

**Bankir.ru, June 26, 2009**

## **Consumer Financing in Times of Crisis**

The present crisis has already gone down in history as one of the major financial calamities of the recent decades in terms of both geographic scale and scope of impact on the world economy and economies of separate countries. The banking sector is no exception. In Russia, the influence of the crisis is felt in all segments of the banking sector, including retail consumer financing. In addition, aside from quantitative changes in consumer financing some important quality shifts are taking place.

Market analysts only speak of the negative consequences of the crisis for the consumer finance market. However, in my view, there are some positive points as well. There are over 1,000 active banking licenses in Russia today but no more than 200 banks actually form the foundation of the banking system. The crisis will most likely lead to consolidation – acquisition of small banks by large banks – which should revive the banking system.

One of the important factors influencing the speed of restoration in the banking sector will be the situation with financing on Western capital markets. In present conditions when the cost of capital is high, consumer loans are becoming unaffordable to many. And this is where the biggest risk for banks lies: consumer can lose confidence in the banking system as a whole.

Important lessons can be learned from this crisis by banks. The consumer financing boom and the desire to extract maximum profit from lending operations often made banks lend to suspicious categories of borrowers. So when the crisis hit banks faced a huge problem of delinquencies. The crisis had a bigger impact in those institutions that had not invested in their operating infrastructure and were unable to quickly adapt to new market conditions.

Quality changes are taking place in the credit policy of retail banks. It's no secret that most banks have tightened their lending practices as well as terms of securing and guaranteeing loans. Banks are no longer willing to finance customers for large sums of money or they are lending for shorter periods of time. Against the background of a sharp decline in demand for lending products and growing delinquencies, banks have shifted their focus from acquiring new customers to retaining old ones. According to Experian's observations, collections, customer relationship management and fraud prevention systems have come into high demand.

In my view, the crisis opens up broad opportunities for banks in terms of deriving revenue from their existing portfolios. Financial institutions that use behavioral scoring are able to determine the needs of customers with greater accuracy and offer them additional products adapted to their individual needs. Proactivity is becoming key and will remain a good opportunity for banks to increase revenue from each customer until the economic situation in the country improves.