



## Russian Ethical Banking Collapses under the Regulatory Pressure

Elena Tikhaya<sup>1</sup> and Anton Babenko<sup>2</sup>

<sup>1</sup> Adjunct Professor at the Department of Strategy and Management, International University of Monaco, Monaco. Email: [eltikhaya@monaco.edu](mailto:eltikhaya@monaco.edu)

<sup>2</sup> LL.M., Partner at Padva & Epshtein Law Firm, Visiting Lecture at HSE University, Moscow, Russia. Email: [babenko@padva-epstein.ru](mailto:babenko@padva-epstein.ru)

### ABSTRACT

*Nowadays one may hardly find a bank that ignores the importance of ethical values and norms in its everyday interactions with clients, partners, employees or regulatory authorities. Code of ethics defines principles and standards that guide decision-making processes and professional conduct of the everyday operations. Trust, integrity, loyalty, a sense of responsibility to clients are the core of what a banking industry must be all about; otherwise, it is just a big Ponzi scheme.*

*Russian banking system lives in unprecedented reality where almost 70% of assets of the banking system are under sanctions, the reserves of Russian Central Bank are blocked and Russian economy slowdown increases the probability of the non-diversifiable systemic risk of the financial sector.*

*The academic literature states an indisputable fact that financial difficulties increase the scope of unethical behavior. Ethical mismatches of the Russian banks recently caused the exponential growth of the number of new court claims and cases. Private and institutional clients accuse Russian banks for illegal actions known as unfair, deceptive, or abusive acts or practices (UDAAP).*

*There is a call from the academic and managerial filed for addressing the following research questions that have never been discussed so far:*

- 1. What are the typical ethical values shared by Russian banks under the international sanctions?*
- 2. Are the core ethical principles violated during the financial storm?*
- 3. What could be the financial and social consequences of the ethical values violations?*

*Russian banks are moving away from traditional management models that focus only on financial results, corporate strategy, productivity and employees' engagement. Strong corporate ethics become more and more important for the successful development and existence of Russian banks. Empirical findings suggest that ethical corporate values are vitally relevant for managing*



*a bank in the emerging markets (Prosvirkana, 2012). There is a statistically significant correlation between strong ethical values and net profit of the banks (Donker et al., 2008).*

*This research was conducted among the major Russian banks that appear in a sanctions list of Office of Foreign Assets Control (OFAC) and experience the hardest regulatory pressure and business restrictions. Out of 66 banks from the sanctions list we selected five for the scope of this research. Top ranking position in 2023 net assets value and systemic importance made Sberbank, VTB, Promsvyazbank, T-bank and Alpha-bank appeared in the research sample.*

*For the current research the phenomenological study was chosen as an applicable qualitative method. The NVivo software was used to sort, classify and arrange the data.*

*First, based on the analysis of the code of ethics and social reports we determined the core corporate ethical values of the above listed banks. There are five typically observed ethical values driving the management style of Russian bankers. They are: fairness, client orientation, openness, trustworthiness and effectiveness. Second, by investigating the court cases associated with Sberbank, VTB, Promsvyazbank, T-bank and Alpha-bank numerous violations of the stated ethical values were identified. Third, by conducting the interview among the clients of the above stated banks, we derived the positive correlation between the ethical failures and the low clients' trust. Based on the results of traditional research we argue that the low trust level will cause a financial burnout in the Russian banking sector.*

*Our research suggests that Russian bank managers should strongly protect the declared ethical values despite the tough regulatory environment in order to regain clients trust and to assure its future financial stability and strong financial performance.*

**KEYWORDS:** performance, ethical values, Russian banking sector, legal cases.