

ROAD OF CHANGE

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Abstract

The consequences of the events of 2022 continue to impact the development of the country's economy as a whole and the banking business in particular. And although the most significant negative consequences managed to eliminate, the financial sector continues on the transformation path. We will discuss how one of the largest market player manages to do this together with Dmitry Breytenbikher, Senior Vice President, Head of Private Banking and Privilege VTB.

Keywords

Digitalization, automation, technology leadership, bank.

- **Dmitry, last year turned out one of the most difficult for the Russian economy. It was possible to ensure stability and offset the negative effects of sanctions largely thanks to the banking sector. How did the situation develop, what measures were taken at VTB?**

- Yes, we were the first to face sanctions and it was quite understandable. VTB is a systemically important bank with public stake and this capital stake is substantial. Moreover, our business heavily relied on foreign infrastructure: we have always been a bank for foreign trade and had a developed corporate and investment block with a wide network of foreign partners, counterparties and assets.

After February 24 and the first round of restrictions we faced an outflow of foreign exchange liquidity and at first we managed to cope thanks to the created foreign exchange reserves. At that time, the Central Bank was not yet under sanctions and the market was functioning.

But on February 27 part of the Central Bank's gold and foreign exchange reserves was frozen. The response to this situation was the decision to allow clients to withdraw money. The outflow stopped only after two restrictions were introduced by the Central Bank and the decree of the President: on transfers over 10 thousand dollars and the transfer of dollar denominated liabilities to corporate clients converted at the exchange rate.

Further, we saw the outflow of clients provoked by the bank cut off from SWIFT for the simple reason that there still were SDN banks with an access to SWIFT system.

We started to feel implications of secondary sanctions which eventually led to the situation when counterparties refused to fulfill their obligations to us while maintaining a stable financial standing. The situation was really harsh. But at the moment I can confidently claim that the implications of the first shock have been tackled. As a bank and as a team we have demonstrated resilience and adaptability. There is still a long path ahead which we have managed to comprehend but it is yet to be travelled. It is important that we already witness the prospects, for instance, more active yuan denominated allocation, there will also be ruble-denominated, alternative investments, operation with "soft" currencies, deposit products and substitute solutions.



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practical experience.

- **Yes, as far as I know, you managed to find new products and strategies quite fast, which, as the last year demonstrated, have aroused a lot of interest from wealthy clients. How did you manage to regroup so fast?**

- Having gone through a period of high volatility and a rally on the markets during the first wave of the pandemic (Covid-19) we have learned to quickly respond and even capitalize on changes. In the situation of 2023, we were forced to act much faster. I remember how the solutions generated in the morning were already blocked by the evening. We started looking for other solutions. This added up to the craze and required continuous communication with clients. On the one hand, we faced rapidly changing realities, on the other, acute request for information and capital preservation. We did our utmost to offer regular expertise, conduct transactions, process client orders and propose new tools. One of the most striking trends in 2022 was gold bullion. Since March VTB Private Banking and Privilege of VTB have sold more than 30 tons breaking the record on the Russian market. The popularity of this asset class surged particularly after the cancellation of 20% VAT.



As a bank and a team, we have demonstrated resistance and adaptability. We have a long way to go, which we managed to realise and now it's time to overcome that way.

It should also be noted that the average transaction was 10 kg and if you consider the period after September last year, we have seen a 20% rise in demand from month to month. It is well known that historically gold has proven itself as a reliable defensive asset, profitable in the long term, especially amid high inflation and growing geopolitical risks. But there are extra factors that could make 2023 a good year for gold as an investment asset. Its value will be driven by the growing demand from the Central Banks and the limited supply by gold mining companies.

In the second half of 2022 the 20% VAT on the purchase of diamonds was also cancelled. Given the market changes, amendments to the law and limited investment opportunities in general, diamonds will be a good asset to diversify portfolios with a long term horizon.

We also note the reversed interest in deposit products. After a hike in the key rate to retain capital and attract new customers we began to offer deposits with double-digit return. Tellingly, after the expiration of these deposits and the reduction in the key rate we managed to retain 92% of the funds.

In July we introduced VTB investment products in yuan giving an opportunity to obtain additional return on yuan exchange rate fluctuations against other currencies (ruble, dollar). Based on the dynamics of changes in currency preferences we predict an increased interest in the yuan among retail investors. There is also good demand for securitized VTB bonds. In 2021 they were backed by mortgage loans and in 2022 by consumer loans. And in 2023 we foresee a fairly stable interest in these securities.

These are just a few examples of the replacement solutions we offer to our bank's clients. This year we plan to continue developing them as well as expanding the range of tools for investors adjusted for the global and market agendas.



This year we are going to enlarge the toolbox for investors adjusted for global and market agenda.

- But we can see changes beyond financial products, what new services do you offer to your clients?

Of course, with major foreign partners such as Mastercard and VISA leaving the market, many familiar options have been lost. And we focused on implementing similar solutions to maintain the usual level of comfort. On December 5, VTB was the first on the market to launch a joint project with the MIR payment system - Mir Pass, the only alternative to Priority Pass that left our market. Our loyalty program provided access to many business lounges both in Russia and abroad.

- **And as for the constant trends in investment, are there any niches that remain attractive regardless of the global situation?**

- The situation in the world can really change overnight, we have witnessed it several times in real life. I believe the only thing that remains valuable and useful at all times is knowledge turned into practical experience. That is an investment in yourself. If rated honestly, I believe in human capital, i.e. today and in the future we should prioritize investment in education, science, and healthcare, all those longstanding areas underlying the real values and intellectual capital of the nation.

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