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Central Bank Creates New Financial Regulator to Focus on 20 Key Banks

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Anxious to mitigate risks and foster consumer trust in the financial market, the Central Bank announced plans to create a new department to monitor the performance of the 20 banks that form the core of the country's banking system.

"Systemically significant" lending institutions will be taken out of the remit of regional offices around the country and placed under the eye of a new central monitoring department, approved by the Central Bank's board of directors, an official statement from the bank said Friday.

The proposed system is similar to the eurozone's single supervisory mechanism and harks back to the centralized monitoring department, known as OPERU-2, operated by the Central Bank between 1996 and 1998. That regulatory body failed to prevent the collapse of a number of banks in the 1998 crisis. The new version is scheduled to become operational from Oct. 1.

The new department will help the Central Bank to regulate by centralizing responsibility and narrowing the focus from 200 banks of various size and significance to the top 20 key players, which together are responsible for more than 70 percent of the financial sector and have a growing presence on foreign markets.

"These organizations form a critical part of the financial infrastructure and the flow of money in the economy. To a large degree, the stability of the whole system depends on the stability of these 10 or 20 banks. It's only right that [they] should be given more attention than smaller market players," VTB24 deputy CFO Sergei Anokhin said.

The new central monitoring department will conduct quarterly complex financial health checks, annual risk assessments based on the banks' financial reports and bi-annual inspections and audits, the Central Bank's statement said.

Developments in the financial sector necessitate a new regulatory approach, said Kira Zavyalova, an expert at Investcafe. The banks at the core of the financial system have been searching for growth opportunities in less competitive Russian regions and making investments in other industries, she said, making it difficult for the regulator to see the whole picture when assessing risks.

To combat this, the new department will help the regulator to detect and react to the deteriorating condition of a bank as it happens.

"That regulators and the government are focusing on tightening control over the largest players in the financial system is not surprising," Zavyalova said. "Baling out such banks could be a serious blow for any government."

Yet not everyone is enthused by such regulatory initiative. Big banks have learned the lessons of the financial crisis, said Ulan Ilishkin, deputy chairman of Rosbank's management board. They have put meaningful "air bags," like high liquidity levels and appropriate risk assessment, in place to help them deal with future market shocks, he said.

This is a restructuring move by the Central Bank, Ilishkin added. "The level of regulatory control has always been sufficient and decisions timely."

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