

Consumer Credit Cooperatives as an Element of the Financial Market of Russia

Las cooperativas de crédito al consumo como elemento del mercado financiero de Rusia

Authors

Svetlana V. Krivoshapova^{1*}, Elena V. Piven²

¹ *Candidate of economic sciences, Associate Professor, Department of Economics and Management, Federal State Budgetary Educational Institution of Higher Education Vladivostok State University of Economics and Service, 690014, Russia, Vladivostok, Gogolya street, 41. <https://orcid.org/0000-0002-7374-1446>*

**E-mail: russia@prescopus.com*

² *Academic College Lecturer, Federal State Budgetary Educational Institution of Higher Education Vladivostok State University of Economics and Service, 690014, Russia, Vladivostok, Gogolya street, 41. <https://orcid.org/0000-0002-5761-6135>*

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Abstract

One of the most important segments of the financial market is the credit market. Adequate and timely provision of the means necessary for production processes of economic entities, and the solution of vital tasks for the population largely depend on the possibility of obtaining credit resources. But the uneven distribution of financial and banking services, the supply of which is significantly behind demand for them, significantly inhibits the development of small businesses and causes imbalances in the economic and social development of the constituent entities of the Russian Federation. The development of a system of credit cooperatives became one of the ways to solve the problem of satisfying the demand for financial services. At the same time, credit cooperation should not be regarded as a direct competitor to the traditional banking sector of the economy. Most likely, it is worth recognizing the activities of consumer cooperatives as additional support to the financial sector. Their role as microfinance entities in attracting personal savings and lending to the real sector of the economy and the country's population is constantly growing. The fact that the activities of credit cooperatives are often considered only from the position of social significance for a locally limited community narrows the understanding of its role for the entire financial system of the country. In this regard, it becomes relevant to study the factors affecting the development of consumer cooperation in the Russian Federation, and to elaborate measures to improve it.

Keywords: Financial Market; Consumer Lending; Financial Organizations; Consumer Credit Cooperatives; Shareholders.

Resumen

Uno de los segmentos más importantes del mercado financiero es el mercado crediticio. La provisión adecuada y oportuna de los medios necesarios para los procesos productivos de las entidades económicas, y la solución de tareas vitales para la población dependen en gran medida de la posibilidad de obtener recursos crediticios. Pero la distribución desigual de los servicios financieros y bancarios, cuya oferta está muy por detrás de la demanda de ellos, inhibe significativamente el desarrollo de las pequeñas empresas y provoca desequilibrios en el desarrollo económico y social de las entidades constituyentes de la Federación de Rusia. El desarrollo de un sistema de cooperativas de crédito se convirtió en una de las formas de resolver el problema de satisfacer la demanda de servicios financieros. Al mismo tiempo, la cooperación crediticia no debe considerarse como un competidor directo del sector bancario tradicional de la economía. Lo más probable es que valga la pena reconocer las actividades de las cooperativas de consumidores como un apoyo adicional al sector financiero. Su papel como entidades de microfinanzas en la atracción de ahorros personales y préstamos al sector real de la economía y la población del país está en constante crecimiento. El hecho de que las actividades de las cooperativas de crédito a menudo se consideren solo desde la posición de importancia social para una comunidad local limitada reduce la comprensión de su función para todo el sistema financiero del país. En este sentido, es relevante estudiar los factores que afectan el desarrollo de la cooperación de los consumidores en la Federación de Rusia y elaborar medidas para mejorarla.

Palabras clave: Mercado financiero; Préstamos al consumidor; Organizaciones financieras; Cooperativas de crédito al consumo; Accionistas.



Introduction

A country's financial market is a system of economic and legal relations related to the use of money as a means of accumulation and payment, as well as to the circulation of financial instruments. One of the hallmarks of a developed financial market as a cultural and business environment is the diversity of members included in the market.

The credit market in Russia becomes its most attractive segment in the context of growing rates of consumer lending. Credit and non-credit financial organizations carry out their professional activities here. At the same time, if credit organizations have been studied quite extensively for the previous years, the segment of microfinance organizations, which are non-credit, is poorly studied.

It is necessary to single out consumer credit cooperatives among intermediaries in the architecture of the financial market of Russia. Credit cooperatives occupy a special place in the financial system of the country: they are created and operate on the principles of mutual assistance; they are primarily oriented in their activities to ensure access to financial services for their members. At the same time, credit cooperatives by their nature do not seek to capture the financial market as a whole or its segment, but are aimed at increasing local and general welfare, since they belong to their members (shareholders) and are aimed at meeting their needs. It should be noted that the number of credit cooperatives and the number of their members has been gradually decreasing in recent years, which makes the analysis of credit cooperation and its future in the Russian economy more and more relevant.

In accordance with Federal Law No. 190-FZ, a credit consumer cooperative (CCC) in the Russian Federation is a voluntary association of individuals and (or) legal entities on the basis of membership and on a territorial, professional and (or) other principle in order to meet the financial needs of members of the credit cooperative (shareholders) [Federal Law No. 190-FZ dated July 18, 2009].

The activities of a credit cooperative involve two operations:

- Raising funds from their shareholders (individuals and legal entities), as well as from other legal

entities, if their charters provide for the right to provide loans to credit cooperatives;

- Accommodating with loans to its shareholders and credit cooperatives of the second level.

It should be noted that the objectives of a credit consumer cooperative are not formulated in the legislation and are enshrined in their charters. In particular, it seems possible to assign actions to the tasks of a credit consumer cooperative aimed at attracting free monetary funds of individuals and legal entities and placing them on their own behalf; ensuring profitability of shareholders' savings and financial stability of the credit consumer cooperative, etc. [Tikhonov, 2018].

According to paragraph 3, Article 3 of Federal Law No. 190-FZ, consumer credit cooperatives in Russia carry out activities on the basis of the following principles:

- Mutual financial assistance of shareholders;
 - Restriction of participation in the activities of the credit cooperatives of persons who are not their members;

- Voluntary entry into a credit cooperative and freedom to withdraw from it, regardless of the consent of other shareholders;

- Self-government of a credit cooperative ensured by the participation of its members in the management of the cooperative;

- Equal rights of shareholders in decision-making by credit cooperative bodies, regardless of the size of a contribution made by a member of the credit cooperative (one shareholder - one vote);

- Equal access of shareholders to participate in the process of financial mutual assistance and other services of a credit cooperative;

- Equal access of shareholders to information on the activities of their credit cooperative;

- Jointly and severally bearing subsidiary liability by credit cooperative members for its obligations within the unpaid portion of the additional contribution belonging to each of the shareholders.

The data on the number of consumer credit cooperatives operating in Russia for the period 2016-2018 are presented in table 1.

Indicators	As of 01.01.17	As of 01.01.18	As of 01.01.19
1. The number of consumer credit cooperatives, units	3059	2666	2285
2. The annual growth rate, %	-12,6	-12,8	-14,3

Source [Report on the results of public consultations on the report "Development of credit cooperation"

[Electronic source]. - M.: Central Bank of the Russian Federation. - 2018]



Table 1: Dynamics of the number of consumer credit cooperatives in the Russian Federation for the period 2016-2018

According to the data presented, one can notice a trend towards a decrease in the total number of consumer credit cooperatives in Russia in the reporting period. So, in 2017, the number of credit cooperatives decreased by 12.8% (393 organizations). Negative dynamics continued in 2018, and the rate of decline in their number has increased to 14.3% (381 organizations); on average, the quarterly rate of decrease in the number of participants was slightly more than 3%. The overall decline for 2016-2018 amounted to 25.3% (774 organizations).

The current trend towards a decrease in the number of registered consumer credit cooperatives is

Indicators	2016	2017	2018	Change for the period, %
1. Provided by credit organizations	32,680,358	36,446,250	42,281,884	29.38
2. Provided by microfinance institutions, including:	195,169.8	256,106	329,831.4	68.99
2.1 Provided by consumer credit cooperatives	70,320	81,500	79,600	13.2
3. Total loans and borrowings provided	32,945,847.8	36,783,856	42,611,715.4	29.33
4. The share of consumer credit cooperatives in the total granting volume, %	0.21	0.22	0.19	-9.5

Source [Report on the results of public consultations on the report "Development of credit cooperation" [Electronic source]. - M.: Central Bank of the Russian Federation. - 2018]

Table 2: The volume of loans granted by credit and microfinance organizations of Russia in 2016-2018

According to table 2, it can be concluded that the share of consumer credit cooperatives in the financial market of the Russian Federation is very low and remains at the same level in the reporting period (0.19% in 2018 against 0.21% in 2016). In general, with a total growth of credits provided by 29.38% and loans provided by 68.99% for the period under review, the total market portfolio of loans provided remains stable and shows growth at the horizon of the period under review (79.6 billion roubles in 2018 against 70.32 billion roubles in 2016; + 13.2%). This dynamics has developed as a

associated with the Bank of Russia's ongoing work to clear out the credit cooperation segment from participants who do not comply with the requirements of the legislation of the Russian Federation.

In the context of growing consumer lending and lending volumes, the credit cooperation market is marked by a slowdown in development and a decline in confidence to public as a participant in the financial market. Table 2 presents the dynamics of the volume of loans and credits issued by credit organizations and microfinance institutions to individuals and legal entities (excluding loans provided to credit organizations) for 2016-2018.

In millions roubles

result of several factors: strengthening the position of large consumer credit cooperatives in the liquidation of smaller and (or) unscrupulous cooperatives, as well as due to license withdrawals from credit institutions of a regional scale.

In order to assess the scope of activities of consumer credit cooperatives in Russia, we need to know, which is their population coverage, or the number of their shareholders. Data on the number of members of credit cooperatives consisting of self-regulatory organizations in the financial market are presented in Figure 1 in the context of individuals and legal entities as a whole for the Russian Federation for 2016-2018. At the same time, it is noted that the number of members of consumer credit cooperatives over the past two years has been declining more slowly than the number of organizations (-5.9% as a whole for the Russian Federation).

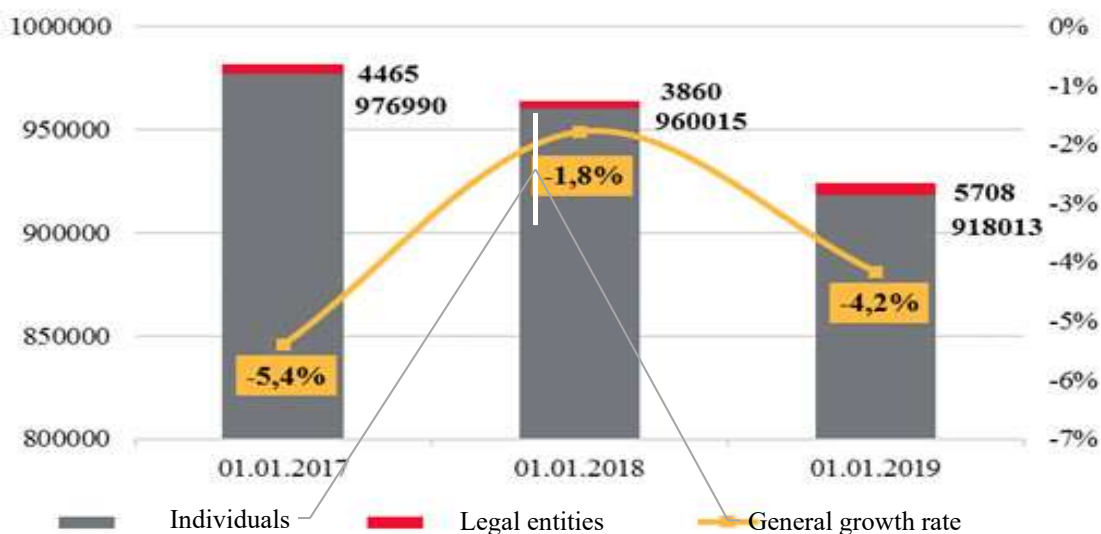


Figure 1: Dynamics of the consumer credit cooperative shareholder number in the Russian Federation for 2016-2018. Source [Report on the results of public consultations on the report "Development of credit cooperation" [Electronic source]. - M.: Central Bank of the Russian Federation. - 2018]

The number of members of consumer credit cooperatives in 2017 did not change significantly (-1.8% or 17580 shareholders) and grew up to 963875 members of consumer credit cooperatives; however, the already low share of legal entities in the composition of shareholders decreased significantly (605 legal entities). The situation deteriorated markedly in 2018: credit cooperatives lost 40,154 shareholders (-4.2%), and their number was 923,721 shareholders, while the outflow affected individuals, while the number of legal entities exceeded the value

at the end of 2016 (5708 legal entities at the end of 2018 versus 4465 legal entities at the end of 2016). The main reason for the decrease in the number of credit cooperative shareholders and, as a result, a significant decrease in the volume of granting and attraction of funds of shareholders in 2017-2018 was the identification of a nationwide financial pyramid, which included 22 consumer credit cooperatives and operated in 17 regions of the Russian Federation. This caused a decrease in the level of public confidence in credit cooperatives as a financial structure in the architecture of the financial market [How to recognize a financial pyramid]. The dynamics of the volume of funds raised by cooperatives for 2016-2018 in the context of individuals and legal entities as a whole for Russia is presented in table 3.

In billions of roubles

Segment	2016	2017	2018	Attraction dynamics	
				2017 to 2016, %	2018 to 2017, %
Russia	83,7	77,8	73,9	-7,0	-5,0
- individuals	79	74	70,2	-6,3	-5,1
- legal entities	4,7	3,8	3,7	-19,1	-2,6

Source [How to recognize a financial pyramid]

Table 3: The volume of funds raised by consumer credit cooperatives in Russia for 2016-2018.

In 2017, the volume of funds raised shows a negative trend in both segments: at the end of the year, its value amounted to 77.8 billion roubles in Russia against 83.7 billion roubles at the end of 2016 (-7%). Such a sharp decrease in the volume of fund attraction in 2017 was due to the termination of the activity of 6 participants in the financial pyramid at the end of the year and the failure of these

cooperatives to submit a report on their activities to the Bank of Russia and, as a result, the lack of information about their activities in the statistics. The exit from the market of a large number of consumer credit cooperatives with signs of fraud also affected the overall portfolio and dynamics of loans provided by cooperatives. Data on the volume of loans provided by credit cooperatives consisting of self-regulatory organizations are presented in table 4.

In billions of roubles



Segment	2016	2017	2018	Annual growth rate	
				2017 to 2016, %	2018 to 2017, %
Russia	70,32	81,5	79,6	15,9	-3,4
- individuals	60	73	66,3	21,7	-3,3
- legal entities	10,32	8,5	13,3	-17,6	-4,7

Source [How to recognize a financial pyramid]
Table 4: Dynamics of the volume of loans provided to consumer credit cooperatives for 2016-2018

The volume of loans provided by consumer credit cooperatives at the end of 2018 in Russia as a whole increased to 79.6 billion roubles against 71 billion roubles at the end of 2016. Growth occurs with a reduction in the number of operating companies, that is, larger organizations remain on the market. This trend is confirmed by an increase in the average loan size for the period under review, both among individuals and legal entities. A slight decrease in the volume of loans provided in 2018 (-2.3%) over the general horizon of two years against the background of a decrease in the total number of consumer credit

cooperatives (-22.7% for 2016-2018) indicates the continued demand for products of consumer credit cooperatives. It should be noted that in the reporting period there was a redistribution of portfolio shares between segments of individuals and legal entities: the share of the portfolio belonging to individuals in Russia increased by 21.7% in 2017 and fell uncritically by 3.3% in 2018.

With a decrease in the volume of loans provided, attention should also be paid to changes in the structure and dynamics of concluded loan agreements in the market in the reporting period. Data for the whole Russian Federation are presented graphically in Figure 2.

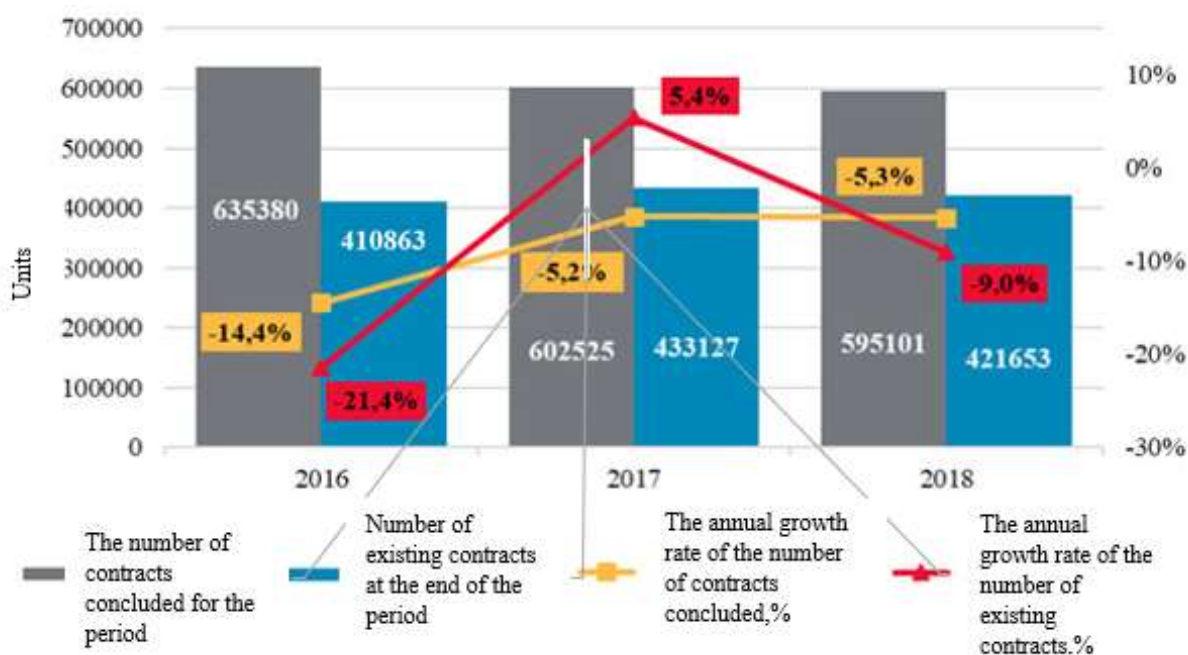


Figure 2: Dynamics in the number of loan agreements concluded by consumer credit cooperatives in Russia for 2016-2018. Source [How to recognize a financial pyramid]

For 2016-2018, the number of existing loan agreements in Russia as a whole has changed insignificantly (10790 units, + 2.6%), while the

number of concluded loan agreements has on the contrary reduced - by 6.3% (40279 units), which indicates a decrease in their average amount at decreasing in the total portfolio. According to the volume of loans provided and the number of contracts concluded for the reporting period, we find out the average loan amount. As a whole at the end of 2018 and compared with 2016, the average loan amount provided in the market increased by 20.9%



to 133.8 thousand roubles. The increase in the average loan amount is due to an increase in activity in the segment of loans to legal entities, as evidenced by the positive dynamics of the portfolio of loans provided to legal entities at the horizon of 24 months. After considering the volume of lending by credit cooperatives in the context of individuals and legal entities for 2016-2018, the issue of studying the volume and share of overdue debts in the loan portfolio of consumer credit cooperatives in the analysed period becomes relevant. Overdue debt (NPL 90+) is an indicator that characterizes the

amount of outstanding debt, for which the payment of principal and interest is overdue for 90 days or more.

Data on the amount of debts proceeding from the amount of principal debt on loans by individuals and legal entities, as well as data on the level of NPL 90+ for consumer credit cooperatives concerning loan agreements in Russia as a whole are presented in table 5.

In billions of roubles

Segment	01.01.17	01.01.18	01.01.19	Annual growth rate	
				2017 to 2016, %	2018 to 2017, %
1. Principal debt on loans provided to consumer credit cooperatives in Russia	48	48,1	46	0,2	-4,4
2. Overdue debt of consumer credit cooperatives as part of the amount of the main debt under loan agreements in Russia	9	9,4	9,8	4,4	4,3
3. The share of NPL 90+ in the loan portfolio of consumer credit cooperatives in Russia,%	18,75	19,54	21,3	4,2	9,0

Source [Strategy for increasing financial affordability in the Russian Federation for the period of 2018-2020 [Electronic source]. - M.: Central Bank of the Russian Federation. - 2018]

Table 5: The volume and share of debts and arrears in the portfolio of loans made by consumer credit cooperatives in Russia for 2016-2018

For the period under review (2016-2018), NPL 90+ overdue debt grew in the whole market by 0.8 billion roubles, or by 8.89%. The share of NPL 90+ in the portfolio increased to 21.3% against 18.75% (+ 2.55 percentage points) as a whole for the Russian Federation over the period. The growth is due to an increase in the share of overdue loans in the loan portfolio of the largest players and a general decrease in the population's payment discipline in the consumer lending sector as a whole across Russia.

At the same time, it can be assumed that the share of NPL 90+ individuals in the consumer credit cooperative loan portfolio in Russia is significantly higher than the share of legal entities.

Thus, we can draw a general conclusion that the sector of consumer credit cooperatives in the microfinance market of Russia is determined by a decrease in all indicators, which is directly related to the procedure for clearing the segment by the Bank of Russia together with self-regulatory organizations in the financial market from participants, who do not comply with the requirements of the law. The credit cooperation market is at a transitional level, that is, on the way to the formation of a full-fledged part of the financial market infrastructure, where relations between cooperatives and their shareholders will be

built on the principle of community and mutual financial assistance.

Among the main factors restraining the positive dynamics in Russia in the sector of credit cooperation, the following can be distinguished:

- Imperfection of the legislation on microfinance and microcredit activity, which allows finding opportunities for creating criminal schemes;
- Low level of legal consciousness, legal culture and financial literacy of the population (deceiving a microfinance organization is not perceived as a crime in society; low level of knowledge about the activities of such organizations);
- Shortcomings in the activities of credit cooperatives (poor quality verification of data on borrowers; insufficient level of competence and professionalism of employees, violation of the law in their activities);
- Shortcomings in the organization of activities performed by law enforcement agencies to combat crime in the field of microfinance;
- Deficiencies in the control of self-regulatory organizations concerning the activities of their members;
- Lack of remote servicing of shareholders;
- Non-compliance with the principles of cooperatives in practice;
- Disunity of the cooperative movement (lack of the principle of community in the activities of cooperatives), etc.

Based on the above factors and in order to improve the activities of consumer credit cooperatives in Russia, we would like to highlight the following



activities that can push the credit cooperation sector to its development:

1. Support for newly created consumer credit cooperatives.

Among the activities that would allow young cooperatives to develop, one can note the introduction of tax holidays, which are currently absent for consumer credit cooperatives, or the provision of benefits in the first three years of business in the form of a partial exemption from payment of contributions to a self-regulatory organization, as well as the preparation and submission of reports to the Bank of Russia.

2. The introduction of modern technologies in the activities of credit cooperatives (digital finances: electronic means of payment, remote services, etc.). Digital finances will eliminate the need for physical presence of shareholders for specific operations and increase the availability of credit cooperative services; reduce the risk of fraud by increasing the transparency and coverage of on-going cash transactions; and will create real-time systems.

3. Formation of a system for guaranteeing and stabilizing credit cooperatives, and also creation by the state of an insurance system for savings made by shareholders instead of existing compensation funds in SROs, which are able to compensate for no more than 5% of the monetary funds per one cooperative. In order to stimulate the development of this sector of the financial market, it is proposed to implement measures to transform the existing system of property liability of self-regulatory organizations to shareholders of consumer credit cooperatives into a single system to guarantee the safety of personal savings in the credit cooperation market [The main directions of development of the financial market in the Russian Federation for the period of 2019-2021 [Electronic source]. - M.: Central Bank of the Russian Federation. – 2019. Koren, Vodopyanova, & Pustovarov, 2019. Konvisarova, et al. 2016].

4. Establishing responsibility in the activities of self-regulatory organizations uniting credit cooperatives for the quality of supervision of consumer credit cooperatives, since self-regulatory organizations often miss small errors or deliberate changes in reporting in order to comply with financial standards. In addition, credit cooperatives themselves need to independently implement internal measures to prevent crimes in the field of microfinance through the development of their own security services, the introduction of specialized investigation units, as well as the separation of the powers and responsibilities of employees.

5. Development of a system informing citizens about the activities of microfinance institutions, and also increasing financial literacy.

Financial literacy is a foundation on which consumer confidence in the financial market is based, and the

first line of consumer protection from possible abuses by sellers of financial services; and also it helps consumers comply with financial discipline.

The implementation of these proposals will ensure greater stability of the market of consumer credit cooperatives in the Russian Federation as a whole and will stimulate their fulfilment of historically developed social functions. It is this approach that makes it reasonable and expedient to implement initiatives aimed at developing and supporting Russian credit cooperation as a separate socially significant segment of the financial market.

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