



The Russian Market: Opportunities for the U.S. Financial Services Sector

U.S. Financial Services Groups Are Following Their Clients into Russia's Resurgent Economy

Russian financial markets are sizzling, and the country's market for financial services grew another 10% in 2006.¹ In terms of market capitalization, Russia's stock market widened more than two-fold in 2006 and stood at \$1.3 trillion.² U.S. financial services groups have a major presence in Russia, and the country's WTO accession will further expand opportunities in this important market.

- Citibank's business in Russia is growing 70% annually.³ The bank operates over 50 branches and holds nearly \$5 billion worth of assets in Russia.⁴
- Morgan Stanley expanded its Moscow staff in 2005 in order to start trading Russian stocks, bonds and currency instruments.⁵
- Russia has agreed to permit 100% foreign ownership of banks, non-life insurance companies, and securities firms upon accession to the WTO.⁶
- Foreign ownership caps on life insurance companies will increase to 51% upon accession and will phase in to 100% after 5 years.⁷

Russia's Consumer Borrowing Market Offers U.S. Banks Major Business Opportunities

Many Russians still do not own a bank account, but this is changing – rising incomes are fueling more car loans, mortgages, and consumer credit.

- Russians are paying with plastic – Russia's banks issued 62.5 million electronic payment cards at the end of the second quarter of 2006.⁸
- Visa International holds first place in the Russian electronic payments industry.⁹

U.S. Insurers Stand to Gain Much from Entering the Growing Russian Insurance Market

Rising standards of living and dwindling government benefits are increasing Russian demand for private insurance coverage,¹⁰ and premiums for both the life and non-life sectors are forecasted to grow 20% annually over the next five years.¹¹ WTO accession will increase market access and permit foreign insurers to participate in this fast-growing market.

- Russia has agreed to permit 51% ownership of life insurance companies upon accession, with an increase to 100% within five years.¹²
- Following a transition period, Russia will allow foreign insurance companies to open direct branches.¹³

U.S. Securities Firms Are Cashing In On Russia's IPO Boom

In 2006, Russia became the #4 market worldwide for initial public offerings (IPOs), and Russia is planning up to \$30 billion worth of IPOs for 2007.¹⁴

- Morgan Stanley, together with Credit Suisse First Boston, was lead manager for telecom company Sistema's IPO, worth US\$1.6 billion.¹⁵
- Goldman Sachs has advised Russia's second largest bank, Vneshtorgbank, on an upcoming US\$2 billion stock flotation.¹⁶
- As part of its WTO accession package, Russia will allow foreign companies to own and trade a full range of securities.¹⁷

¹ *BOFIT Weekly*, (February 9, 2007)

² *Kommersant*, (May 25, 2007).

³ *Business Week Online*, (December 7, 2006).

⁴ "U.S. Business in Russia," Brochure published by the American Chamber of Commerce in Russia (2007).

⁵ *Reuters*, (August 19, 2005).

⁶ "Bilateral Market Access Agreement on Services," USTR Fact Sheet, (November 19, 2006).

⁷ *Ibid*.

⁸ *Kommersant*, (August 15, 2006).

⁹ Ranking based upon total operation volume. *Kommersant*, (April 19, 2005).

¹⁰ EY Interchange Newsletter, (March 2006) http://www.ey.com/global/Content.nsf/US/Interchange_3-06_-_New_Pro Prospects_in_Russia.

¹¹ Business Monitor International, Russian Insurance Report (Q2 2006) <<http://www.businessmonitor.com/insurance/russia.html>> .

¹² "Bilateral Market Access Agreement on Services," USTR Fact Sheet, (November 19, 2006).

¹³ "Bilateral Market Access Agreement on Services," USTR Fact Sheet, (November 19, 2006).

¹⁴ *Financial Times*, (March 9, 2007).

¹⁵ *Business Week Online*, (June 22, 2006).

¹⁶ *Mosnews*, (September 8, 2006); *Knight-Ridder Tribune Business News*, (August 20, 2006).

¹⁷ "Bilateral Market Access Agreement on Services," USTR Fact Sheet, (November 19, 2006).