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How Banks Can Increase Equal Opportunity

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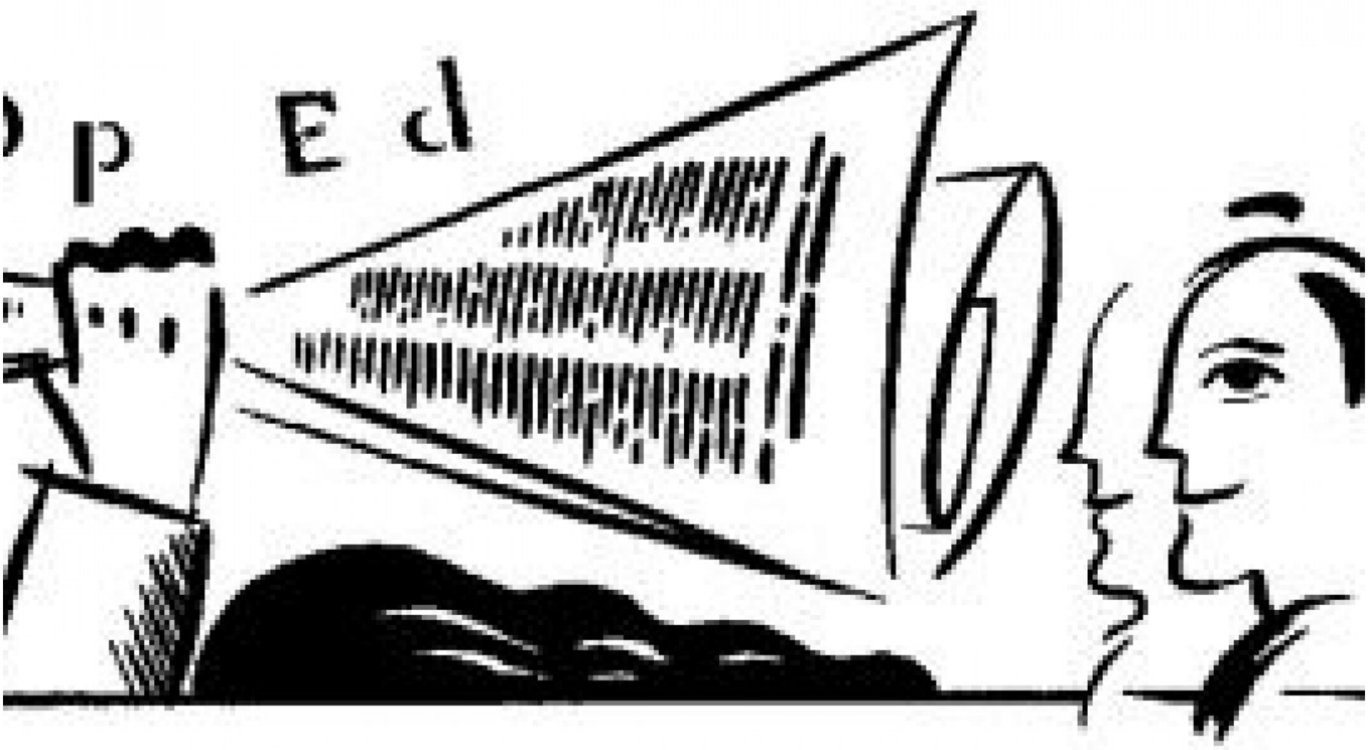

Income inequality is often cited as Russia's biggest economic and social problem. I travel regularly throughout Russia and abroad and have encountered many forms of inequality, but the most unjust and pressing in this country is the inequality of opportunity. Only a few large cities account for the vast majority of all business activity in Russia. These are the only places where most Russians can enjoy a decent standard of living.

One limiting factor is their lack of access to financial products and services in the regions. This inequality has two main causes. The first is the only occasional presence of financial institutions in smaller cities. In Moscow, you can often see 10 to 15 different banks clustered on a single downtown street, but towns with a population of about 20,000 are served exclusively by state-controlled Sberbank. Private banks should be encouraged to open offices in such cities because access to financial services is no less important than access to electricity and telephone communications.

The second reason for the inequality is the lack of knowledge about how banking services are used. Only a financially literate person understands how to plan for a family's long-term needs, how to save money, how to make proper use of loans and how to spread out financial obligations over time to minimize financial losses. Unfortunately, banks do not educate people in these questions and tend to interact with clients only when their payments are overdue. It is rare when a Russian bank undertakes a financial literacy campaign for its clients.

Yet the idea of personalizing or humanizing relations between financial institutions and their clients is rapidly developing in the West and gradually making headway in Russia. This is accomplished through the use of personal financial managers who are available to clients around the clock, as well as by technological methods, such as the development of mobile banking and other applications.

A good example of improved personal contact with clients is the Umpqua Bank in Oregon. In response to increased competition and a flattening of the prime rate, the bank began shifting toward a greater focus on its customers by effecting a radical change to the interior styling and its approach to customers. When I visited a branch of the Umpqua Bank, I thought I might have stepped into a cafe, design studio or book store. One visitor was drinking coffee, another was reading a book and several more were preparing a small stage for a concert by a local group.

Only my sense of total amazement kept me from quickly walking out and continuing my search for the bank. But as I looked around, I began to notice signs of banking products: designer boxes with descriptions of credit cards and mortgage programs. The managers with whom I spoke were financial consultants in the truest sense of the word. Nearby, a bank worker sat with a farmer and helped him develop a two-year financial plan. I noticed that it included wedding expenses, medical care for his wife and future child and expected revenue growth from his agricultural products and from the credit services he planned to use.

This can be a tremendously successful business model for banks. Umpqua Bank, for example, increased its assets from $140 million to $8.3 billion, became one of the top five banks in the region and boasted extremely loyal clients and a stable source of long-term profits.

Examples of technology that can personalize banking services are software platforms such as Finantix used by Bank of America and Barclays. These programs are geared to enable banks to work with clients that have a low level of financial literacy. Such systems generally work by monitoring all of a client's interactions with the bank — whether in branch offices, mobile banking and online services or the call centers — and analyzing them so that financial consultants in banks can determine which services customers need most, even when it is unclear to the clients themselves. The Ozon online hypermarket uses a similar approach, offering clients a customized list of products based on their search and purchasing history. Most important, these services provide high-quality consultative and instructional functions for clients. It does not cost anything to involve someone in the process of determining their financial needs or to show them the goals and needs of other people with the same lifestyle, income and age. The system presents the information visually, as a graph charting the client's financial well-being based on their goals, income and the financial instruments they use.

Although a few Russian financial institutions are beginning to move in that direction, Russian banks are far behind the West in terms of the services they offer. Even bank cards, the most widespread banking products, are still not used to their full potential. Most cardholders simply deposit and withdraw cash from their accounts and only half use them to make purchases. Fewer than 50 percent use their cards to pay phone and utilities bills through ATM terminals and only 42 percent have used them to make Internet purchases, according to research conducted by Romir. And according to MForum, a meager 6 percent of Russians use Internet banking.

At the same time, Russian banks are moving in the right direction. You only need to look at Sberbank's huge corporate remake and transformation over the past five years. Gone are the days when tellers wear sour expressions as if to say, "All these damned clients are just getting in the way of my lunch hour." And most of its 20,000 branches across Russia have introduced a system in which customers take a number and can sit comfortably for their turn in line at the teller's window, a long-needed relief for those who remember the stressful experience of standing in line while others were breathing down your neck. Moreover, Sberbank has introduced advanced technologies, mobile banking and online services. At the same time, however, the largest bank in the country, continues to do business with its clients through partitions of bulletproof glass.

I have immense appreciation for all the programs and algorithms that simplify the personal contact between banker and client and allow for greater flexibility in banking products, but the technology should not be an end in itself. Even in small towns, most people prefer banks with a human face — that is, where customers are met by a manager who lives nearby and who understands their problems, who is ready to explain things clearly, patiently and friendly and even to just shoot the breeze for awhile.

This is the one way banks can help decrease the inequality of opportunity in Russia. What each person does with that opportunity, of course, is up to him.

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The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.