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WAYS OF IMPROVEMENT OF BANKING GOVERNMENT REGULATION IN UKRAINE

Svitlana V. FIMIAR
Candidate of Science in Finance, Associate Professor of Finance, Audit and Management Department, Cherkasy Branch of Private Higher Educational Establishment "European University"
E-mail: fimyar@mail.ru

Liudmyla Yu. RAHUZINA
Candidate of Science in Philology, Associate Professor of Applied Linguistics Department, Cherkasy State Technological University

Анотація. Розглядаються основні моменти державного регулювання банківської діяльності в Україні, визначені напрямки удосконалення регулювання банківської діяльності.

Аннотация. Рассмотрены основные моменты государственного регулирования банковской деятельности в Украине, определены направления усовершенствования государственного регулирования банковской деятельности.

Summary. The main points of government regulation of banking in Ukraine and approaches to the assessment of operating risks were examined and analyzed in this article.

Ключові слова: *державне регулювання банківської ліквідності, державний контроль банківських ризиків, комплексна оцінка операційних ризиків.*
Ключевые слова: *государственное регулирование банковской ликвидности, государственный контроль банковских рисков, комплексная оценка операционных рисков.*
Key words: *government regulation of bank liquidity, government control of bank risks, comprehensive valuation of operational risks.*

The problem and its connection with scientific and practical tasks. In world practice, primarily the banking system was formed, and then the system of regulation and supervision. In Ukraine these processes pass in parallel, which is certainly an adversity. However Ukraine also has some advantages – it can and should take advantage of gained international experience in banking regulation and supervision.

The need for banking regulation and supervision in a market economy does not exclude self-regulation of the banking sector through market mechanisms. These two forms of regulation should complement each other. Banks should act, following the principles of commercial considerations and reliability.

In turn, the banking regulation and supervision should act following the principles of intelligent, cautious attitude to banks, i. e. they should not require banks to carry out operations that might weaken their financial position to encroach on freedom of banking entrepreneurial activity.

Research and publications analysis. Analysis of the current state and prospects of development of the national banking, the role of the National Bank of Ukraine in securing government regulation, in particular the organizations of efficient supervision and control had attracted the attention of many researchers and practitioners in particular – V. S. Stelmah, S. Naumenkova, N. M. Rogova, N. V. Vnukova, V. V. Gluschenko, V. I. Naumenko, P. M. Senyscha, D. M. Gladkuh, V. I. Mishchenko and others.

Problem definition. In a market economy banks have very big potential to influence on economic processes both positively and negatively, which leads to the need of regulation of their activities. Investigation of the role of banks in a market economy makes it possible to find out the reasons which force the state to take over the function of banking regulation and supervision.

Presentation of the material and results. The content of banking regulation by the National Bank of Ukraine within the limits of its authority is influencing on banks and other financial institutions in order to ensure stability of the monetary unit of Ukraine, promoting the stability of the banking, as well as price stability. All components of the stability of the banking are closely related and their evaluation is necessary to determine what kind of risk runs every bank which resources are available to manage certain risks and whether the resources are sufficient to balance the risks.

In the world of banking practice of credit risk management is determined as a problem that has national significance. In this case, the banking regulation and supervision require banks to create reserves for possible losses on loans. The size of reserves is determined by the total amount of all granted loans and degree of their risk.

Due to its broad deposit base, commercial banks are exposed to high levels of excess raised funds on capital. The level of capital that can absorb risks should abstain on the normative level. Commercial banks reach consistently the significant portion of profits by mobilizing short-term deposits at low interest rates, lending or investing such resources in long-term assets with higher interest rates. This, inherent to liquidity, mismatch is potentially dangerous and the banks have to maintain a high ratio of liquid assets (about 20–25 % of total assets) to meet the normal needs of their customers in liquidity.

One of the questions of improvement of commercial banks in the market is liquidity of banks and solvency of their customers. Liquidity in the banking practice is understood as the ability of banks to make payments on their obligations in time and constantly.

Thus, the liquidity of the bank is the mobility of its assets to ensure implementation of pre-commitments in time and requirements arose in the process of management. Therefore, liquidity includes not only prepay accounts on behalf of customers, issuance of cash, transfer money to accounts of other organizations, but also providing loans and guarantees investing surplus funds in securities, etc. Overall liquidity management is implemented in two ways: through the accumulation of liquid assets or the acquisition of money market [3].

To keep the general liquidity of the banking, the central bank also provides services "lender of last resort" for commercial banks to meet their need for cash, thus ensuring that insolvency will not occur. Without such services liquidity problems can quickly transform into solvency problems because fast elimination of non-current assets will necessarily lead to tremendous loss of capital.

State regulation of bank liquidity in many developed countries is implemented through legally established rates of correspondence between active and passive transactions according to their liquidity and maturity. Comparative analysis admits that the current mechanism in Ukraine regulation of banking liquidity at the firm level is quite reasonable, flexible tool and well the aims of government regulation of banking.

State regulation of banking liquidity, equity capital, deposit insurance, and also centralized collection and dissemination of information concerning banking risks are not alternative strategies for increasing the reliability of the banking sector, they are dialectically related and complement each other. Ukraine has a reasonable introduction of experience of leading developed economies for efficient combination of all methods of management of banking risks.

State control over banking risks is one of the most important factors that determine a stable and profitable operation of the banking sector in the short and medium term which is supported by public credibility.

The main forms of state regulation of banking risks are quantitative and qualitative regulation of bank capital, government deposit insurance program, centralized collection and dissemination of information concerning banking risks [4, p. 176].

In many countries the authorities, in order to improve functioning of the banking system and strengthen trust between commercial banks, provide centralized service banking risks, offer the scientific databases by means of computer telecommunications access. In countries such as the Netherlands, Japan, Switzerland, Germany, for the Central Bank these functions are legally delegated.

The most common and traditional form of state control over banking risks is quantitative and qualitative regulation of capital. The main reasons for government regulation of bank capital are to maintain public confidence in banks and government spending limits on deposit insurance.

It should be mentioned that deposit insurance is also one of the forms of state regulation of banking risk. Today in Ukraine deposit insurance exists only in an indirect manner, through minimum reserves. The disadvantage of the state deposit insurance is that it reduces the normal level of attentiveness contributors to the reliability of banks, which leads, at this stage of the banking system, to the creation in Ukraine of private news agencies on the creditworthiness and reliability of banks.

To strengthen banking supervision based on assessment of risks, we should consider assessment of operational risks, which offers "Basel 2".

According to the basic indicator approach, the capital requirements calculated by the formula:

$$E_{IA^2} = \left[\sum \left(GI_{1...n} * \alpha\right)\right] / n$$

where E_{IA2} – capital requirement under the basic indicator approach;

GI – average annual gross income if it is positive, the last three years;

n – number of years in which annual gross income was positive;

α – Alpha coefficient which is set at 15 %.

The factors of this formula need to be clarified. Firstly, under the gross income, Basel Committee understands sum of net interest income and net non-interest income according to definitions of local supervision or accounting standards. Secondly, if the gross income is negative, this situation needs to be resolved by the supervisor within the calculation of regulatory capital.

Standardized approach differs from the basic indicator by entire operating division of the bank into eight business lines and identification of beta coefficients for each line of 12 to 18 %. Setting of kinds of business lines and coefficients are the prerogative of the Basel Committee. The formula for calculating capital requirements under the standardized approach is:

$$E_{\overline{N}\breve{I}} = \left\{\sum\nolimits_{\partial iee1-3} \max\left[\sum\left(GI_{1-8} * \beta_{1-8}\right), 0\right]\right\} / 3$$

where $E_{\overline{N}}$ – the capital requirement under the standardized approach;

GI_{1-8} – annual gross income for the year in terms of each business line;

β_{1-8} – Beta ratio of 12 to 18 % for each business line.

Table 1 shows the value of the beta coefficient for the standardized approach.

Table 1

The value of the beta coefficient for the standardized approach [2]

Business Line	Factor ,%
Corporate Finance (β_1)	18
Trading and sales (β_2)	18
Retail lending (β_3)	12
Commercial Lending (β_4)	15
Settlement and cash service (β_5)	18
Agency Services (β_6)	15
Asset Management (β_7)	12
Retail brokerage (β_8)	12

In depth evaluation approach uses the same formula as for the standardized approach, but the values of the coefficients determines the bank itself.

Use of gross income as the basis of calculation of operational risk some bankers find to be unjustified because it does not encourage banks to improve financial results. Moreover, according to many experts, the gross income is not adequate expression level of operational risk of the bank. By the way, the first draft on Basel Committee of a new agreement about the capital, it was determined that the base for calculating some areas of the bank is the size of its assets or the number of instruments, such as credit cards. Among subsequent drafts and approved by the 2004 edition of committee identified only base the calculation of operational risk for all approaches except the alternative standardized approach, the gross income of the Bank. In the alternative standardized approach point estimates for retail and commercial lending volume of credit debt serves as a beta coefficient remains unchanged [2].

Obtained by one of the alternatives, mentioned capital requirements are transferred into the equivalent risk-weighted assets then the total capital requirements Multiplies 12,5 for substituting the formula for calculating capital adequacy:

$$\text{capital adequacy} = \frac{\text{capital}}{\text{equivalent risk - weighted assets}} = \min 8\%$$

The introduction of capital requirements for operational risk will create an additional burden on regulatory capital for banks in Ukraine. It will be more significant than the burden that arises from the introduction of capital requirements under the market risk. Moreover, given the trends in the banking system of Ukraine – steady growth of key indicators, including profitability – it can be concluded potential for a permanent increase in the level of capital required to cover operational risk. Considering, that the gross income of the bank depends not only on the actions of its leaders, but also on the competitive position of the bank, the required amount of capital planning is a complex process. This operational risk differs from the other risks – credit and market – for which the bank can more accurately assess its future capital requirements, and therefore time to take care of enforcing a minimum level of adequacy.

Conclusions and directions for further research. Thus, the process of internal control, which historically was served as a mechanism to minimize theft fraud or error, has acquired a broad, covering all the various risks associated with the activities of banking institutions. Currently it is recognized that an effective internal control process plays a critical role in the ability of the bank to meet its goals and maintain financial viability.

An important result of the Basel Committee's work we could consider its developed Principles for Effective Banking Supervision. Basel Committee considers that the achievement of each country under the basic principles will be an important step toward improving both national and international financial stability. Effective banking supervision with effective macroeconomic policies should be the main instrument for ensuring financial stability in each country.

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