

Why Foreign Banks Are Crucial Players in Russia

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In the 1990s, Russia's banking industry faced major challenges.

Most of the technical knowledge of Soviet-era bankers was irrelevant in the new capitalist environment. Concepts of customer service, credit process and modern information technology were alien to these old-style bankers. A new generation needed to be trained.

The pioneering foreign banks needed to combine the experience and knowledge of their expatriates, who knew little about Russia, with the enthusiasm and intelligence of young Russians, who knew little about banking or how to operate in the new capitalist environment.

There were essentially five types of banks: government-owned banks; the new private-sector commercial banks that were growing rapidly into an unpopulated space; niche banks, many of which were in the regions; pocket banks that, in many cases, did not function as banks; and the newly arrived foreign banks. Initially these foreign banks offered only corporate services

and principally to their home base of multinational companies.

One critical component that foreign banks also contributed was the training programs they offered their employees. Most foreign banks had developed in-house training programs adapted from their home countries.

These programs provided valuable foundations for the new generation of bankers. In subsequent years, many of these bankers would accept positions in leading Russian banks, introducing best practices and enhancing the product offerings.

It would be incorrect to characterize the foreign banks as the only force for change in the Russian marketplace. The 2000s saw the emergence of aggressive Russian private sector banks that were able to invest in technology and product. State banks that remain dominant in both corporate and retail markets are now also making significant steps to upgrade their product range and enhance their customer service. This has created a competitive banking environment in the country.

Foreign banks played an essential role in the early stages of the development of the Russian banking system in the '90s and are responsible for bringing new product, training and service levels to the market. Although they no longer hold a pivotal role in the development of the banking system, they do remain important players and fulfill the need for “aeration” in the system.

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