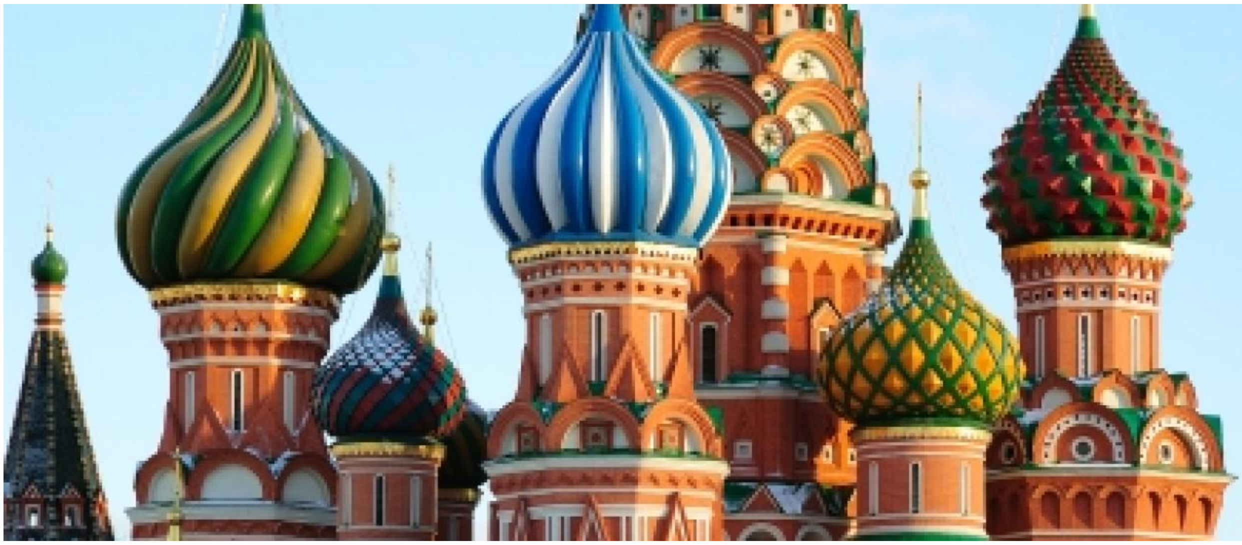
The Russians are coming!



By Shellie Karabell

Sberbank has been the bank of babushkas since the day of the Tsars. Now it has its sights on a much bigger market.

In 1841, Russian Tsar Nicholas I created a bank “for the purpose of providing a means for people of every rank to save in a reliable and profitable manner.” He was responding to the shift in the Russian population: the newly-emerging industrial middle class had assets to safeguard; the formerly dominant agrarian population did not. This so-called ‘Gosbank’ (state bank) had 100 percent of all retail deposits in the country. The 1917 Bolshevik revolution disrupted banking in Russia, but Gosbank kept taking retail deposits. In the mid-1980’s, Soviet leader Gorbachev structured Gosbank as an umbrella bank for 15 savings banks; then, with the collapse of the USSR, President Boris Yeltsin privatised the bank in 1991 as a joint stock company called Sberbank.

Today, Sberbank is the biggest bank in Russia and Central and Eastern Europe and number 3 in continental Europe. It holds some 65 percent of household deposits and employs some 210,000 people in 20,000 branches across the country’s 11 time zones. It grew 20 percent in 2011 from the previous year, bought Russia’s largest investment bank, Troika Dialogue (the deal closed in late January of this year) and grabbed a 17.1 percent overall market share. And the bank’s management is not stopping there.

“Our new strategy is to move to an international market size and international management skills and to the higher top level of international banks,” says Sergey Gorkov, Deputy Chairman of Sberbank and right-hand man to the bank’s legendary Chairman German Gref. Gorkov spoke with INSEAD Knowledge in Moscow at a press conference describing INSEAD’s executive education programme for 500 Sberbank executives.

International acquisitions

Whereas three years ago Sberbank operated in three foreign countries – Belorrussia, Kazakhstan and Ukraine (all former Soviet republics) – Gorkov says this year Sberbank will operate in 16 countries and is looking to achieve 5 percent of the bank’s net profit from sources outside of Russia by 2014.

“It will be difficult for us but I think we will do it,” he confides. “We have some ambition in Poland and we have some ambition in Turkey. We will try to make acquisitions part of our plan for 2014.”

Sberbank is closing a deal with Austria’s Volksbank (OVAG), reportedly paying between 585 and 645 million Euros. A deal in Turkey recently fell through, but the country remains a top acquisition target.

The bank has enough cash to make good on its ambitions. “Last year we had fantastic results,” says Gorkov. “The results have given us hope for this year and for the next as well.” Not a refrain you hear from most banks these days.

That’s partly because in Russia, the 2008 financial crisis sent retail customers and businesses alike back to the security of a bank that is more than 50 percent owned by the Russian central bank (which guarantees deposits) and has been around for 170 years. Coupled with higher oil prices, a rise in consumer credit cards, a deal with BNP Paribas’ consumer credit arm (Cetelem) and fewer loss provisions, you begin to understand where the 17.1 percent market share comes from.
How to spend the cash?

So what to do with those profits? Besides banking acquisitions, Sberbank is actively involved in the consumer durable goods sector. The bank will provide financing for a deal with Fiat outlined in a letter of intent signed in February of this year to produce and distribute cars and Jeep-based utility vehicles in Russia at a new factory to be built near St Petersburg and at the old Zil soviet car factory in Moscow. Fiat-owned Chrysler will take part of the project (Chrysler owns the Jeep brand) and Sberbank will get to own up to 20 percent of the entire project. Fiat and Russia have a long history together of car-making. The iconic Soviet car, the Lada, is essentially a 1960's Fiat, built at the company's factory in the Siberian town of Togliatti (named after Italy's first Communist Party leader).

Sberbank is listed on the Moscow stock exchange and traded in New York as an ADR (American Depository Receipt) and in London as a GDR (Global Repository Receipt). Only about 20 percent of its shares are publicly-traded, but the Russian Central Bank has announced it will sell 7.6 percent of its holdings this year, citing "favourable market conditions" as its reason to chip away at its 60 percent stake. Indeed, Sberbank's share price at US$13.56 (US OTC exchange) at the end of March was towards the high end of its 52-week trading range.

So what's the downside? Well…this is Russia. Political change – whether by political design or popular happenstance – comes quickly and often without warning. The recent demonstrations against now-President/former Prime Minister/former President Vladimir Putin sent foreign investors scurrying. They are gingerly inching their way back. Then there's the issue of Russia's commodity-dependence and the sluggish pace at which it proceeds with Western economic alliances. But analysts point out that Russia is in the ideal position, literally, given its geographical proximity - to supply China with its energy needs.

And Sberbank, despite its international ambitions, understands that its real power lies in the domestic Russian market with its growing middle class, and is targeting that market not just with new products but with better service. "The quality of our managers is very important," claims Gorkov. "We have a lot of training programmes with international business schools, like INSEAD and the New Economic School, which is [a] very important partnership. In my view, we will make good decisions and make the next step into the future."

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