

Banking Systems

University: Higher School of Economics, Moscow, Russia

Department: Economics

Level: Master's

Program: Financial Markets and Financial Institutions

Year: 1

Semester: Fall

Type of course: Lecture +Associated classes

Instruction language: English

Length: 9 classes totaling 36 academic hours of classroom work + 72 hours of individual self-study

Credits: 3

Instructor: [Dr. Andrei V. Vernikov](#)

1. Course organization

1.1 Objectives

1. To provide the students of economics and finance with basic knowledge about common and special features of banking industry in the world's leading countries including Russia;
2. To teach the students to independently analyze banks and banking systems and their way of functioning at the micro and macro level;
3. To demonstrate how to take advantage of available information sources including banking statistics and individual bank reporting;
4. To make the students able to maintain a professional discussion with the help of theoretical ideas and empirical evidence;
3. To expose the students to banking and financial terminology in English and thus to improve their qualification and competitiveness in the jobmarket.

1.2 Target audience

The interdisciplinary course *Banking systems* is intended primarily for students whose background is not focused on the banking industry. The student is expected to demonstrate understanding of basic economic theory and have above intermediate command of English. Graduates will be able to employ the information and skills acquired via studying *Banking Systems* in their practical work, be it in the financial industry or in any other entity that recurs to bank loans and other banking services.

1.3 Course novelty

The course novelty consists in the desire to integrate theoretical models, empirical results, practical facts and statistical data concerning banking. The structural novelty manifests itself in the emphasis on a cross-country comparison of every concept involved.

1.4 Home assignment

In a home assignment the students will work individually on a case study dealing with the banking system of a country from a suggested list. Subsequent sharing of the collected materials allows the students to obtain quite complete information on banking systems of leading countries by the end of the course. This networking component helps the stimulate students and improve the quality of their work.

2. Contents

Topic 1. Introduction. Concept and definition of a national banking system, its tiers and structure.

Topic 2. How to assess and compare the size of the banking industry across countries. Financial depth and its drivers.

Topic 3. Structural parameters and features of a national banking system.

Topic 4. Bank regulation: newest trends. Deposit insurance and its effects. Overcoming bank failures.

Topic 5. Direct involvement of the government in banking activity.

Topic 6. International trade in banking services.

Topic 7. Foreign direct investment in the banking industry and its impact on the recipient economy.

Topic 8. Concentration in the banking industry. National, regional and global banking centers. Top market players in each region and country under analysis.

Topic 9. Russian banking industry compared to those in other transition economies. Comparative analysis of banking across Russia's regions.

Periodicals:

The Banker

BIS Quarterly Review

The Economist

Financial Times

The Wall Street Journal

Journal of Banking and Finance

Journal of Money, Credit and Banking

International Financial Statistics

Web sites:

Deposit Insurance Agency - www.asv.org.ru/

Association of Regional Banks of Russia - www.asros.ru

Association of Russian Banks – www.arb.ru

Basel Committee on Banking Supervision - www.bis.org/bcbs/

Bank for International Settlements – www.bis.org

Bank of England – www.bankofengland.co.uk

Central Bank of Russian Federation – www.cbr.ru
World Trade Organization - www.wto.org
World Bank - www.worldbank.org
European Central Bank - www.ecb.int
Interfax – www.interfax.ru
International Monetary Fund – www.imf.org
RosBusinessConsulting – www.rbc.ru
Expert – www.expert.ru
Federal Reserve System - www.federalreserve.gov/
Financial Services Authority - www.fsa.gov.uk/
Fitch – www.fitchratings.com
Moody's – www.moodys.com
Standard and Poor's – www.standardandpoors.com
World Bank – www.worldbank.org

Program content

Topic 1. Introduction. Concept and definition of a national banking system, its tiers and structure.

1. Course structure and plan, assessment tools and information sources.
2. Banking system as an element of a credit system. Banks' role in the system of financial intermediation.
3. Concept and definition of a banking system. Banking system tiers.
4. Central banks: legal status, mission and functions. Central banks conflict of interest.
5. Banks and non-banking financial institutions. Where is the line between banking and non-banking business? "Shadow banking". Investment banking.
6. Commercial banks types.
7. Standard algorithm for a national banking system analysis.
8. Choice of a national banking system for case study and for student's specialization during the course. Relevant banking systems: transition economies, leading industrially developed countries, emerging market countries.

Topic 2. How to assess and compare the size of the banking industry across countries. Financial depth and its drivers.

1. Quantitative indicators used to assess banking industry development and financial depth.
2. Absolute and relative size of a banking system.
3. Significance of banking systems at country and region level.
4. Quantitative comparison of banking systems. **Task:** Which of the two countries benefits from a more developed banking system (countries may be chosen independently)?

Topic 3. Structural parameters and features of a national banking system.

1. Number of participants in the banking services market. How many banks does Russia need?
2. Bank classification parameters: size, type of property or specialization.
3. Average size of a functioning bank
4. Structural parameters (property type, market structure, concentration indicators, competition intensity, return on equity and assets and other).
5. Balance sheet structure of an average commercial bank in different countries including Russia.

6. Prudential parameters: capital adequacy, assets quality, liquidity, credit portfolio concentration and diversification, proneness to market, credit and operational risks.
7. Qualitative characteristics and parameters. Sustainability, reliability, flexibility, management quality, transparency, frequency of banking and other crises types.
8. Specific credit systems: Islamic banks.

Topic 4. Bank regulation: newest trends. Deposit insurance and its effects.

Overcoming bank failures.

1. Regulatory institutions on the national level.
2. Deposit insurance –prevalence, intermediaries, principles, forms, coverage limits, moral hazard problem.
3. International banking regulation: does it actually exist? Major principles and approaches. BIS. BCBS. ECB. ESCB & Eurosystem. CEBS. Financial Stability Board (FSB).
4. Banking crises and mitigation of their circumstances: international experience.

Topic 5. Direct involvement of the government in banking activity.

1. Theoretical concepts of governmental involvement in banking system (Development theory Vs. Political theory).
2. Direct governmental involvement in the credit system as one of the banking regulation tools.
3. Methodology for assessment of state and quasi state banks share in a banking system.
4. Cross-country comparison of state banks share.
5. Bank nationalization (examples from 2008 – 2009 experience).
6. Bank privatization (examples).
7. Effectiveness of state banks as compared with private ones.
8. Influence of direct governmental involvement in banking system on its stability.
9. “Development banks”.

Topic 6. International trade in banking services.

1. Composition of banking services involved in international trade (under the WTO and GATS rules).
2. Four basic ways of cross-border banking services delivery.
3. Volume and dynamics of international trade in banking services: country-specific examples. Record in the balance of payments.
4. International investment position of a country’s banking sector: concept, structure and information sources. Direct, portfolio and other investment.
5. Cross-border delivery of banking services – forms, scale, major participants, record in the balance of payments.
6. Commercial presence – forms, major participants, rules.

Topic 7. Foreign direct investment in the banking industry and its impact on the recipient economy.

1. Methodology for assessment of foreign direct investment in the banking industry.
2. Methodology for assessment of foreign direct investment in the banking industry across banking systems of different countries.
3. Methodology for assessment of foreign direct investment in national economy lending.
4. Macro and microeconomic consequences of foreign capital involvement in the banking system.
5. Effectiveness of foreign banks in comparison with local ones.

6. Bank protectionism: reasons and general manifestations. Arguments for bank protectionism (infant industry protection, “national economic safety”, “financial sovereignty”, currency stability, availability of banking services, increase in country’s value added, political loyalty).
7. “Clever protectionism”.

Topic 8. Concentration in the banking industry. National, regional and global banking centers. Top market players in each region and country under analysis.

1. Ranking of the leading banking sector players in Russia and in major economic regions of the world.
2. Main banking clusters location.
3. International financial and banking centers.
4. Prospects for Moscow to become a global financial center.
5. International expansion of Russian commercial banks.

Topic 9. Russian banking industry compared to those in other transition economies. Comparative analysis of banking across Russia’s regions.

1. The concept of Russian national banking system.
2. Institutional structure (basic legal acts, state organizations and institutions). Status, functions and role of the central bank.
3. Level of Russian banking system development in comparison with other countries.
4. Structure of Russian banking services market, main participants.
5. Efficiency and profitability of Russian banks.
6. Assessment of competition on the banking services market.
7. Regime for direct investment into the banking sector. The level of foreign capital involvement.
8. Banking sector development across Russian regions.

Assessment tools

Evaluation of attendance and classroom activity (weight – 30 percent); 1 written homework (weight – 20 percent); final oral test (weight – 50 percent).

Expected results

By the end of the course the student is expected to have a solid idea about:

The size and structure of the world’s most advanced banking systems; types of lending and deposit-taking institutions; top group of banking market participants; state-of-the-art in banking industry regulation and anti-crisis policies; main trends in cross-border trade in banking services and foreign direct investment in banking industries; and institutional particularities of Russian banking.

List of possible questions for the final oral test:

1. The concept of a national banking system; its structure (tiers) and basic elements.
2. The scale of Russian banking system in comparison with that of other countries.
3. Basic features of the banking system in Ukraine.
4. Basic features of the banking system in Kazakhstan.
5. Basic features of the banking system in Poland.

6. Basic features of the banking system in China.
7. Basic features of the banking system in the USA.
8. Basic features of the banking system in the UK.
9. Basic features of the banking system in France.
10. Basic features of the banking system in India.
11. Basic features of the banking system in Germany.
12. Basic features of the banking system in Japan.
13. Basic features of the banking system in Brazil.
14. Main reforms of the banking industry in transition economies in 1990s.
15. Top commercial banks in Russia and in other leading countries.
16. Bank regulation and supervision: structure and main instruments.
17. Deposit insurance system.
18. International experience of banking crisis resolution.
19. Nationalization and privatization in the banking industry: international practice.
20. Direct governmental involvement in the world's most developed banking systems.
21. State development banks.
22. Basic forms of cross-border banking services delivery (under GATS).
23. Main arguments for protectionism in banking industry.
24. Balance of Russian external trade in banking services.
25. International investment position of the banking sector. Investment structure.
26. The scale of international presence in Russian banking industry (in comparison with other countries).
27. Impact of foreign direct investment on the banking sector of Russia and other economies in transition.
28. Russian commercial banks competitiveness, ways of estimation
29. Methods of competition intensity assessment in the banking sector. Basic concepts of antimonopoly regulation in Russian banking system.
30. Profitability and effectiveness of Russian banks (private banks – Russian state banks – foreign subsidiaries). Cross-country comparison.
31. Russian banks as financial intermediaries: execution of basic functions.
32. Global financial centers. Prospects for Moscow to become a global financial center.
33. Rules of banks establishment and functioning in EU member states.
34. Russian banks assets structure in a cross-country comparison.
35. Russian banks liabilities structure in a cross-country comparison.
36. Comparison of a typical Moscow bank with a regional one in Russia: size, balance structure, effectiveness, services profile.