorised transactions edged down from 68.6% to 61.8%. However, it is impossible to resolve this problem without proper amendments to laws. The State Duma is considering draft laws prepared with the engagement of the Bank of Russia stipulating a legal framework for information exchange between banks and mobile communication operators, as well as for the prompt blocking of websites of financial pyramids and illegal financial market participants. The adoption of these laws will help decrease people's financial losses from cyber fraudsters' attacks.

### 3. FINANCIAL CONSUMER PROTECTION AND ENHANCING FINANCIAL INCLUSION FOR HOUSEHOLDS AND BUSINESSES

#### 3.1. ANTI-CRISIS SUPPORT TO HOUSEHOLDS AND BUSINESSES

##### NUMBER AND AMOUNT OF RESTRUCTURED LOANS

HOUSEHOLDS		SMEs	
1.8 million	860 billion ₺	94.8 thousand	853.5 billion ₺

In 2020, the protection of financial consumers hit by the coronavirus pandemic was the main challenge for the Bank of Russia. First of all, these are individuals facing difficulties with loan repayments caused by infection or job loss, as well as SMEs – because of anti-pandemic restrictions.

To help households and businesses more easily go through the challenges caused by their incapability to timely repay loans, the authorities, with the active participation of the Bank of Russia, approved the federal law on loan repayment holidays.<sup>1</sup> This law provided a grace period to households, individual entrepreneurs, and SMEs under their loan agreements and helped prevent the worsening of their credit histories and an increase in their debt burden. The Bank of Russia also recommended that creditors should restructure loans under their in-house programmes and was carrying out continuous systemic monitoring throughout the year to control how banks, microfinance organisations, and other creditors complied with these recommendations. There were 10,000 cases where the Bank of Russia conducted individual investigations. If the regulator revealed any violations, banks were to review their decisions on granting loan repayment holidays in favour of their clients.

The law on loan repayment holidays was effective through 30 September 2020. Nonetheless, as a rather large number of individuals and entrepreneurs were unable to quickly restore their creditworthiness, a range of measures were extended until the end of 2021 Q1, and the recommendations on restructuring – until the end of 2021 H1.

As of the end of 2020, banks restructured 1.8 million retail loans worth approximately 860 billion rubles. Loans restructured to SMEs numbered 94,800. Outstanding debt on restructured loans totalled 853.5 billion rubles.

Furthermore, the Bank of Russia put a special focus on the implementation of business support measures provided for by the resolutions of the Russian Government (the programme to maintain

<sup>1</sup> Federal Law No. 106-FZ, dated 3 April 2020, 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Certain Laws of the Russian Federation with Regard to the Specifics of Changing the Terms of a Loan Agreement'.

employment, the programme for subsidised loans granted for resuming operation, etc.). The efforts taken by the Bank of Russia's regional branches jointly with regional authorities and financial institutions ensured the continuous implementation of these measures. At the initiative of the Bank of Russia, business associations' representatives and bank associations established a mechanism for mediation between creditors and entrepreneurs on acute issues – the so-called 'green line'. The parties concerned highly appreciated the efficiency of this mechanism and decided to make it a permanent one.

As credit institutions needed time to adjust their business processes for handling a large number of restructuring requests and borrowers found it rather difficult to comprehend when they were eligible to loan repayment holidays, the number of complaints against banks sent to the regulator increased significantly in 2020 Q2. The total number of complaints and enquiries to the Bank of Russia soared by 12.7% as compared to 2019.

The Single Communication Centre's specialists were answering people's questions on a 24/7 basis. Owing to such consistent work and prompt measures in response to arising challenges, the number of complaints related to the crisis decreased substantially by the end of the year.

### 3.2. CONDUCT SUPERVISION

#### DECREASE IN CONSUMERS' COMPLAINTS

INSURERS ▼	MFOS ▼	ILLEGAL TRANSFERS TO NPFS ▼
<b>32.1</b> thousand 41.6 (2019)	<b>24.1</b> thousand 28 (2019)	<b>1.4</b> thousand 1.9 (2019)

The development of preventive conduct supervision is a top priority for the Bank of Russia in its efforts aimed at financial consumer protection. The regulator believes it essential to eliminate problems on a systemic level when they are revealed in particular segments of the financial market, from giving recommendations to market participants to initiating amendments to effective laws, where needed.

Based on the findings of the regulator's monitoring of compliance with the mortgage lending laws, banks wrote off households' debt on mortgage loans totalling over 3 billion rubles and planned the writing-off of debt in the amount exceeding 600 million rubles.

In 2020, the authorities brought into effect the law helping settle the issue of terminating an insurance policy upon early repayment of a loan or declining a forced insurance policy in case of the so-called 'collective insurance'. However, despite a range of recommendations issued by the Bank of Russia, the problem of the hard selling of extra paid services in lending is still pressing. To address it, the regulator recommended that creditors should include payments for extra services into the calculation of the total cost of credit, regardless of whether they are made using



borrowed or own funds. This will enable consumers to comprehend the actual cost of credit and make a well-informed decision on whether to execute an agreement. The Bank of Russia started to work towards the introduction of a cooling-off period for any paid extra services.

The soaring number of retail investors in the financial market posed new challenges to be addressed by the Bank of Russia. In 2020, the authorities adopted the law protecting retail investors.<sup>2</sup> It provides for the testing of non-qualified investors for them to be eligible to purchase complex financial products. However, unfair practices used by many financial institutions aggressively selling complex products to inexperienced individuals forced the regulator to issue recommendations on restricting such sales and initiate a faster launch of the testing procedure to become effective six months earlier. It is also planned to legally stipulate the rules for providing required information to consumers when financial products and instruments are sold, as well as to introduce a single table format for deposit agreements.

The Bank of Russia also recommended that all financial institutions should develop standards for selling financial products. Moreover, it is proposed that companies should take into account the quality of provided services when determining their policies for the remuneration of their management and employees engaged in selling and responsible for sales organisation.

With the participation of the Bank of Russia, the authorities introduced amendments to laws increasing the maximum insurance compensation for temporarily large balances in individuals' bank deposits to 10 million rubles, where such balances result from specific circumstances, for instance apartment sales, inheritance, or enforcement of a court decision.

An essential system-level measure implemented in 2020 is the introduction of financial product specifications. These key information documents (KIDs) will provide brief and clear information to consumers about the specifics of products and their inherent risks. Such specifications were developed and recommended to be used for products offered by banks, MFOs, and CCCs. For a range of insurance products, they became effective in 2021. KIDs should also be used for certain types of complex financial instruments. Relevant provisions are stipulated in the internal standards of SROs working in the securities market.

In every segment of the financial market, the Bank of Russia, based on the analysis of complaints, was carrying out individual targeted work with companies requiring particularly close attention. As a result, the number of complaints decreased in nearly all segments, except credit institutions where the rise in 2020 H1 was induced by the pandemic and related restrictions. The number of complaints against insurers and MFOs edged down by 23% and almost 14%, respectively. There was a significant reduction by over 26% in the number of complaints from individuals who disagreed with the transfer of their savings from one NPF into another.

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<sup>2</sup> Federal Law No. 306-FZ, dated 31 July 2020, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation'.

In order to expand the channels of communication with individuals, in 2020, the Bank of Russia launched its mobile application CB Online that, in addition to such options as verification of financial institutions' legal status, receipt of information and other useful functions, has a chat where consumers may receive a consultation from Bank of Russia specialists on a 24/7 basis.

### 3.3. FINANCIAL INCLUSION

NUMBER OF CASH-OUT POINTS ▲	PEOPLE WITH DISABILITIES SATISFIED WITH BANK SERVICES ▲	SME PUBLIC BOND OFFERINGS ▲
<b>4.5</b> thousand 3.7 (2019)	<b>81.3</b> % 76.9 (2018)	<b>6.4</b> billion ₽ 3.1 (2019)

In 2020, the Bank of Russia's powers to enhance financial inclusion were stipulated by laws. The key focus in this area was the accelerated digitalisation of financial services enabling remote access to them anywhere at any time convenient for consumers.

Within the implementation of the Financial Inclusion Enhancement Strategy, the Bank of Russia addresses three essential tasks that are a top priority because of their social importance. They comprise equal access to financial services for residents of remote and sparsely populated areas; ensuring access to various financial instruments for SMEs; and the development of a barrier-free financial environment for people with disabilities, elderly and physically challenged people.

In 2020, the most urgent task was to ensure financial institutions' presence in small localities. The major contribution to this work was made by the banks participating in the Bank of Russia's task forces for enhancing financial inclusion in remote, sparsely populated and hard-to-reach areas<sup>3</sup> and for implementing the pilot project enabling the provision of services for payment card holders to withdraw cash at trade and service companies.<sup>4</sup>

According to a regular assessment carried out by the Bank of Russia to measure financial inclusion indicators, which covered all points of access to financial services in various formats broken down for the first time by constituent territory of the Russian Federation, 95% of post offices connected to the Internet can conduct a range of banking operations. A considerable number of such access points are located in rural areas. In addition, it is now possible in Russia to withdraw cash at cash desks (the cash-out service) of nearly 4,500 points of sales, with more than 95% of them located in rural areas. Moreover, this number is constantly growing. Some pilot access points with the cash-out service also offer such options as making payments for housing and utility services, depositing funds into an account, applying for a debit card, etc.

<sup>3</sup> JSC Post Bank, Sberbank, JSC Rosselkhozbank.

<sup>4</sup> Sberbank, Promsvyazbank PJSC, Bank RRDB (JSC), AK BARS BANK (PJSC), JSC Rosselkhozbank, RNCB, BANK ROSSIYA, JSC Russian Standard Bank, JSC GENBANK.

The Bank of Russia continued to implement projects aimed at enhancing financial inclusion in remote, sparsely populated and hard-to-reach areas of the Far Eastern, Southern and North Caucasian Federal Districts. Some indicators in these regions are above Russian averages. Therefore, the Bank of Russia believes it essential to expand such comprehensive measures across the country.

Developing a barrier-free financial environment for people with disabilities, elderly and physically challenged people, in 2020 the Bank of Russia prepared and released recommendations to financial institutions on enhancing the accessibility of remote (digital) channels. The regulator is continuously monitoring how financial institutions fulfil its recommendations. According to the survey of 2020, 81.3% of people with disabilities were completely or rather satisfied with the quality of servicing at credit institutions (compared to 76.9% in the previous survey of 2018). 65% of banks fulfilled or almost fulfilled Bank of Russia recommendations to create a barrier-free environment. 73% of credit institutions reported that they were already offering or developing special products (services) improving the quality and convenience of servicing of the mentally challenged, including memory-challenged people.

An important result of the difficult year 2020 for SMEs was the absence of a downward trend in lending amounts. In order to promote lending to SMEs, the Bank of Russia approved a range of decisions on regulatory easing for banks.

In 2020, a key priority in the work towards improved access to various financial instruments for SMEs was the support of entrepreneurs wishing to enter the stock market. Issuers received anchor investment and direct subsidies, as well as could enjoy reduced exchange fees.

Several new issuers entered the market. The geography and areas of their operation expanded. In order to inform entrepreneurs of the opportunities to raise funding through stock market instruments, the Bank of Russia organised 12 regional workshops on this topic and one country-wide webinar.

Moreover, active work is carried out to develop an online platform that will make such instrument as factoring more accessible for entrepreneurs.

### 3.4. FINANCIAL LITERACY

ADULTS' FINANCIAL LITERACY INDEX ▲	NUMBER OF SCHOOLS HAVING FINANCIAL LITERACY CLASSES ▲	VIEWS OF ONLINE FINANCIAL LITERACY CLASSES ▲	UNIQUE VISITORS OF FINCULT.INFO ▲
<b>54</b> points	<b>85.7</b> %	<b>2.9</b> million	<b>5.6</b> million
52 (2017)	78.9 (2018)	1.2 (2019)	3.3 (2019)

Technology development and competition are making financial products and services more accessible for individuals. Simultaneously, they are becoming increasingly more complex. It is often challenging for people to understand what products and services they should choose.

Moreover, the risks of facing fraudsters or unfair sellers are growing. The Bank of Russia is taking efforts to provide essential knowledge to people so as to mitigate potential risks for those dealing with new challenges.

This work includes integrating financial literacy into the education system, raising people's financial awareness, and communication with authorities and social organisations.

As of the end of the 2019/2020 academic year, the number of schools that integrated financial literacy elements into their educational process increased by 8.6% as compared with the 2017/2018 academic year (from 29,561 to 32,110 schools), and the number of schools that launched a separate financial literacy course edged up by 77.7% (from 4,472 to 7,946 schools). Moreover, 59.9% of preschool educational institutions, 85.5% of vocational schools and colleges, and 58.1% of universities are also introducing financial literacy classes.

Amid the restrictions on in-person events effective in 2020, remote forms of education became especially important. There was a rise in the demand for online financial literacy lessons carried out by the Bank of Russia for schoolchildren who may take part in them both individually or within a group (school class). Over the year, 17,800 schools (44% of the total number) were joining such lessons. The total number of online lessons exceeded 163,000, and the number of views approximated 2.9 million.

The Bank of Russia carried out online classes for elderly people and workers of the complex centres of social services to people, webinars for SMEs, the national financial literacy test, and other awareness-building events.

In 2020, top-priority tasks for raising people's financial awareness were to provide explanations regarding support measures amid the pandemic, improve investment, digital and cyber literacy, and efficiently work with SMEs.

The website Financial Culture ([fincult.info](http://fincult.info))<sup>5</sup> continued to play an important role in these efforts. As of the end of 2020, the monthly number of its unique visitors averaged 463,500 (vs 258,000 in 2019), and the total number of visitors over the year equalled 5,562,864.

Financial literacy content was also actively promoted through online tools (social networks, targeted advertisements, and the Yandex.Zen and Yandex.Q platforms) and was in demand among internet users. The main topics of online campaigns were loans and debt burden, loan repayment holidays, social engineering and anti-fraud methods, the Faster Payments System, and others. In 2020, the total number of views of the materials offered within such campaigns exceeded 35 million.

Over the year, the Bank of Russia demonstrated its videos and outdoor ads on financial literacy in over 6,500 places across the country, including multi-purpose centres rendering state and municipal services, post offices, public transport (including metro), trains, airports, outdoor displays, etc. In order to expand the coverage of social ads warning of cyber frauds and telephone fraud risks through telephone number

<sup>5</sup> The Bank of Russia's financial literacy website.

spoofing, the Bank of Russia carried out a campaign jointly with the Ministry of Internal Affairs and the Prosecutor General's Office. Financial literacy brochures are also distributed via multi-purpose centres rendering state and municipal services, educational institutions, and libraries (over one million copies across Russia).

## 4. ADVANCEMENT OF THE NATIONAL PAYMENT SYSTEM

FASTER PAYMENTS SYSTEM		MIR PAYMENT SYSTEM	
CREDIT INSTITUTIONS CONNECTED, INCLUDING ALL SYSTEMICALLY IMPORTANT CIS ▲	TRANSACTIONS ▲	IN THE TOTAL ISSUE OF CARDS ▲	IN THE VALUE OF TRANSACTIONS INSIDE RUSSIA ▲
<b>210</b>	<b>111 million</b> worth <b>0.8 trillion ₺</b>	<b>30.6%</b>	<b>24%</b>
<b>36 (2019)</b>	<b>6.8 million</b> worth <b>0.06 trillion ₺ (2019)</b>	<b>25.2 (2019)</b>	<b>19.3 (2019)</b>

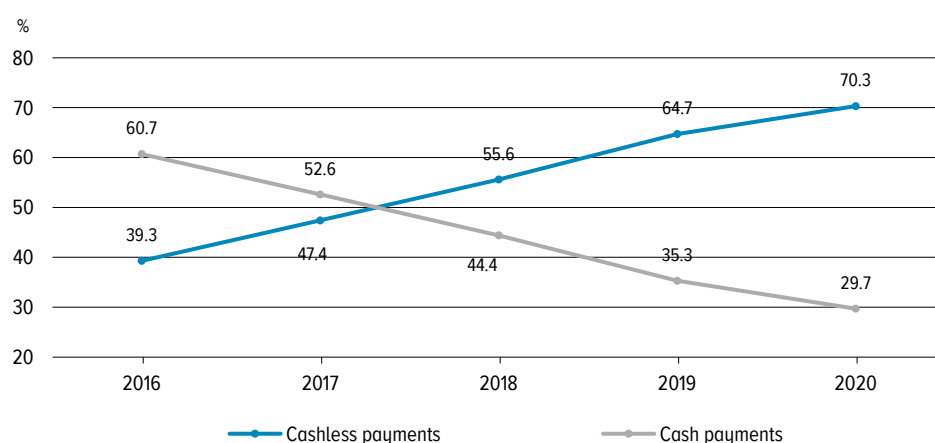
The pandemic affected the operation of Russia's payment market. People, businesses, and the government needed to switch to remote formats of interaction as soon as possible and without compromising the efficiency. This was also related to the segment of payments and money transfers since these operations are critical for people. The National Payment System was totally ready to address these challenges. The advances of recent years and well-developed services and functions in the payment segment were in great demand at the acute stage of the crisis and proved to be mature and efficient.

Over 2020, the portion of cashless payments in overall retail turnover increased to 70.3% against 64.7% in the previous year. The Bank of Russia expects it to grow further.

In turn, the Bank of Russia Payment System operated in expanded mode supporting the fulfilment by the Russian Government of a key social mission during the acute period of the pandemic – budget-funded payments to aid households and businesses.

THE PORTION OF CASHLESS PAYMENTS IN RETAIL TURNOVER INCREASED TO 70.3%

Chart 18





## 4.1. FASTER PAYMENTS SYSTEM

The advancement of the Faster Payments System (FPS) was a key area in the Bank of Russia's work in terms of both the expansion of the existing functions and the introduction of new ones. As of the end of 2020, 210 credit institutions, including 12 systemically important ones, connected to the FPS.

Individuals' demand for the services of the FPS remained high throughout the year. Its active users numbered over 14 million. The monthly growth of transactions carried out via the FPS exceeded 30% on average in terms of both their number and value.

Being well aware that instantaneous bank transfers were crucial for individuals, especially during the lockdown, the Bank of Russia set a zero fee for amounts of up to 100,000 rubles a month. The maximum fee for amounts of over 100,000 rubles should not exceed 0.5% (but no more than 1,500 for a money transfer).

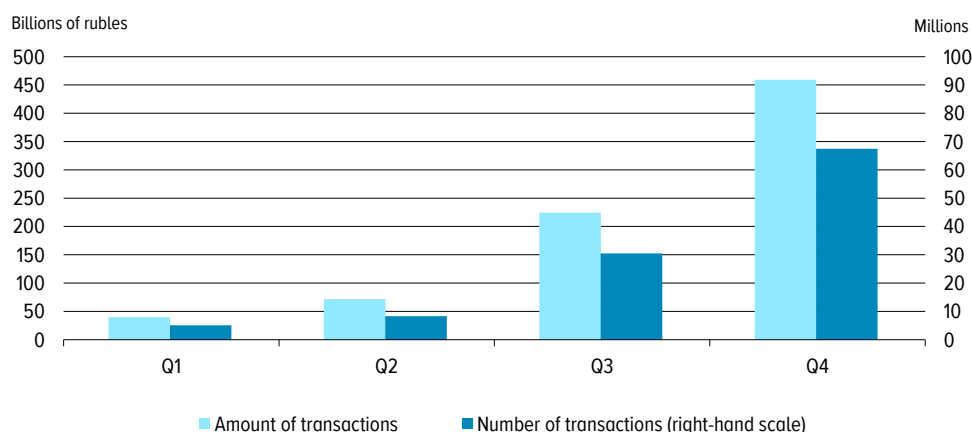
The Bank of Russia also continued to develop the platform enabling payments for goods and services, including using QR codes. This reduces trade companies' costs for acceptance of cashless payments 2.5–3 times as compared with acquiring fees. Furthermore, the Bank of Russia successfully tested the mobile application FPS-Pay for banks' clients to make payments through the FPS.

The FPS now supports companies' money transfers to their clients (B2P payments) and pull transfers making it possible to request funds for transfers from a person's own accounts with various banks.

As compared to 2019, the number and amount of transactions via the FPS increased 16 and 13 times, respectively.

IN 2020, THE MONTHLY GROWTH OF TRANSACTIONS VIA THE FPS EXCEEDED 30% ON AVERAGE, BY AMOUNT AND NUMBER

Chart 19



## 4.2. MIR CARDS

The Mir payment system continued to develop. In 2020, the portion of national payment cards increased in terms of both their number (to 30.6%) and the amount of transactions using these cards (to 24%). The

total number of Mir cards issued as of the end of 2020 approximated 95 million.

This instrument is becoming increasingly popular and convenient, including owing to the implementation of social, transport and other applications.

Today, Mir cards are accepted for payments in Abkhazia, Armenia, Belarus, Vietnam, Kazakhstan, Cyprus, Kyrgyzstan, Tajikistan, Turkey, Uzbekistan, and South Ossetia; and first transactions were carried out in the UK and South Korea.

### 4.3. FINANCIAL MESSAGING SYSTEM

The Bank of Russia financial messaging system (FMS) was growing extensively in 2020. Originally, the FMS was established as a backup channel for financial messaging, but it has proven to be in great demand among users as the main channel as well. The portion of messages through the FMS almost doubled in 2020, exceeding for the first time 20% of the SWIFT traffic in Russia.

The number of FMS users was up: 404 organisations, including 19 non-residents, connected to the system as of 1 January 2021.

An essential step in the advancement of the FMS was the launch of a new scheme for connection – through service bureaus. This scheme makes it easier and faster for both Russian and foreign legal entities, including credit institutions, to connect to the FMS.

### 4.4. CASH CIRCULATION

In 2020, the amount of cash in circulation surged by 2.8 trillion rubles year-on-year (+26.4%). This growth peaked in 2020 Q2 when the authorities introduced anti-coronavirus restrictions. Individuals demonstrated elevated demand for cash seeking to stock up with money in the situation of the lockdown when access to banks and ATMs was limited. Beginning from July, the demand for cash started to gradually edge down closer to its usual seasonal levels. As a result, the amount of cash in circulation totalled 13.4 trillion rubles as of 1 January 2021.

Despite the increased amount of work amid anti-pandemic restrictions, the Bank of Russia ensured the reliable and smooth functioning of the system of cash circulation.

The level of counterfeiting remained steadily low in 2020, specifically seven counterfeits per one million banknotes in circulation, just as in the previous year. Nonetheless, given the rapid development of new technologies, the Bank of Russia will continue its efforts aimed at enhancing the security complex of banknotes, improving their wear resistance, and upgrading the design. This is a key task set in the Guidelines for Cash Circulation Development in 2021–2025. In the next five years, the Bank of Russia is planning to modernise six denominations of banknotes and upgrade their design.

The Bank of Russia is consistently pursuing the policy for engaging credit institutions in the work with its cash funds. The new practice provides for the safekeeping of the Bank of Russia's cash in commercial

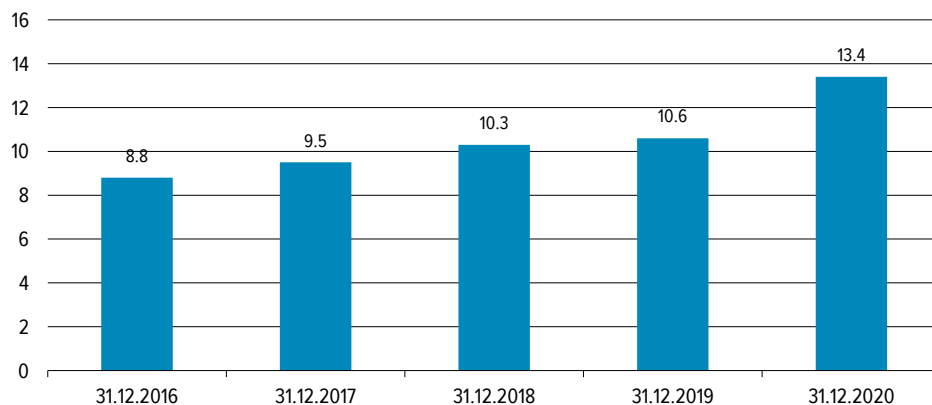
banks' specially equipped vaults conforming to the established criteria. To replenish their cash reserves, such banks will not need to request cash from the regulator. This will help considerably reduce the Bank of Russia's and market participants' costs for cash transportation, counting and processing, as well as streamline cash circulation.

In 2020, the Bank of Russia continued to issue commemorative and investment coins. It issued 61 commemorative coins (40 gold and silver coins, and 21 base metal coins) and two investment coins. A special one was the commemorative 25-ruble coin designed to pay tribute to doctors and medical staff saving people's lives during the pandemic.

IN 2020, THE AMOUNT OF CASH IN CIRCULATION SURGED BY 26.4%  
DUE TO HOUSEHOLDS' ELEVATED DEMAND FOR CASH DURING THE LOCKDOWN

Chart 20

Trillions of rubles



## 5. TECHNOLOGY DEVELOPMENT AND INNOVATION SUPPORT IN THE FINANCIAL MARKET

UNIFIED BIOMETRIC SYSTEM		PARTICIPANTS IN DIGITAL PROFILE	
<b>231</b> banks	<b>13,300</b> banking service points	<b>19</b> banks	<b>3</b> insurance companies

The development of financial technologies and digital financial projects is a top-priority objective of the Bank of Russia. Its implementation helps create a convenient and high-quality environment for households and businesses, reduce financial market participants' risks and costs, and increase the competitiveness of Russian technologies and the efficiency of the financial industry in general. According to expert assessments, Russia is among the top-3 leading countries in terms of fintech penetration and is one of the most advanced states in the digitalisation of financial services. Approximately 87% of clients prefer digital channels. During the pandemic period, this enabled households and businesses to avoid difficulties with receiving services in the financial market.

In 2020, Russia adopted four laws that are essential for digitalisation: on the development of biometrics, on digital financial assets, on the marketplace, and on experimental legal regimes.

### 5.1. UNIFIED BIOMETRIC SYSTEM

In December 2020, the authorities adopted the law that significantly expands the potential of remote biometric identification through the Unified Biometric System (UBS). As a result, the UBS will get the status of a state information system and will be used to deliver not only financial, but also state and other services. Furthermore, it will also be possible to submit biometric data for the UBS at multi-purpose centres rendering state and municipal services.

Registration in the UBS is available in 231 banks, and in more than 13,300 bank service points.

### 5.2. DIGITAL PROFILE

The launch of the Digital Profile infrastructure in May 2020 became a breakthrough step in digitalisation. The Digital Profile ensures convenient, secure and fast online data exchange between individuals, government authorities, and businesses in a single-contact mode. In 2020, 19 banks and three insurers joined the Digital Profile enabling people to receive services remotely.

To obtain data, one must have clients' consents. The latter are stored in a special consent register. The Digital Profile is the only infrastructure in the country having such a register.

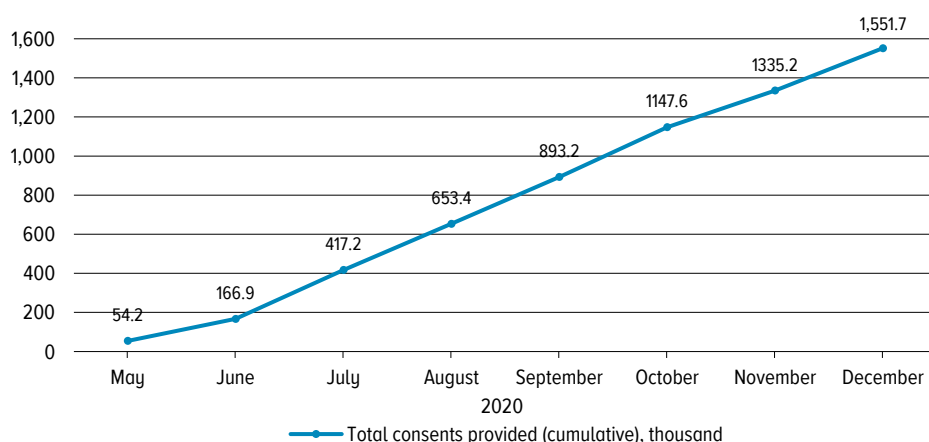
Over the seven months of its operation, individuals gave their consent to the provision of their data through the Digital Profile more than 1.5 million times, and this number is steadily growing. A key function of the platform is consent management. Individuals may not only give consent to data provision, but also carry out monitoring of their consents or revoke them.

In the future, the Digital Profile is planned to be developed by expanding both the list of data on a client and the list of financial market participants connected to the project.

In addition, another area of this project will be the launch of the Digital Profile for legal entities.

INDIVIDUALS USED THE DIGITAL PROFILE  
OVER 1.5 MILLION TIMES

Chart 21



### 5.3. OPEN APIS

In order to ensure competitive and secure data exchange among financial market participants, and also service providers' equal access to information, the Bank of Russia developed four standards for open banking interfaces (open APIs):

- general provisions;
- receipt of information on a client's account by a third party;
- initiation of a transfer of a client's funds by a third party in Russian rubles;
- requirements for the security of financial services based on the OpenID protocol.

This will enable banks and fintech companies to achieve seamless exchange of data on clients upon their consent and to ultimately form most advantageous customised offers for them. Thus, as a result of the advancement of open APIs, individuals and companies will receive a free choice of financial products and services.

### 5.4. MARKETPLACE

In July 2020, the authorities adopted the law<sup>1</sup> launching the development of a new area in the financial market – the activity of

<sup>1</sup> Federal Law No. 211-FZ, dated 20 July 2020, 'On Performing Financial Transactions Using a Financial Platform'.

financial platform operators and the financial transaction registrar. Together they form an independent infrastructure for the distribution of financial products, and any financial institutions may join it, regardless of their sizes. This promotes fair competition in the financial market. Eliminating any geographical restrictions, the Marketplace provides a broad range of offers to people from financial institutions and issuers connected to the system.

As of the end of 2020, the Bank of Russia's register of financial platform operators included three organisations offering such services as the conclusion of a bank deposit agreement and the purchase of OSAGO policies, subfederal bonds and unit investment funds' units.

## 5.5. DIGITAL RUBLE

A milestone event for the financial market was the publication of the paper [A Digital Ruble](#) that was then extensively discussed with market participants, experts from various economic sectors, as well as representatives of the ministries and agencies concerned, the State Duma, and the Federation Council.

This paper covers a range of issues related to the prospects of the issue of a digital ruble, its possible designs, its influence on various economic sectors, and other aspects. Following the discussion of the document, respondents mostly supported the idea of issuing a digital ruble.

The target model for the implementation of this project is a two-tier retail model which assumes that a digital ruble is issued by the Bank of Russia and is its liability. Financial institutions open electronic wallets in digital rubles to their clients and perform operations over these wallets on the digital ruble platform.

A digital ruble will be the third form of money along with cash and non-cash rubles. It will have additional advantages making it more attractive as a means of payment. A digital ruble will enable individuals and corporates to access their digital wallets via any financial institutions where they are clients. It will also support offline payments when there is no access to the Internet. Furthermore, the implementation of the project will expand the range of innovative products and services and improve the quality of services provided to clients, which in turn will promote competition in the financial market. In addition, the government will be able to automate settlements under contracts owing to the use of a digital ruble in smart contracts. This will help control the target use of funds, including in the course of government procurement.

Based on the results of the discussion of this consultation paper, the Bank of Russia prepared the [Concept of a Digital Ruble](#). The next stage of the project implementation is to develop a digital ruble prototype and carry out its pilot testing.



## 6. COMMUNICATION POLICY

In 2020, the Bank of Russia's communication policy was primarily aimed at informing the general public about anti-crisis measures implemented to support households and businesses.

To promptly explain the Bank of Russia's decisions made in March–April during the period of the strict lockdown, the Bank of Russia Governor held weekly online briefings.

For user convenience, the Bank of Russia added new sections on its website (cbr.ru) to publish materials on the measures taken. The regulator also posted articles on the most topical issues on the Financial Culture (fincult.info) website.

Furthermore, the Bank of Russia launched special projects on its web pages in social networks to explain the most urgent issues raising people's concerns. The What Shall be Done with Debt campaign which included several stages covered 8.4 million users. They especially appreciated quick and clear answers they received to the questions asked in social networks.

In September, the Bank of Russia launched an important communication project on inflation, releasing on its website [information and analytical materials](#) posted on the regional branches' web pages. They provide a detailed analysis of the factors influencing price movements in particular regions. This information is generally reproduced by local mass media and helps people understand the Bank of Russia's decisions. In December 2020, the Bank of Russia started to publish its regular report [Regional Economy: Commentaries by Bank of Russia Main Branches](#).

To make the discussion of topical issues interesting for people, the Bank of Russia is implementing the policy of integrated communication using the most popular media formats. Social advertisements forming people's financial behaviour patterns notify them of potential risks of fraud in financial markets and unfair practices. These ads were placed across Russia in the most popular locations, including multi-purpose centres providing state and municipal services, metro, airports, long-distance trains, and social protection centres. As individuals' demand for financial market instruments surged, the Bank of Russia carried out a series of webinars with the participation of the regulator's management. More than 170,000 people viewed these webinars.

The communication policy aimed at clarifying changes in laws and regulations, the conditions of financial institutions' operation, and the specifics of financial products is an essential area of the Bank of Russia's work. The regulator is planning to develop it further using new channels and formats of communication with people, businesses, and financial market participants.

