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# This Russian Doomsayer Doesn't Believe in Banks, But He Runs One

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**Sberbank headquarters in Moscow (Andrey Rudakov / Bloomberg)**

(Bloomberg) — Russia's biggest lender expects to make $17 billion in profit by 2020. Just don't call it a bank.

"I don't believe in banks," Sberbank PJSC Chief Executive Officer Herman Gref told investors in London Thursday. "If you tell me that you need to build a bank, then don't come to me or our team."

Sberbank has been spooked by Europe, where some central banks have resorted to negative interest rates that have put a squeeze on margins. Now it sees its future as a financial technology company, and is increasingly focused on a fee-based model that's helping startups poach market share from traditional banks.

Gref's rebellion against banks comes despite the fact that he has, during a decade in charge of Sberbank, turned it into Russia's most valuable company, worth almost 5 trillion rubles ($84 billion).

The state-controlled Russian bank plans to raise income from fees and commissions by 50 percent by 2020 as the net interest margin -- a measure of lending profitability -- declines, according to its chief financial officer, Alexander Morozov.

### Cash Bonanza

Sberbank already stands out among banks, with huge profits that elude many of its European counterparts. While its record earnings have led to calls from the Finance Ministry for the state-owned lender to boost its dividend payouts, Gref has other ideas.

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The former economy minister under President Vladimir Putin plans to wait until 2020 before increasing dividend payouts to 50 percent of profit, the level the Finance Ministry has demanded, and hopes in the meantime to pivot to tech.

This week, it announced a binding deal with Yandex NV, Russia's leading search engine, to invest 30 billion rubles in an e-commerce business. Sberbank also hired Citigroup Inc. veteran David Rafalovsky as chief technology officer and promoted Nikita Volkov to be his co-head of its technology division.

Even Sberbank management's choice of clothing at the investor day seemed more Silicon Valley than Wall Street. They sported Sberbank-branded brown polo shirts and jeans rather than suits.

### Spotty Record

Past attempts by Gref to move the bank beyond its bread-and-butter business using its deposit base to lend to Russians have not always gone smoothly. In 2016, four years after spending $1 billion to acquire investment bank Troika Dialog, he dismissed it as a "historical business" for Sberbank.

A move to expand in central and eastern Europe similarly fell flat after buying Vienna-based Volksbank International AG for 505 million euros ($595 million) in 2012, undermined by U.S. and European Union sanctions levied in response to Russia's role in the Ukraine crisis.

"It's a very difficult period of time for us to work with sanctions on the European market," Gref said in an interview on Bloomberg TV. "We will reduce our activities in Europe. Maybe we'll implement more digital activities in European countries, but reduce our physical network."

Some of Sberbank's other innovations include a pilot program for its employees that tests remote doctors' visits that will be able to provide cardiograms and diagnoses via video link. It's also investing in mobile and internet services as well as a real estate portal. Sberbank forecasts that financial tech companies will continue to gain market share in banking services, growing from 5 percent this year to 13 percent in 2021.

Despite the focus on shifting toward technology, Sberbank is reaping record profits thanks in part to its near-monopoly position in Russia, holding nearly a half of all retail deposits. Still, the lender believes its push into non-banking markets will insulate it against the effects of sanctions, according to a presentation at the investor day.

“We applaud Gref’s ambitions on transforming Russia’s largest bank into a tech company,” Luis Saenz, co-head of global equities at BCS Global Markets in London, said after attending the presentation. “Silicon Valley will inevitably move into financial services, so getting ahead of this herd is visionary. I can’t think of anyone more capable of steering this ship in Russia than Gref.”

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