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M&A AND CREDITING: THE HYBRID GROWTH STRATEGY SEEMS TO BE THE BEST FOR THE BANKS IN KAZAKHSTAN

The development of the banking sector in Kazakhstan after 2015 raises a number of questions regarding the growth strategies that should be applied to overcome the problems with its sustainable development in a business environment, influenced by low prices of crude oil and an underdeveloped real sector. The state policy for bank consolidation and the active support of the National Bank of the Republic of Kazakhstan in solving liquidity problems of particular banks, namely Qazkom and Halyk Bank, has not led to the expected results. This analysis shows that a combination of external factors with organic growth strategy through intensive innovation of the crediting process as well as training of the personnel to minimize the influence of biases in the decision-making process, should be applied as well. Based on our overall analysis it is suggested, that hybrid strategy, which combines the benefits of external and organic growth strategies, would be more suitable under the specific conditions of Kazakhstan, and probably in any other country with similar market environment.
JEL: G21; G28

Introduction

The analysis of the banking sector in the Republic of Kazakhstan (Shenker & Shinkeeva, 2016), as well as the data for the banks' assets and the credit portfolios of the banks (Ranking.kz., 2017) show that there are significant problems related to the growth strategies applied by the banks in Kazakhstan after the devaluation of the Kazakhstani currency Tenge in 2015.

The external growth strategy which was applied by Qazkom Bank in 2014 – acquiring BTA Bank, followed by Halyk Bank acquiring Qazkom in July 2017 (Central Asian Analytical Network, 2017; Danish Kazakh Society, n.d.) – does not seem to produce the desired effects. The banking sector continues to suffer from the same problems as in 2015 – insufficient credit levels and inability to guarantee the sustainable development of the

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sector without the financial support of the government. On the other hand, the support of the government, i.e. the National Bank's credits to provide liquidity to Qazkom –USD 1.2 billion in December 2016, and USD 616 million in February 2017 (Waweru, Munyoki & Uliana, 2008) – did not lead to the desired results.

The shrinking economy of Kazakhstan, which is the result of the dramatic drop in oil and gas prices in 2015, does not attract foreign investors anymore, with the consequence that foreign capital was, and is still being, withdrawn from the commercial banks of the country. This goes along with the underdeveloped, not oil-based economy, which of course negatively affects the crediting potential for banks, as there are not many well-developing companies in the real economy which could be credited at minimal risk. These conditions raise questions as to what growth strategy banks should set themselves and apply in order to bridge the gap in the short run.

The obvious options are, of course, external growth strategy, i.e. mergers and acquisitions, and internal growth strategy. This paper analyses the specifics of the development of the banking sector of the Republic of Kazakhstan (KazBS) in the period between 2016 and 2017, as well as the pros and cons of the two mainstream strategies for growth, with the aim to suggest the best option. It is understood that in theory either strategy could be successful. However, the development of the KazBS suggests that other factors should be taken into consideration as well, namely the impact of cultural factors (Hofstede, Hofstede & Minkov, 2010) in the decision-making process at banks. If the specific national culture matters in this – and it always does – we should consider very seriously the option for internal growth, looking for ways to intensify and optimize the contribution of the human factor in the decision-making process. If the analysis shows that external strategies for growth have bigger potential, the government policy for supporting the big banks should be pursued.

Methodology

Research approach and strategy

We started this research on the assumption that we can transfer to some extent the findings from the surveys of individual and institutional investors' behaviour in the decision-making process to the bank officers involved in the crediting process. The reasons for such a possible transfer are that both professional cohorts have similar education and work standards, and many work in the same financial institutions or conglomerates. On the other hand, the main biases that have been observed among investors (Byrne & Brooks, 2008; Kapoor & Prosad, 2017), such as: overcompetence and overoptimism, representativeness (assessing situations based on superficial characteristics rather than underlying probabilities), conservatism (overstating the probabilities of recently observed or experienced events), regret aversion (not getting too emotional about the decisions made), and of course – misguiding conviction (Byrne & Utkus, n.d.), cannot be transferred one-to-one, although some of them seem to be quite similar in the cases of credit inspectors. It is well known, that the credit process is subject of many specific regulations, quite strict,

starting with European Banking Authority's standards and guidelines, and ending up with the bank's policies and corporate governance. Still, the "credit appetite" and "the tone from the top", which play significant role in the decision-making process in every bank, should be considered also. Therefore, accepting the fact that specific biases exist in one area of the bank activities – investment banking, we presume that there are biases that influence the credit domain of the bank activities as well, although the crediting process in each bank is subject of specific rules and regulations, which make it different from the investment banking. From theoretical point of view such a presumption, that if there are proven biases in one area of the bank activities, there should be expected biases in the other area as well, seems quite logical.

First, we will analyse the findings of previous research, which are relevant to our **aim**: to suggest a strategy, or combination of strategies for growth, that might help the commercial banks in Kazakhstan to adapt to the market conditions for a sustainable development. Then, we will use secondary data to analyse the development of the banking sector in Kazakhstan in the period between 2016 and 2017 with the aim to determine if the strategy for growth was right or not. As criteria we will use the data about the banks' assets and the results from the crediting process.

Secondary research

The data about the development of the banking sector is from official sources, namely from the National bank [50] and from research agencies, such as RFCA Ratings, Rating.kz, Economics and others. As our analytical horizon is very short – the two years after the correction of the international oil and gas prices, which affected the banking sector severely, our analysis, and the results we arrive at, can only be preliminary. If market conditions in the oil and gas sector change, we will need to run the analysis again.

Limitations

As the time horizon, which is two years after 2015, is too short, and the data is about the bank sector only, we may expect some inaccuracies in the analysis and the results. However, we do not expect any significant problems, as the data is from official and other reliable sources.

Theoretical Background

Traditionally finance management in the banking institutions has been considered to include two absolutely separated areas – the credit and deposit area on the one hand, and financial investments on the other hand (Lavrushin, 2008-a; Glushak, 2017, Nikonets & Marchenko, 2015; Hamitov, 2005; Shustova, 2010). Crediting has always focused on finding reliable companies with sustainable profitable business, which would guarantee the regular repayment of instalments according to the credit plan. In line with this is, of course,

the minimization of the credit risk, e.g. with the provided collateral and strictly following the risk-minimizing policies and regulations (Lavrushin, 2008-a; Gruning, 2007; Lavrushin 2008-b; Rau & Shustova, 2014, Sadvokasova & Kodasheva, 2016; Shalabai, 2008; Shustova, 2011). The crediting process is subject of many different strict regulations, from the technical standards, guidelines and recommendations of EBA (European Banking Authority, n.d.), mandated to EBA and developed according to the Bank Recovery and Resolution Directive, to the national laws and other regulations, the policy of the national bank, and further down to the policies and corporate governance of the commercial banks at the other end of the risk-minimization vector. For this analysis of commercial banks, the most important elements are the corporate governance, the corporate culture, and of course – the risk management. Obviously, the compliance of the "risk appetite" at the credit department level, with "the tone from the top" (in the bank), and of course – with the regulations, is probably the most important issue.

Regarding the financial investments area, the theory is much more diverse as there are many more unforeseen risks. There we could consider the paradigm of the 'rational man' (homo economicus), applying the axioms of Expected Utility Theory (EUT) by von Neumann and Morgenstern (1947), which led to the development of a number of theories on finance, such as Efficient Market Hypothesis (EMH), the Sharpe - Lintner Capital Asset Pricing Model, the Miller-Modigliani Irrelevance Propositions, the Cox- Ingersoll-Ross theory of the term structure of interest rates (Gilson & Kraakman, 2003), only to mention a few. It is well known that none of these theories can be applied exclusively, i. e. that one of them is "the only one", as there are many anomalies which influence investors' behaviour in the decision-making process (Prast, 2004; Ivanova, 2010). In practice, the market equilibrium is some sort of weighted average of the behaviour of rational and irrational traders (Fama & French, 2007; Ivanova, 2010; Verma & Soydemir, 2009).

As a result, investors naturally develop some kinds of biases, which are both learned and experienced, and these biases seem to influence the decision-making process significantly.

Another consideration, which is important for us in this research, is that some of the biases which influence the decision-making process in financial investment are based on the national culture, as well as on certain subcultures, and it is very difficult, or even impossible, to avoid them, especially when the financial expert/investor is absolutely confident about his professional competence (Biais & Weber, 2009; Ivanova, 2010; Menkhoff & Nikiforow, 2009; Taleb, 2004). Obviously, if this is the case, such investors would not learn much from their previous experiences when they make investment decisions for the near future.

The above-mentioned research findings are mostly about the personal/individual investors. The question is - can we transpose them from the institutional investors to the credit inspectors? And if yes, can we also consider that the other bank officers, including those in the credit departments, have similar biases, and also that they would behave in a similar way when deciding on the credit lines to the real business agents? If yes, we can use the behavioural finance framework to analyse the results of the Kazakhstani banks in the last two years and look for better results as outcome of the crediting process.

The main idea of the behavioral finance is that the economic (rational) man does not exist in reality and in the decision-making process the finance/bank officers often deviate, sometimes - significantly from rationality. The behavioral finance studies the influence of emotions and cognitive errors on investors and thus opens up new vistas to influence the behavior of the decision-makers in finance and banking. To be more specific, the behavioural finance considers the differences between the cognitive biases and emotional biases (Ivanova, 2010; Pompian, 2009; Waweru, Munyoki & Uliana, 2008) stating that the knowledge-based biases might be corrected based on the personal experience, and of course through provision of comprehensive information. It is much more difficult to overcome the emotional biases, which are influenced by impulse and intuition. Still, through the intensive and systematic training it is possible to reduce to a minimum the effects of all those biases in the management process.

In a very interesting research of 46,969 brokerage accounts Chen, Kim, Nofsfinger and Riu (2007) found out that the institutional investors are equally affected by biases like the individual investors. They argue that a large number of such institutional investors are showing poor results because they are subject to biases. In other words, they do not learn much from their previous experience, attributing the negative results, if any, to other factors only, but not to their own biased decision-making. Here we talk about investors in emerging markets like those in Kazakhstan. Many researchers, e.g. Menkhoff & Nikiforow (2009), argue that training in behavioural finance makes investors aware of the biases other investors have, but at the same time this has minimal effect on their own behaviour and decision-making.

In the banks, however, the revenues are formed by the financial results of the investment process, as well as from those of the crediting process. Therefore, we have to consider the same issues through the lens of crediting. As stated above, the crediting process is controlled in a different way, and the procedures there are quite strict. In the EU it includes the directive, EBA's regulation and policy, technical standards, guidelines and recommendations, national laws and regulations, corporate governance and policy, credit policy and standards. As we discussed it above, all these policies and regulations would be of no significant value, if the „the tone from the top" and the "credit appetite" at the credit department level will not be in full compliance with the policies and regulations. If the "credit appetite" is not controlled by the top management, the regulations on their own would not guarantee acceptable risk levels, as we have seen in 2014 when The Corporate Commercial Bank in Bulgaria declared insolvency and was closed down. Officially all the risk control elements were there, but the implementation turned to be fatal. Such a possible development should not be taken as hypothetical only in an under-developed market, with a limited number of profitable companies with sustainable development. Under such conditions, e.g. in Kazakhstan, the credit inspectors, pressed by the goal to find new clients to increase the revenue, look for broader range of factors and often borrow investors considerations, accepting higher risk levels, when analysing the prospect companies. In Kazakhstan the human resource in the banks rarely change positions from one sector to another, and obviously this rarely leads to transfer of organisational culture - experience and good practices, from one department to another, e.g. from investors to crediting inspectors, and the other way around. The regular training process includes different models, practices etc. for the investment and crediting officers. This of course supports the

development of the specific organisational subculture of the bank officers. Above we discussed biases of the investment bankers, and here we could presume the crediting inspectors might develop their own biases. Hopefully in very rare cases, pressed by the market conditions the crediting inspectors and credit committee might think about "borrowing standards and practices" from the investment bankers. Altogether, these considerations raise the question - is the decision-making process in the crediting area (department, committee), free of biases, those, as discussed above about the investors, or other? This question does not have a clear answer, as the conditions differ from one country to another, and from one bank to another. The main issue here seems to be the degree of development of the economy and the availability of enough many sustainable business agents in the real economy. If the economic conditions are not very favourable for the banks, the crediting process might incorporate elements from the investment process, of course still following the rules and regulations, guidelines, bank policies about risk appetite, etc., as stated for the crediting process. We hypothesize that the credit inspectors also develop biases, different from those of their investment colleagues, or similar to some extent, as the type of work these two groups of finance specialist perform, is not identical, but still many of them have similar basic education and experiences. We will not discuss the specifics of the biases, as this is beyond the scope of our research. We only accept that as result of the not always clear influence of those many factors, which influence the financial markets and the economy, the financial specialists in the investment area develop biases, which influence their behaviour. We think that this should be similar in the sector of crediting, where the economic, and therefore – financial development is also unpredictable, at least for many industries and economic agents. We actually apply the Behavioural Market Hypothesis, which adds the human being to the idealised financial behaviour (Ivanova, 2010; Pompian, 2009; Waweru et al., 2008; Lo, 2005).

Analysis of the Kazakhstani Banking Sector 2016-2017

The findings of previous research discussed above, however, cannot suggest a strategy, or combination of strategies, for growth to help the commercial banks in Kazakhstan to adapt to the market conditions for a sustainable development. For that purpose, we need to analyse the development of the banking sector in Kazakhstan in the period between 2016 and 2017, assessing if the strategy for growth, which was applied by the National bank of Kazakhstan and by the commercial banks was right or not. As stated above, the criteria we use are the changes of the banks' assets and the results from the crediting process. If the results are positive – it will be clear that the external strategy for growth works well. Provided that the results are not entirely positive, we will discuss the possibility for applying internal strategies for growth.

The data of the National Bank of Kazakhstan (Figure 1) shows that after the correction of the rate of exchange of the local currency Tenge, as a result of the significant reduction in the oil and gas prices on the international markets in 2015, the banking sector was hit hard, too.

Figure 1

Dynamics of assets and loan portfolio of the banking sector of Kazakhstan in 2010-2017
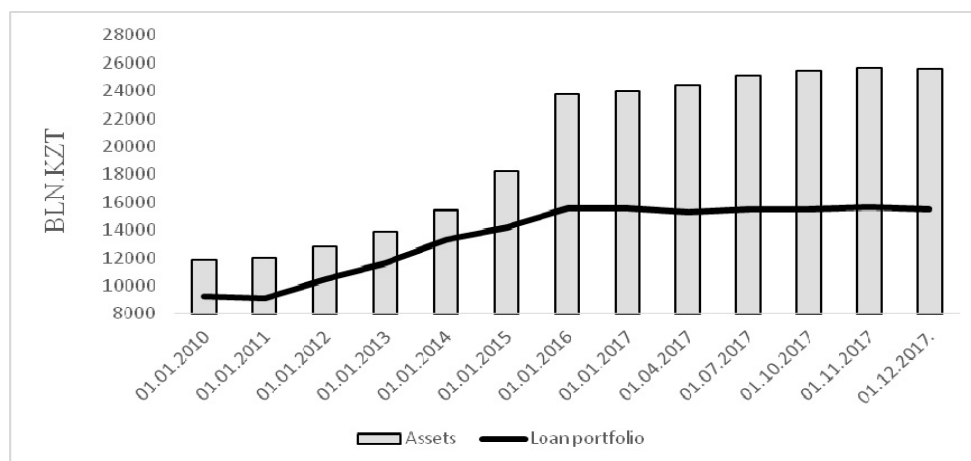
Source: National bank of Kazakhstan (2018).

The reduction of the bank assets is obviously very frightening, but for the aims of this research we pay attention mostly to the crediting process, both to the credit amount and its dynamics. The reduction in the credit portfolio by 5 percentage points in 2017 and in the same period of 2016 shows quite a substantial drop in the banks' source of income. On the other hand, it shows a significant reduction of the clientele, that can be credited. The analysis of the results of the banking institutions (Table 1) adds points for thought.

Sixteen banks had negative change of the credit levels in 2016, including drops of 10%, 20% and even 62.8% for Kazkom bank. It is clear that with such a decline of the credits many banks will not be able to guarantee sustainable development, as the credits are the major source of revenues for the banks.

Special attention must also be paid to the structure of credit assets (Figure 2).

Even in the years of the high prices of the crude oil on the international markets the structure of the credits did not show substantial support for the real business. This trend seems to continue in 2017 as well, and the prospects are quite bleak, as the percentage of debtors who delayed their instalments over 90 days has increased to over 40% (KreditorPro, n.d.). It is very difficult for any banking institution to claim sustainability in such conditions.

Table 1

Credit portfolios of the commercial banks of Kazakhstan in 2016-2017 (KZT Billion)

Bank	Growth, %				Total credit portfolio			% of total		
	08 2017	09 2016	08 2017	09 2016	09 2017	08 2017	09 2016	09 2017	08 2017	09 2016
Banks,total	154,6	-1587,3	101,1	89,80	13902,9	13748,3	15490,2	100	100	100
Halyk Bank	102,2	227,1	104,3	110,00	2507,9	2405,6	2280,8	18	17,5	14,7
Sberbank	46,8	185,8	104,3	119,3	1147,4	1100,6	961,6	8,3	8	6,2
Bank CenterCredit	20,7	-11	102,4	98,8	891,4	870,6	902,4	6,4	6,3	5,8
ATFBank	18,4	152,8	102,3	123,1	815,1	797,7	662,2	5,9	5,8	4,3
Tsesnabank	16,6	138,3	101	108,80	1708,8	1692,2	1570,5	12,3	12,3	10,1
House Construction Savings Bank of Kazakhstan	13,8	114	103,4	137,90	415,1	401,2	301,1	3	2,9	1,9
ForteBank	8,2	83,1	101,4	116,7	580,4	572,2	497,3	4,2	4,2	3,2
Home Credit Bank	7,6	58,2	104,9	155,7	162,7	155,1	104,5	1,20	1,1	0,7
Astana Banki	6,7	25,6	103,4	114,5	202,5	195,7	176,8	1,50	1,4	1,1
Citibank	6,1	12,7	107	115,8	92,6	86,5	79,9	0,70	0,6	0,5
Eurasian Bank	6	-48,6	101	92,9	636,3	630,3	684,9	4,60	4,6	4,4
Tengri Bank	3,3	35,3	104	166,9	88	84,7	52,7	0,60	0,6	0,3
Qazaq Banki	2,5	24,7	107	107,6	347,6	345,2	322,9	2,50	2,5	2,1
Bank of China Kazakhstan	1,4	-0,5	112,9	96,1	12,3	10,9	12,8	0,1	0,1	0,1
KZI Bank	1,4	1,9	103,3	104,5	43,2	41,8	41,3	0,3	0,3	0,3
Delta Bank	1,3	-140,3	100,4	69,2	315,7	314,4	456	2,3	2,3	2,9
Capital Bank	1	-8,2	101,5	88,80	65	64	73,2	0,5	0,5	0,5
Kassa nova Bank	0,7	9,3	101,0	115,3	70	69,3	60,7	0,5	0,5	0,4
ETB Bank	0,4	-7	100,5	91,7	77,3	76,9	84,3	0,6	0,6	0,5
Al hilal Bank	0,3	0,4	105,9	107	5,7	5,4	5,3	0,00	0,0	0,0
Shinhan Bank	0,1	-0,1	101,2	99	11,9	11,7	12	0,1	0,1	0,1
Expocredit	0	0	99	85,9	0,1	0,1	0,1	0,0	0,0	0,0
NB of Pakistan	-0,1	-0,2	98	94,5	4,2	4,3	4,5	0,0	0,0	0,0
Alfa Bank	-0,1	27,5	99,9	117,7	182,9	183	155,4	1,3	1,3	1
Zaman Bank	-0,2	-0,6	98,3	95,2	11,9	12,2	12,6	0,1	0,1	0,0
Eximbank	-0,5	-2,3	99,1	95,6	49,5	50	51,8	0,4	0,40	0,0
NurBank	-2,4	17,5	98,9	109,2	207,8	210,2	190,3	1,5	1,50	1,2
TIB of China	-2,4	-6,8	92,4	81,2	29,3	31,7	36,1	0,2	0,20	0,2
AsiaCredit Bank	-2,5	-33,3	97,2	72,9	89,4	92	122,7	0,6	0,70	0,8
Altin Bank	-3,4	-10,1	96,7	90,7	98,9	102,3	109	0,7	0,70	0,7
Bank RBK	-5,3	-25,1	99,3	96,6	717,8	723	742,9	5,20	5,30	4,8
Kaspi Bank	-7,2	162,3	99,2	122,1	897	904,2	734,6	6,50	6,60	4,7
Qazcom Bank	-89,6	-2394,8	94,2	37,2	1417,4	1504,3	3812,2	10,2	10,9	24,6

Source: National bank of Kazakhstan (2018).

Figure 2

Structure of credit assets by industries 2005-2015 (KZT Billion)
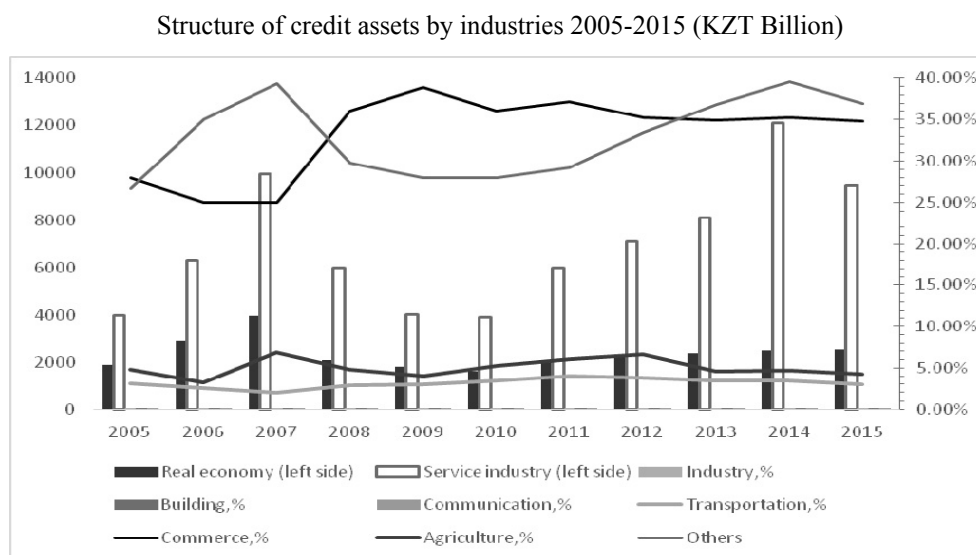
Source: RFCA Ratings (2016).

Strategies for Growth

There are three possible strategies for growth: external, internal (organic), and hybrid (a combination of external and internal).

External growth strategy

In the banking sector the external growth strategies are based mostly on mergers and acquisitions (Johnson, Scholes and Wittington, 2008). These strategies have been applied for consolidating some of the banks to achieve a solid own capital. In 2014 Qazkom merged with BTA Bank, and as a result received obligations worth 750 million Euro. This merger practically lead Qazkom into insolvency, and in 2017 Halyk Bank acquired it – again with the idea to save the banking sector, in which Qazkom and Halyk Bank were the leading players (KreditorPro, n.d.).

In December 2016 The National bank lent to Qazkom USD 1.2 billion, followed by lending another USD 616 million in February 2017. Although these two examples cannot be used for drawing general conclusions, the acquisition of Qazkom Bank by Halyk Bank a few months later in 2017 should be considered proof that this strategy probably does not work well enough under the conditions of Kazakhstan.

We believe that the inflow of capital, provided twice by the National Bank, did not lead to substantial changes concerning the financial results of Qazkom, as the crediting process, both regarding decision-making and implementation, in combination with the weak real sector, could not provide a solid base for a sustainable development of the bank. An underdeveloped real sector always means higher credit risk (Brodeur et al., 2010), which no bank will take voluntarily. It must also be mentioned that the average interest rate in Kazakhstan in that period of time was between 20% and 30%, and there are few economic sectors that have margins which make such credits attractive. As bank interest rates in 2017-2018 still remain high - between 8% and 22% (KreditorPro, n.d.), it seems rather unlikely that external growth strategy will be successful in the foreseeable future.

Internal growth strategy

Internal growth strategy is based mostly on innovation and internal training (Ahuja, Segel & Perrey, 2017; Blagoev, 2018; Johnson, Scholes & Wittington, 2008). We consider this strategy quite appropriate for Kazakh banks, especially when taking into account cultural factors, which are likely to have an impact on crediting policies and their implementation. For example, the unsuccessful merger when two banks, Qazkom and BTA Bank, merged, and later when the National Bank of Kazakhstan and ALMEX Holding group became shareholders in it, Qazkom became part of the biggest financial group in Kazakhstan – Halyk Bank. The new shareholders increased the capital of Qazkom to 250.2 billion Tenge, which is a solid base for crediting, and therefore, sustainable development. At first glance it would have been a rational strategy to restructure the business units, in combination with intensive training of the personnel. This is more or less a traditional approach, or strategy, which has been used after almost every merger and acquisition, as obviously it is not possible to double one and the same manager's position, responsibilities and obligations, who performed identical or similar roles in the previous two business structures.

While restructuring is an organisational issue, training includes elements of corporate vision and strategy. In our view it should include innovation and corporate culture as well.

Innovation

Banks are conservative structures and innovation there is limited due to specific regulations. However, technological progress, i.e. Artificial Intelligence (AI) and robotization – only to mention the two most influential avenues of development in the last 5 years (National Science and Technology Council, October 2016; Deloitte Development, 2017), as well as the development of financial instruments, seem to point to the need to consider innovation process a first-class responsibility of bank managers.

With a view to the focus of this paper, we concentrate only on those innovative elements which are related to new possible ways of developing business under the specific conditions of Kazakhstan.

According to Evgeniy Dobinin of Scot Holland | CBRE, as a result of digitalization, "one of the Russian banks in Kazakhstan closed in 2017 more than 40 offices and reduced its

personnel by over one thousand employees" (Forbes Kazakhstan, 2017). The reason for this is that the new software for customer service, which we would rather define as robotization, allows banks to reduce to a minimum the number of rented premises, earlier used for bank offices, and organise all their activities from the main offices only. As MIT's report argues (Lipton, Shrier & Penjtland, 2017) there are "second wave digital hybrid" banks such as Fidor Bank (Germany), Atom Bank (UK), LHV Pank (Estonia), and DBS Digibank (Singapore), and we would add here Sberbank (Russia), which "enjoy purpose-built IT infrastructure that is 60-80% less expensive to build, and 30-50% less expensive to maintain, than legacy banks." This is probably the most promising and fast-developing field of innovation in bank services. However, these "digital hybrids", as MIT calls them, "still use centralized databases, cloud-based storage and primitive user data protocols". Hybrids or not, Piraeus Bank already opened a fully robotised bank office in Greece, in which there are no bank employees (Future Banking, 2017).

Among the best examples in Russia and Kazakhstan is Sberbank, which has active operations in Kazakhstan, and is a leader in AI-based banking services. According to Palatkin (Палаткин, 2016) in 2016 the system of Sberbank was analysing everyday information from 6300 bank offices and 15000 office managers, making over 300000 recommendations to the managers. They do not stop at using different mobile devices, including laptops and smartphones. This is more or less traditional innovation, which is offered by many banks nowadays. Sberbank, for example, in addition to the usual banking services, offers added value to its customers, e.g. bank cards for children, by means of which the children's purchases, such as buying food for breakfast or drinks, are reported to the parents by SMS via bank network. Obviously, this service offers very high added value to the parents, who are clients of the bank. Sberbank is also experimenting with face-recognising technology, which may fulfil the same purpose as in the example mentioned above, but with no need of bank cards. The survey of Frank Research Group (Chuvilo, 2017) shows that the banks plan to increase by 80% the investments in additional equipment for self-service in the bank offices, as well as by 87% for new technologies, which probably includes further digitalization and robotization of the bank operations, including the front-desk service to clients. Aznavur (Азнавур, 2018) argues that in the next several years the banks will use the so-called narrow AI (robots, chatbots) which can serve the clients in a friendly manner, without being involved in intuitive decisions.

Other banks in Kazakhstan are also intensively developing their digital services. According to Michail Kablashev, Director of the IT division of the National bank of Kazakhstan (Forbes Kazakhstan, 2017), these banks use OpenWay, Colvir, BSS software as well as their own software, to digitalize whatever the bank finds necessary. Kablashev underlines that in this process of digitalization the bank specialists dealing with this have to consider future developments rather than concentrate primarily on short-term tasks.

All these examples offer substantial added value to bank clients and, as a result, increase the clientele, both in terms of numbers, and in terms of active banking used by these clients. Obviously, these trends of digitalizing bank services will expand to servicing the so-called "digital natives", who can be expected to put new demands on financial/bank services.

Secondly, there is a large field for innovation related to B2B (bank-to-business) services. As Figure 2 reveals, we see in Kazakhstan a rather underdeveloped real sector, and it is

really not easy to find economic agents that have the characteristics of companies which could be credited with minimal or at least a reasonable risk.

This immediately raises the question of nurturing such economic agents, providing them with marketing, finance management, operations management and other consulting. They will probably have to be part of the innovative approach of banks to nurture new reliable clients. This is not a totally new revolutionary approach, as there are numerous examples of bank officers who provide mostly informal consultancy when they assess business plans, presented to them for crediting. Of course, it is clear, that bank officers cannot force their clients to accept and pursue this or that strategy, as this would violate the fundamental rule of splitting responsibility between the two businesses – real and banking. Still, a more active guiding practice through examples and consulting could be quite instrumental.

And there is one more avenue of thought. The banks should probably consider the possibility to share the responsibility with their clients, who cannot fulfil their obligations stemming from the credit agreements, by involving in their management process. In most countries, including Kazakhstan, the regulations of the bank sector do not allow the banks to be shareholders in the companies. However, this could be done by agreement with the shareholders/owners to nominate procurator/s, or executive adviser/s, who would represent the bank's interests at the executive level of management of the company that has cash flow difficulties. After stabilizing them the banks can either transfer the management to the owners or sell their shares to other shareholders, if this is stipulated in the agreement for joint management. This, however, is not a panacea. It depends very much on the corporate governance. For example, in the case of Bulgarian Corporate Commercial Bank in 2010-2014, technically everything (sending bank officers to join the management of the indebted companies and controlling their financial flows) was done *comme il faut*. However, the results were negative, partly because one and the same people have been sitting in the crediting bodies and company management, or at least were able to influence the decision-making. So, this internal strategy, as interesting and promising as it looks, has to be applied with care and making sure that the corporate governance is done as prescribed.

Training

As a substantial element of the behavioural finance, the training would require changes in the organisational culture. It is clear that the current cultural web (Johnson, Scholes & Wittington, 2008) in the banks does not correspond to the market requirements. According to Hofstede (Bechter & Grigoryants, 2011; Hofstede Insights, n.d.) Kazakhstan has a very high Power Distance index (70) and Collectivism index (71), and low Uncertainty Avoidance index (31). Their combination does not automatically lead to an unequivocal suggestion which management models should be applied to achieve the desired results. Ergo, systematic training to prepare the bank officers to accept and implement those adequate measures to bring about internal growth seems to be inevitable. From theory point of view, we would define this as behavioural finance model, which of course must be adapted to the specific conditions in the Kazakhstani banking sector.

It seems logical to include in the training program elements of cross-cultural analysis based on Hofstede's cultural dimensions, concentrating on Individualism index, Power Distance index and Uncertainty Avoidance index (Blagoev, 2010; Hofstede, Hofstede & Minkov, 2010; Minkov, Blagoev & Hofstede, 2013; Minkov & Blagoev, 2014). Of course, these have to be discussed addressing specifically the main ethnic groups of the population, which form the majority of the employees in the banking sector. Special attention should also be paid to the management and leadership models which the bank management considers most suitable for the particular bank.

The most important element of the training programs, to be developed and applied, seems to be a discussion related to specific biases that have been seen to affect the decision-making process, as well as the critical analysis of the encountered or possible consequences. Specific cases of decision-making, both leading to positive or negative results, that are known to the management, should be put on critical analysis with the aim to find out if the decision was influenced by some biases, and if yes – was the decision making process effective enough from the point of view of the bank's mission, vision and goals with respect to the crediting process.

Hybrid growth strategy

By Hybrid strategy we understand the combination of external and internal growth strategies, complementing each other in stabilizing the banks and providing the necessary conditions for sustainable development in the specific conditions of Kazakhstan. The mergers and acquisitions, which seem to be the mainstream policy of the government (Forbes Kazakhstan, 2017), will continue to be the necessary step to provide own capital and liquidity. According to Andrey Sustavov of SAS Kazakhstan only banks with own capital of over 45 Billion Tenge will be able to participate in this program, in which already participate Halyk Bank with Qazkom (already discussed above), Tengri Bank with Capital Bank, and Bank RBK with Qazaq Banki.

However, we believe that such capitalization of the banking sector will not lead to substantial results, if the banks will not develop, and where necessary improve their organic growth options, based on relevant innovation in the crediting process and intensive training of the personnel. As argued above, the banks have to consider the possibilities for supporting their potential clientele to develop to the level of companies with minimal, or at least acceptable credit risk.

This will hardly be achieved without intensive training of the personnel to minimize the effect of biases, if any, that may influence the decision-making in the crediting process.

Overall, under the conditions of Kazakhstan we consider the Hybrid strategy to be the most sustainable and therefore the most promising one.

Conclusions

The analysis of the development of the banking sector in Kazakhstan in the period 2005-2015, raises the issue of the limitations that the banks face in spite of the intensive support by the government, mainly through capitalization, and also by stimulating the consolidation of banks with over 45 billion Tenge of own capital.

The examples of the not very successful application of external growth strategy (mergers and acquisitions), e.g. Qazkom merger in 2016, followed by acquisition in 2017, can be explained partly by the underdeveloped real sector of the economy. Based on that we strongly support the view that the banks have to intensify their consulting activities, as more active guiding through examples and consulting could be quite instrumental.

We believe that in some cases the banks should go to an agreement with the shareholders/owners to nominate procurator/s, or executive adviser/s, who would represent the bank's interests at the executive level of management of the company that has cash flow difficulties. This of course has to be done in accordance with the corporate governance rules and regulations. After stabilizing their financial situation the banks can either transfer the management to the owners or sell them, acting as representatives of the shareholders/owners.

The analysis of the development of major Kazakh banks in the period 2016-2017 (Figure 1), and especially of their credit portfolios (Figure 2 and Table 1) raise the question how to change the crediting process, especially the decision-making process, to achieve better results with respect to the not very well developed real economy, at the same time minimizing the risks. Special attention has to be paid to the "credit appetite" and "tone from the top", as sometimes they might promote risky decision-making. Our analysis shows, that the banks have to start applying internal growth strategy. This would include innovation, and intensive training.

We hypothesize that if there are biases, which affect the decision-making process in the area of financial investments and affect the investors there, there are biases in the area of crediting as well. Our idea is that through applying behavioral finance with intensive innovation and training, the banks will be able to minimize the effects of biases in the decision-making process. This seems to be working very well in the case of Sberbank (Table 1), which shows substantial growth of its credit portfolio without mergers and acquisitions having been involved. However, there is not enough empirical data to confirm or reject this hypothesis. We can only state that the logical analysis seems to confirm it.

The findings of Chen, Kim, Nofsfinger & Riu (2007), as well as our analysis of the development of the banking sector in the period 2015-2017, lead us to the conclusion, that it is absolutely necessary to implement behavioural finance model in the bank management.

We agree with Pronin, Linn & Ross (2002), Menkhoff & Nikiforow (2009), and other authors, who argue that training in behavioral finance makes the investors aware of the biases the other investors have, but in the same time this has minimal effect on their own behavior and decision making. Obviously, such training requires a very good understanding and active role of the bank managers to organise it, as it would make the decision making

based on biases as rare as possible. The combination of specific market conditions in Kazakhstan, including weak real sector, high-interest rates, and specific combination of Hofstede's cultural indices, suggest organic growth strategy with additional services, offered to the companies, for nurturing own clientele. Such hybrid strategy could be a solid base for sustainable development as result of higher and more diversified crediting.

Finally, we conclude that the hybrid strategy, which combines the strong sides of the external, and internal (organic) growth strategies, will be the best option for the banking sector in Kazakhstan, as well as in any other country, which is facing similar market conditions. The hybrid strategy seems to maximise the possibilities for developing and maintaining a sustainable growth strategy, at minimal credit risk.

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