Modern trends in the institutional investing in Russia

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Abstract

In this article we analyse main tendencies and trends driving institutional investing in Russia nowadays. Russian specifics of institutional investors market is that historically banks played key role and thus became the largest intermediaries in the financial system. Other institutional investors being insurance companies, pension funds and other mutual funds are still in development stage and have extensive opportunities to grow. However, total assets of non-bank institutional investors in Russia are still lagging behind those of banking sector and, therefore, banks are powerful institutional investors.

1 Introduction

Increasing role of institutional investors on international financial market has become an important tendency at the beginning of XXI century.

Institutional investors are specialized financial intermediaries who collect and manage funds on behalf of small investors toward specific objectives in terms of risk, return and maturity.[1]

Historically, banks being the main accumulator and source of financial resources play a key role in the Russian financial system. However, with the development of Russian economy the role of nonbanking financial institutions such as insurance companies, pension funds and other types of funds has increased.

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[1] See Maurer (2003).

At the same time the tendency of the universalization of banking activities leads to increasing role (presence) of banks on the security market. Russian banks have become the largest intermediaries on the financial market. They have a majority share of security portfolios held by the institutional investors.

2 Analysis

Given that commercial banks' investments in securities (the actual investment of banks as institutional investors) are only part of the assets of banking sector, total assets of mentioned institutional investors amount to 6,196 billion rubles (15.86 % of GDP) in early 2010 (see Table 1). Commercial banks are leading players in the collective investments market in Russia as to the amount of assets invested in the securities market, and to the number of players (second after mutual funds).

Indeed, in early 2010, the assets managed by banks as institutional investors amounted to 4,309.4 billion rubles (11.03 % of GDP) and the assets of other institutional investors (including OFBU) totaled to 1,886.6 billion rubles (4.83 % of GDP). Thus, we can state the prevailing role of banks as institutional investors in Russia.

The mutual investments market in 4 years increased by more than 2 times. Assets of institutional investors since 2006 to the end of 2009 increased from 2,704.5 to 6,196.0 billion rubles. However, in relation to the country's GDP growth is not such significant - from 12.51 % to 15.86 %. This demonstrates that the pace of economic development is outstripping the growth of households and corporate customers' resources, attracted by institutional investors.

The specifics of the current Russian insurance market is that the market is at an early stage of its development when the insurance operations are quite cost-effective. Majority of income the insurance company receives are not from investing activities, but from insurance activities. In Russia, the insurance market is in a phase of extensive development - increasing its customer base, regions development, and launching of new insurance products. That is why it is possible to say that insurance companies in Russia are focused on the development of insurance activities. This fact is reflected in investment portfolios of insurance companies which contain a large number of non-market assets with low income (see Figure 1).

Non-state pension provision is one of the fastest growing segments of the financial market, but in recent years, growth has slowed. For example, in 2008, due to the financial crisis,

	Number of organizations	Assets (billions rubels)	Assets as share of GDP (%)	Share in total assets of financial institutes (%)
Bank loans / Other assets of banks	1.178	19.878,4 / 5.242,2	50,98 / 13,42	63,48 / 16,74
Institutional investors including	3.641	6.196,0	15,86	19,79
- Investments of banks in stock market	1.178	4.309,4	11,03	13,76
- Insurance companies	702	977,9	2,5	3,12
- Non-state pension funds	164	518,0	1,33	1,65
- Mutual investment funds	1.307	381,4	0,98	1,22
- Mutual funds under bank management	290	9,3	0,02	0,03
Total	3.641	31.316,6	80,17	100,00

Tab. 1: Assets of institutional investors and loans of commercial banks as as of 01.01.2010, Source: Compiled by the author based on Data on the composition and structure of the insurance companies' assets on 31.10.2009 and 30.11.2009 (see N.U. (2009b)); Statistical information on OFBU market (see N.U. (2009d)); Main indicators of NPF activities (see N.U. (2009c))and Basic indicators for mutual funds for the 4th quarter 2009 (see N.U. (2009a)).

pension reserves declined in value, and the market for the first time showed a negative growth.

Pension funds that invest primarily on the stock market during the crisis transferred part of its assets into debt securities (primarily other financial institutions). It was made because of current developments in the financial sector – significant drop in the stock market.

Investments in equity securities of real economy sectors in 2008 decreased by 40 % (in 2007 by 13 %), together with the revaluation of assets in the investment portfolio of private pension funds due to falling of quotations on the stock market has led to a decrease in investments in the nonfinancial sector.

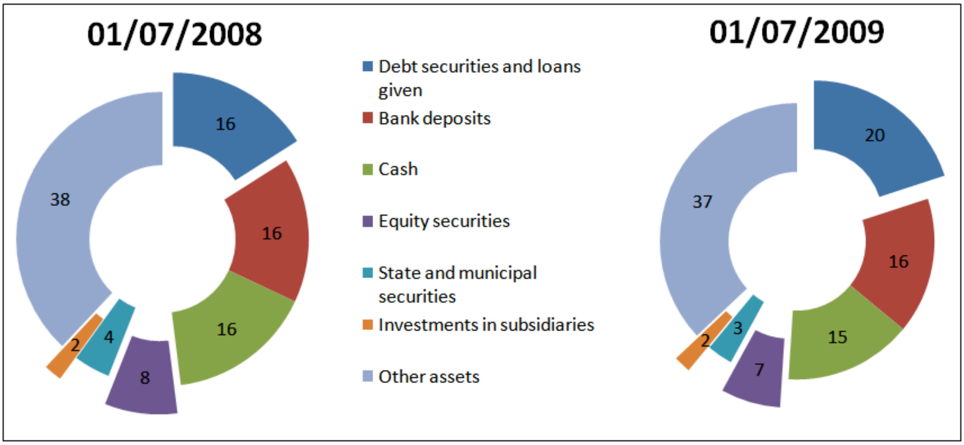

Fig. 1: Structure of insurance companies assets in 1. half 2008 – 1. half 2009, Source: Federal insurance supervision service (2009).

Thus investments in debt securities of other financial institutions increased by 3,1 times and amounted to 83,0 billion rubles.[2]

Through a comparison of the investment portfolio of mutual funds for 2008 and 2009, we note the substantial increase of the investments amount by 140 %, and a slight redistribution of shares of individual investment instruments within a portfolio. The share of cash in total investment portfolio of mutual funds market declined in 2009 by 6,94 %, while the share of equity investments in total assets for the same period increased by 12,15 %. This fact indicates an increase in activity of equity mutual funds and that market returned to the aggressive investment strategy.[3] Information on the investment portfolio of mutual funds are summarized in Figure 2.

3 Conclusion

Summarizing the above, we can see the dominant position of banks as institutional investors in Russia. Historically, banks were the central financial institution that accumulated resources. Even the development of non-bank financial institutions such as insurance companies, pension funds and mutual funds, banks continued to play an important role in the

[2] See Federal financial markets service (2011).
[3] Based on information from URL: pif.investfunds.ru.

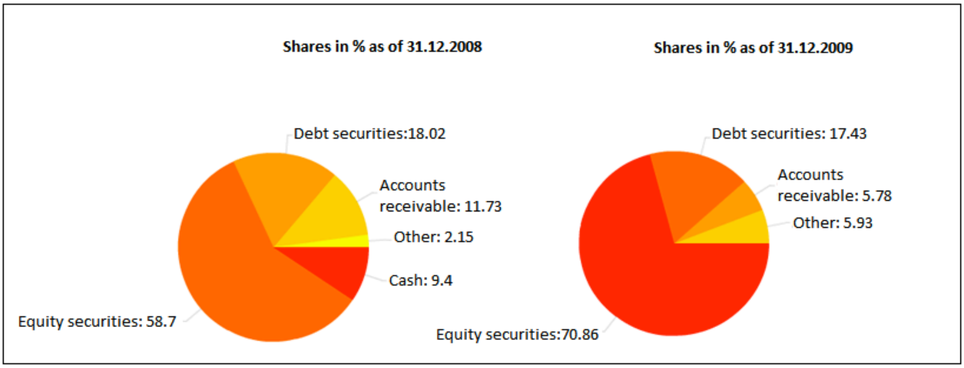

Fig. 2: Distribution of mutual funds assets as of 31.12.2008 and 31.12.2009 based on information from URL: pif.investfunds.ru.

redistribution of financial assets, because bank deposits and cash in the banks are still one of the first places in structure of investments of these financial institutions.

The assets of institutional investors in Russia are still lagging behind the assets of banking sector and, therefore, banks are powerful institutional investors. Unlike Russia, the assets of foreign institutional investors (especially foreign investment and hedge funds) are comparable with assets of commercial banks.

In addition, the important role play specifics of mentality of households and business practices in Russia, as well as a certain distrust of the population to non-bank financial institutions.

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