

### Monitoring of consumer lending in the region

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**Abstract.** Consumer lending is most popular form of loans among credit organizations and individuals. The author investigates market of consumer lending in RD, evaluates reliability of credit organizations and performs analysis of creditability of a borrowers. Analysis of the problems of consumer lending in the region is done, the biggest is high rate. The conclusion is made that consumer lending institution is actively demanded in Republic of Dagestan. [Aliev B.K., Suleymanov M.M., Sultanov G.S. **Monitoring of consumer lending in the region.** *Life Sci J* 2014;11(9):328-332] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 46

**Keywords:** consumer lending, bank services market, North Caucasian federal district, Republic of Dagestan, regional banks, mortgage loan, bank activity

#### Introduction

History of consumer lending in our country is not long. But it is impossible to imagine modern production or sales of goods and services without advertising urging consumers to take loan from the bank. Today consumer lending has covered the whole territory of our country. However specialists point out that consumer lending market has not reached its peak. The reason is very simple: this service is accessible only for restricted group of consumers.

Pre-crisis period (until 2008) is characterized by boom of consumer lending, annual income growth rates were 100%. During the period of world financial crisis consumer lending growth rates reduced because of reduced wages of the population and growth of unemployment [1].

Recently consumer lending has become one of the most perspective tools of bank credit system in the Republic of Dagestan. The sum of consumer loans given to private persons is growing: in 2003 – 281 930 million roubles, in 2013 - 9 768 007 million roubles which means that institution of consumer lending is becoming more accessible to all people, the conditions of loans are becoming not so strict, interest rates go down - all these factors facilitate development of consumer lending in the region.

#### Main body

In 2013 average bank loan taken by population in the country was 103 730 roubles, average amount of mortgage – 1 805 000 roubles, car loan – 498 200 roubles. Credit card loan is 49 720 roubles at average.

Generally, the attitude of the people of the Republic of Dagestan to credit institution is positive: 53% of respondents answered that they need credits [2].

12% of respondents believe that loans is a way to improve life level, 4% mentioned other

reasons, 2% did not answer. 29% of respondents answered that they treat loans negatively.

In the same time, in some specialists' opinion, there is a trend in the Republic of Dagestan debt load of the population is constantly growing, which negatively influence development of consumer lending market.

For example, in 21.06.2013 T. Shirmanova and A. Alexeevskikh published an article on the website of business newspaper *Izvestia* devoted to the analysis of the volumes of loans given to population in the regions, information was provided by the Agency of credit portfolios Equifax where the data on consumer loans are overestimated in regard to the Republic of Dagestan and other regions (Table 1).

**Table 1. Credit load in the regions in 2013 Agency of credit portfolios Equifax' rating (thousand of roubles per head) [3]**

1. Chukotka autonomous district	166
2. Moscow	152
3. Moscow region	120
4. Dagestan	115
5. St. Petersburg	110
6. Tyumen region	108
7. Ryazan region	107
8. Kalmykia	105
9. Tuva	101
10. Magadan region	98
...	
79. Kurgan region	61
80. Tatarstan	61
81. North Ossetia	60
82. Pskov region	57
83. Republic of Altai	54

For example, these data show that 1 citizen of the Republic of Dagestan owns banks 115 000 roubles - 4

place in rating. The leader in debt load is Chukotka autonomous district - 166 000 roubles, Moscow, Moscow region are on the 2<sup>nd</sup> place [3].

Later in 11.11.2013. T. Shirmanova corrected her mistake and gave data provided by collector agency *Sequoia credit consolidation* [4] which show that in North Caucasian republics amounts of bank loan are minimal, in Dagestan - 8 000 per head, in Chechnya – 8 700, in Ingushetia – 9 500, Northern Ossetia - Alania - 29 300 roubles.

One of the highest debt loads was identified in the Urals Federal district. The leaders in rating by the size of credit load per one person are: Tyumen region (77 800 roubles), Yamalo-Nenetsky district (74 500) and Khanty-Mansiysk autonomous district (73 000). Moscow is only on the 6th place: 65 100 roubles.

Having analyzed the data given above which demonstrate great disparity we depicted dynamics of loan debt in the Republic of Dagestan in 2009-2014 (Table 2).

**Table 2. Dynamics of loan debt in the Republic of Dagestan (million roubles) [5]**

Years	Consumer loans, total	Mortgages, total	Of those:	
			mortgage	Overdue debt
2009	6 492,6	713,2	557,4	8
2010	9 032,5	901,7	754,5	40,9
2011	13 788	1 407	1 267	50
2012	20 004	2 141	1 949	69
2013	26 475	3 715	3 460	97
On 01.01.2014	31 055	5 906	5 773	216

Increment in loan debt increased in the Republic of Dagestan in 2009-2014 by 5 times - up to 31 055 million roubles, and the population of the republic in 2014 was 2 960 000, so the loan debt indicator was 10 300 per one person but it is *not* 152 000 roubles given by Equifax.

Here it is necessary to point out to world trend in loan debt growth in regard to private persons: 1 citizen of the USA owes 281 000 roubles. In Europe the highest level of loan debts: in Spain - 166 000 roubles, in Italy - 165 000, in France - 162 000, in Great Britain - 121 000, in Germany - 87 000 roubles. One of the lowest levels of credit load is in Mexico - 15 000 roubles (4 times less than in the Russian Federation) [4].

Loan repayment rate is a key indicator of credit relations which differentiates them from the other kinds of economic relations, by availability of a specific mechanism. This mechanism is based, on the one hand - on economic processes, forming return motion of credit, on the other hand - on legal relations between creditor and borrower [5].

Credit organizations in any region of the country suffer from default on loans. We asked people of the Republic of Dagestan: Were you success in using loans? 61% answered that loan experience was good and they are ready to use this service one more time if necessary. As a rule, young people - 25-35 years old - in the towns showed intention to use credits in future more often, because they must build family life. Almost 1/3 of respondents - 31% - had negative experience and were not going to borrow money from the bank any more, 8% did not answer [2].

Said above is proved by the data provided by National agency of credit histories where Dagestan people are considered the best borrowers who pay back all loans in time. Chechnya, North Ossetia, Mordovia and Kalmykia and Chuvashia are also in this list.

In the regions which demonstrate low level of debt load also demonstrate low values of overdue debt per head - in the Republic of Dagestan it is 500 roubles per head of the general volume of overdue debt, in Ingushetia - about 1 thousand roubles, in Chechnya - only 164 roubles.

The strategy of development of bank sector of the Russian Federation for the period up to 2015 suggests that territorial distribution of retail bank services in the Russian Federation is uneven. In some regions and on some separate territories supply of bank services is insufficient or is absent at all: this is determined by high costs for establishing and servicing of office network. Besides that in conditions of insufficient capitalization of bank sector the potential of credit organizations in regard to promotion of bank services in the regions is limited. Particular problem is provision of bank products and services for the population and enterprises of North Caucasian federal district.

This moment means undevelopment of the institution of consumer lending in the republics of North Caucasian federal district because of low activity of bank sector here. On the other hand, development of consumer lending institution in the Republic of Dagestan is hindered by high risks of corruption and criminal character in bank sector: a lot of bank licenses of Dagestan banks were called back.

In the same time, rating of credit organizations allows, on the one hand, to guarantee stable dividends for the depositors, on the other hand - to assure financial-credit institutions of their paying capacity, which means cheaper credits [6].

Active propaganda of negative image of Dagestan banks in central and regional mass media is not always corresponds to reality: situation with credit organizations and offices in the Republic of

Dagestan reflects general dynamics of reduction of number of credit organizations registered in the Russian Federation - by 1,5 times (Table 3).

**Table 3. Dynamics of the number of active credit organizations and officers in North Caucasian federal district [9]**

	2001		2006		2011		2013	
	Number of credit organizations	Number of offices in the constituent entity	Number of credit organizations	Number of offices in the constituent entity	Number of credit organizations	Number of offices in the constituent entity	Number of credit organizations	Number of offices in the constituent entity
Russian Federation	1311	3793	1253	3295	1012	2926	956	2349
NCFD	76	233	65	168	57	173	50	169
Republic of Dagestan	44	113	36	75	31	76	21	85
Republic of Ingushetia	2	3	2	5	2	5	2	8
Kabardino-Balcarian Republic	6	18	6	11	6	13	5	13
Karachayevo-Cherkess Republic	7	14	5	5	5	4	5	4
North Ossetia - Alania	6	23	6	18	6	12	5	11
Chechen Republic	-	-	-	1	-	5	-	6
Stavropol territory	11	62	10	53	7	58	6	42

Having analyzed the dynamics of the number of active credit organizations and offices in North Caucasian federal district we can conclude that this number reduced in 2011-2013 by 34%, offices - by 28%. In the Republic of Dagestan the reduction is 52% and 27% accordingly.

**Table 4. Size of deposit of private persons in credit organizations per head in North Caucasian federal district (roubles) [11]**

	2011	2012	2013
NCFD	15853	19571	23629
Republic of Dagestan	6452	8549	9549
Republic of Ingushetia	5032	6486	7613
Kabardino-Balcarian Republic	16212	20195	24252
Karachayevo-Cherkess Republic	12897	19936	23821
North Ossetia – Alania	22305	27645	34025
Chechen Republic	2387	3289	5926
Stavropol Territory	32208	38482	46579

In the beginning of 2014 in the Republic bank sector is represented by 21 credit organizations which is important because the profit tax goes into local budget and is not distributed into other regions [10]. There are 85 offices of the other regional banks in the Republic of Dagestan. Today regional bank sector of the Republic of Dagestan is a leader by the number of active credit organizations among the regions of North Caucasian federal district. Though by the size of deposit of private persons in credit organizations per head the Republic of Dagestan (9549 roubles) is only on the 5th place (2013) (Table 4).

Key indicators of bank sector activity in the Republic of Dagestan show positive dynamics of growth. The assets of active credit organizations in

the region increase in long term, but since 2012 we observe reduction - both in roubles - 20 278 830 000, and in foreign currency - 304 281 000 roubles (Table 5).

**Table 5. Dynamics of assets and liabilities of credit organizations in the Republic of Dagestan (thousands of roubles) [11]**

	Assets in roubles	Assets in foreign currency	Liabilities in roubles	Liabilities in foreign currency
2004	3 012 056	72 596	3 005 070	79 582
2007	6 468 983	158 088	6 475 676	151 395
2009	14 566 201	346 391	14 579 212	333 380
2012	32 600 639	674 878	32 734 887	540 630
2014	20 278 830	304 281	20 381 470	201 641

Dynamics of bank deposits in credit organizations of the Republic of Dagestan is growing: in 2013 this indicator is 28131 000 roubles; in comparison with 2004 it has increased almost by 16 times (Table 6).

**Table 6. Dynamics of bank deposits attracted by credit organizations in the Republic of Dagestan (millions of roubles) [5]**

Total	2004		2008			2010			2013		
	Of this number Legal entities	Private persons	Total	Private persons	Legal entities	Total	Private persons	Legal entities	Private persons		
1947,8	157,1	1790,7	7528,2	288,1	7240,1	14399	1374,3	13025	29305	1174	28131

Studies of consumer lending market of the Republic of Dagestan show that the sole motive for loans is real estate. Purchasing of a flat or a plot of land was mentioned by 31% of respondents. It is worth noticing that purchasing of real estate, in respondents' opinion, is the most reliable way to invest money.

Economic activity of population in the republic is determined by their wish to establish their own business - 16% of respondents. Purchasing of a car - 11%, medical treatment - 10%, "just in case" - 9%, education - 8%, recreation - 9%. Other reasons - 6%.

When getting loans the population of the Republic of Dagestan pays attention first of all to interest rate on the loan - 33%. Opportunities to get privileges in repaying loans - 21%, loan period - 15%. Procedure of getting credit was mentioned by 12% of respondents [2].

Significant contribution into disclosure of the principles of consumer lending was made by R. Musgrave and P. Musgrave. Their opinion is as follows: in the process of long cooperation and mutual sympathy people form common vision and stereotype of behaviour, including consumer sphere. Common interests lead to origination of common needs which must be satisfied by people as community members [10].

It is necessary to point out to the age category of the Republic of Dagestan population which used the services of credit organizations. 26% answered that for last 1-3 years they did not borrow money from the bank, these are people aged 21-25, not married. Young people aged 28-39 having medium income, married and building their family residence - 31% of those who used the services of credit organizations - took consumer loans during last 1-3 years. 14% of respondents aged 28-34 with medium income took loan for urgent needs. 10% of the whole number of respondents aged 30-45, married and having stable work took loans for purchasing a car and 16% of the same category - for buying a flat or a house.

### Conclusion

Summarizing all said above we can say that analyzed period was positive for bank sector of the Russian Federation and its regions. Credit organizations significantly broadened the range of their operations, including crediting of private persons. Microstatistics shows that consumer lending is recovering in Russia. Mortgage lending has reduced for the period of economic crisis not so greatly in comparison with the other forms of crediting of private persons and now by the debt indicator is higher than pre-crisis values [8]. Loan rates, the size of initial deposit, additional commission fees, all these parameters become more attractive for population in comparison with previous years but are not as good as they were before the crisis [9].

Main problems of consumer lending which must be solved today are big percent of default on loans and hidden commission fees which enlarge the size of loan.

Positive moments of development of consumer lending in Russia:

- stable high profit of banks;
- increase in sales turnover of trade organizations and auto salons;
- growth of purchase power;
- increase in number of customers - both for banks and for trade organizations;

Negative moments:

- high risks of non-return of money, for creditors;
- significant over-pay for goods – for customers.

In spite of all the problems the market of consumer lending is actively developing. On the one hand, consumer lending is one of the most suitable form of work with population to stimulate them for purchasing products and goods, on the other hand, there are significant factors which hinder the growth of the segment and can even result in global crisis of

bank system due to growth of default on loans and other negative phenomena.

Home credit organizations must actively use foreign best practices and national experience in the sphere of crediting of private persons for consumer needs. Credit organizations must elaborate single principles, use optimal methods and form tools of rational participation in this sphere of bank business. All this proves exceptional importance of building of adequate and clear complex mechanism of consumer lending, both for commercial banks and national economy as a whole.

In spite of the opinion of central and regional mass media which argue that the Republic of Dagestan is turning into financial “laundry house” our study gives evidences to the contrary. Reduction of the number of credit organizations presented in the region reflects general reducing dynamics of the number of credit organizations in the Russian Federation, financial control authorities call back the licenses not only from Dagestan banks. Loan debt of the population in the Republic of Dagestan is below average value of the country - this fact characterizes the market of consumer lending as positive one.

All said above allows to conclude that institution of consumer lending has found its place in the life of the Republic of Dagestan population. For the last years loyal targeted group of the users of general credit programs and particular targeted loans has formed in the region.

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5/27/2014