

Master Bank a Proof Point for Deposit Insurance

By [The Moscow Times](#)

November 25, 2013

The  **Moscow Times**

The problems exposed in Russia's banking system by last week's collapse of mid-sized lender Master Bank are deep-rooted, but in contrast with banking failures of the past there was no evidence this time of other banks' customers taking fright.

This might seem surprising, as the collapse has highlighted the difficulty of enforcing regulations against banks with strong political connections, and the widespread use of illegal payments to service Russia's large black economy, analysts said.

"Other banks are in the same situation as Master Bank, that is for sure," said Alexander Lebedev, the media tycoon and banker. "Whether the Central Bank will have enough guts [to act] — let us wait and see."

The Central Bank withdrew the license of Master Bank on Wednesday, citing "large-scale dubious operations" and causing payment difficulties for clients and some other banks that

used it to process card transactions.

“We do not see any rise in the rates on the interbank market or on the government bond market, so it is a very local event,” said Maxim Osadchy, head analyst at BKF bank in Moscow.

The bank ranked as the 72nd largest lender by assets in a country that has more than 900 banks, but most are tiny. Even the size of Master Bank’s operations for processing card payments, about \$1.5 billion a month, was relatively small, in a sector with assets totaling \$1.7 trillion.

“Compared with the size of the banking system it is, of course, kopecks,” Osadchy said.

New Psychology

The relative calm that followed Master Bank’s failure also reflects changes in the sector’s regulation and public confidence in recent years, said Richard Hainsworth, head of local ratings agency RusRating.

He drew a distinction with banking crises in 1998, the year of Russia’s cataclysmic financial crash, and 2004, when the failure of a small bank called Sodbiznesbank provoked deposit runs.

Since then, the government has helped calm nerves with state-backed deposit insurance, under which the government guarantees up to 700,000 rubles (\$21,200) for each saver.

“In 1998 there were fisticuffs outside the doors of banks,” he said. “That does not happen any more because people are confident they will get their money back.”

Hainsworth saw a greater similarity with International Industrial Bank, a mid-sized bank that folded in 2010 after a long period of speculation about its shaky finances.

“In both cases, the senior managers and owners of the bank had very strong connections with the political elite,” he said.

“It wasn’t that Ignatyev, the previous head of the Central Bank, was powerless. But he was constrained by the political conditions in which he was working.”

Igor Putin, a distant cousin of President Vladimir Putin, was on Master Bank’s board. And Russian observers have also speculated over protection from officials in law-enforcement agencies. “Clearly there has been protection — a krysha (roof), as we put it,” said Lebedev.

Although many analysts have praised the Central Bank’s new governor, Elvira Nabiullina, for taking tough steps against Master Bank, some have questioned why it took so long.

Russian police first announced a criminal investigation into Master Bank in April of last year. Since then the bank not only took in more retail deposits but also expanded its loans, which are now unlikely to be recovered.

The financial regulator has said that in total the bank has made about 20 billion rubles (\$600 million) in loans to related parties such as its own shareholders.

Master Bank's main owner, Boris Bulochnik, has not commented publicly since the bank's license was withdrawn and his whereabouts are unknown.

Black Cash

Another troubling issue highlighted by the Master Bank affair is the role of banks in servicing Russia's large shadow economy, analysts said.

Police have accused the bank of illegal "encashment" of more than 2 billion rubles while the Central Bank has estimated the total volume of "dubious" encashment operations by the bank amounted to 200 billion rubles (\$6 billion).

"Encashment" refers to a practice whereby banks undertake transactions for clients using cash, rather than electronically, as required by law for large transactions.

"So-called 'black cash' is used for bribes, for payment of wages, for evading taxes," said Osadchy, who estimates the annual volume of black cash transactions in Russia amounts to about \$40 billion.

Despite the scale of the problem, or perhaps because of it, it was unlikely that the withdrawal of Master Bank's license would lead to a wave of similar bank closures by the authorities, he said.

"The fund for guaranteeing deposits is not limitless," Osadchy said. "I would even say that this system of black banking is too big to fail."

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