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## **Types of Financial and Credit Products: Concept, Subject, and Place on Russian and Global Financial Market**

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**Abstract:**

*The paper reveals essential features of financial and credit products as inherent components of Russian and global financial market, which is driven by current global economy integration trends.*

*Financial market is highlighted to provide economic security and proper environment for individuals and legal entities. Taking structural fluctuations in consuming credit products as well as product extension, authors dip into this financial market segment.*

**Keywords:** *Financial market, financial and credit product, financial product line, financial mix.*

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## **1. Introduction**

In modern times of global economy with vibrant globalization and integration processes, the special interest is brought by financial markets' activity as key determinant of both national and global economy prosperous development. Financial market turns to be a key structural component in every single economy, mobilizing ready assets and allocate them between economic agents which feel the need, providing hereby the economic development. Notably, proper environment for developing financial intermediation and satisfying business demand in funds for investing acceleration reasons commonly affect the financial market development and its development prospects. The article highlights particularly issues of financial and credit products for individuals e.g. those who takes up products for personal needs, not connected with entrepreneurial activity. This is because this financial market sector increasingly extends, product line growths involving theoretical and methodological justification.

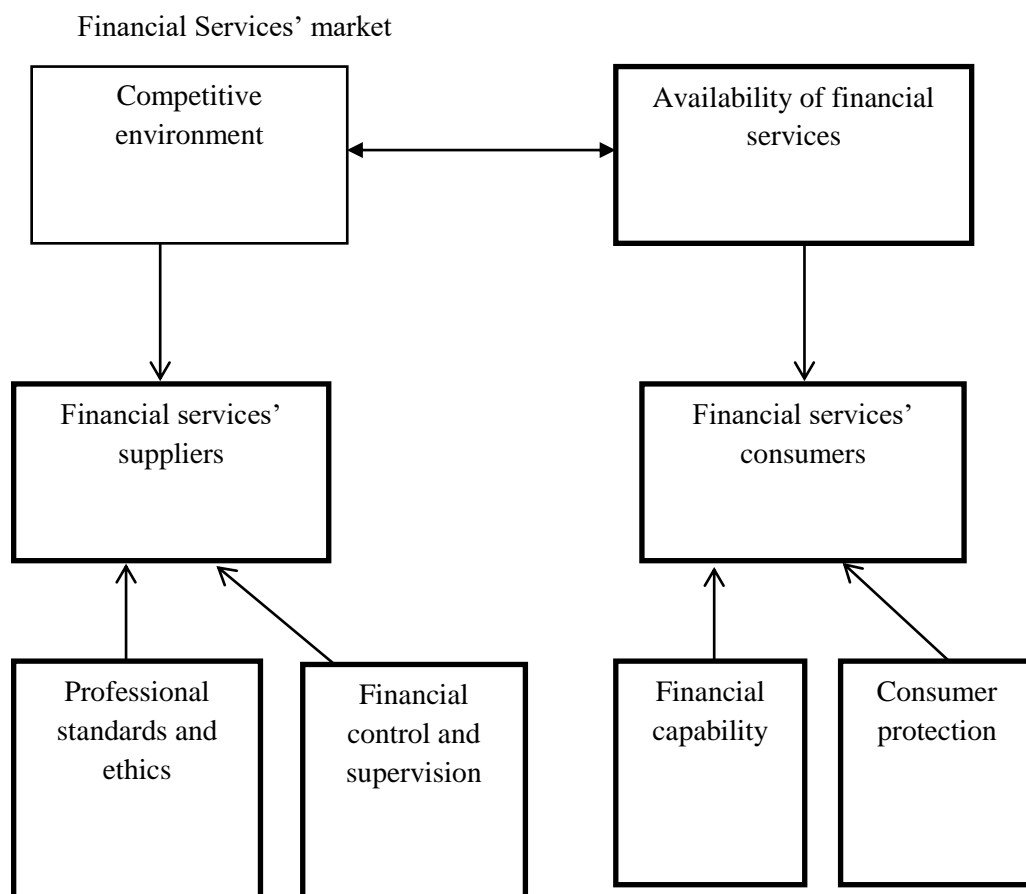
## **2. Theoretical, empirical, informational, and methodological fundamentals of the research**

It worth noting that both literature and regulations treat "financial market" and "financial products' market" as interdependent categories. There is no actual definition of "financial market". But legal framework operates with "financial service" term that is disclosed in clause 4 of Federal Law "On Protection of Competition": Financial service is a banking/insurance/securities/leasing service or service provided by financial organization, connected with taking corporate or individual funds. Whereas, the more convenient for individuals is the term disclosed in Resolution of Plenum of the Supreme Court of the Russian Federation from 28.06.2012 "On Considering by courts of civil trials on consumer protection" namely "financial service is a service of taking/raising/opening/allocating funds, provided to individuals as independent objects of civil law (lending, bank account opening and keeping, fund raising, bank card service and maintenance, collaterals".

In view of this, it could be said that financial market is relations connected with offering and providing individuals and legal entities with certain financial and credit services based on unity of service providers, unity of regulations. Thus, we should mind that within consumer market, the "financial market" term could be exceptionally considered as one of its structural elements, minding its financial autonomy and market distinctiveness. Considering all these points, we could present the following financial market framework (Figure 1).

Financial and credit product is a core feature that determines the financial market development. Slobodyan (2013) notes that analyzing such a category includes considering financial mix provided by financial organizations. The mix includes the following:

**Figure 1.** Financial market framework



- 1) issue of payment documents, cards, traveler checks, its maintenance, and clearing processing;
- 2) financial assets trust management;
- 3) currency exchange;
- 4) fund raising;
- 5) financial leases;
- 6) lending, loaning (incl. credit);
- 7) assurance;
- 8) money transfer;
- 9) insurance, pension maintenance;
- 10) securities trading
- 11) factoring.

Thus, we note that financial services herein are limited by the frames of services connected with taking/raising/opening/allocating funds, provided to the individuals

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as independent objects of civil law. These services include lending, bank account opening and keeping, fund raising, bank card service and maintenance, insurance, collaterals etc.

So, what represents the key element of financial market? The answer lies in clause 3 of Federal Law from 21.12.2013 No 353-FZ “On buyers’ credit” representing consumer’s credit as “funds provided by creditors on the credit contract basis including e-payment instruments and lending limit, for non-entrepreneurship reasons”.

Notable that clause 819 of Civil Code of Russian Federation defines a credit contract. As per contract, bank or credit institution will provide the loaner with funds covered by contract, and the loaner agrees to pay back funds including interest payable. Thus, the bank is the one to contract a credit agreement. Other loan institutions could contract a consumer loan agreement.

Clause 807 of Civil Code of Russia highlights the loan agreement term. Thus, in terms of agreement, first party (lender) transfers funds (or other valuables) to the ownership of second party, and this party must pay back the same value (funds or valuables). However, the Civil Code does not demand the status criteria (act as bank or non-banking organization). So, any party could act as lender. The core principle assigned in the agreement is executing a loan agreement.

Analyzing point 1, part 1 clause 3 of the Law allows for conclusion that consumer credit is recognized only if funds are dedicated for consumer needs. Thus, credit agreement funds are loaned for non-entrepreneurship reasons due to personal needs (purchase of goods and services) of the credit.

### **3. Results**

Along with common financial and credit products presented as banking services (namely money transfer, loans, and deposits), the market extends via non-bank institutions’ services, including security market players, asset management companies, mutual funds, non-state pension funds, joint stock investment funds, insurance institutions, retail cooperatives, micro lenders, housing saving cooperatives, credit consumers’ cooperatives etc. To that end, rapid transformation and extension of financial mix including banking and insurance output as well as financial, banking, civil control and supervision are of special interest in scientific framework.

We start with banking products that are in maximum demand and transformable in environment of crisis phenomena of national economy, sanctions, and introduction of national payment processor “MIR”. Retail lending was still the most competitive banking market segment. New product introduction (including re-targeting at loaners

of mid and low debt load), credit arrangements' lightening, and credit rates' drop remained the basic tools in competition.

Notable that comparing stable European countries and USA together with Russian financial market specifics reveals the dominance of banking sector and its system effect on Russian financial system's sustainability.

However, all segments of financial market undergo changes that need quick response of the state. Ongoing crisis has revealed the failure of illiberal regulation theory, making the state searching for innovative market regulation methods. Considering the banking sector, we note that Bank of Russia's resolution activity gave a boost for switching the customers from small and medium banks to major and publicly owned ones as well as increased the duty for Deposit Insurance Agency. The period of nov 2014 - jan 2015 alone the Agency assisted in 15 bank resolution procedures. Resolution of the TOP-30 National Bank TRUST remains the major project of the Agency which included selection of investor (PAO OTKRYTIE Bank) and 129 RUB bn credit granting.

To that end, we consider that new era of banking sector development should include improvement of service quality, namely expansion of financial and credit products' consumer performance, providing long-term efficiency and sustainability of credit institutions. Moreover, modern IT should be mainstreamed to be the basis of banking activity because the Government and Central Bank are aimed at increasing of competition and transparency at the banking sector. Activity of control and supervision institutions represented by Ministry of Finance, Central Bank, Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor), Federal Antimonopoly Service becomes a point of interest, facing economic risks, internal and external challenges and crisis phenomena.

Thus, Russian insurance retail market shows upward trends since 2010 but with slowly fading growth rates. In 2014 the total insurance fees and payouts came to 987.77 RUB bn and 472.27 RUB bn (108,5% and 111,4% to 2013) correspondingly. In 2013 insurance fees growth came to 111,1%, in 2012 the rate came to 122%. In this case insurers started to use banking sales channel for non-credit insurance promotion.

After analyzing this market segment, we could stress that life insurance, private medical insurance, accident and health insurance turn to be the most profitable financial products. Products like hazardous facilities insurance, insurance against construction and assembly risks, and state insurance of life and health of militaries shows loss in liquidity. Moderate growth increased the competition and caused fluctuations in insurance market segments.

So, providing the economic development via increase in quality and competitiveness of Russian financial market, forming an independent financial center that provides a

wide variety of financial tools, refinement of internal and external investors' demand for financial products, creating proper environment for financial products pricing should be the key reference for short and mid-term state financial policy for financial market genesis.

In this regard, we could conclude that financial market is a key framework of national economy and needs more complex and heavy state institutions' regulation.

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