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STATE REGULATION OF FINANCIAL SERVICES: REGIONAL ASPECTS

This paper investigates the role of state regulation of financial services in Ukraine, the causes and the need for greater delegation of certain powers to the regional level, and proposes the structure of regional offices at the financial services market along with an algorithm for functions separation in state management of financial services between central and regional authorities.

Keywords: government regulation; decentralization; regional level; financial services market; delegation.

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ДЕРЖАВНЕ РЕГУЛЮВАННЯ РИНКУ ФІНАНСОВИХ ПОСЛУГ: РЕГІОНАЛЬНІ АСПЕКТИ

У статті досліджено роль державного регулювання ринку фінансових послуг в Україні, причини та необхідність делегування більшої частини повноважень на регіональний рівень, запропоновано структуру регіональних управлінь ринку фінансових послуг та алгоритм розмежування функцій державного управління на ринку фінансових послуг між центральними та регіональними органами.

Ключові слова: державне регулювання; децентралізація; регіональний рівень; ринок фінансових послуг; делегування.

Табл. 1. Лім. 19.

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ГОСУДАРСТВЕННОЕ РЕГУЛИРОВАНИЕ РЫНКА ФИНАНСОВЫХ УСЛУГ: РЕГИОНАЛЬНЫЕ АСПЕКТЫ

В статье исследована роль государственного регулирования рынка финансовых услуг в Украине, причины и необходимость делегирования большей части полномочий на региональный уровень, предложены структура региональных управлений на рынке финансовых услуг и алгоритм разграничения функций государственного управления на рынке финансовых услуг между центральными и региональными органами.

Ключевые слова: государственное регулирование; децентрализация; региональный уровень; рынок финансовых услуг; делегирование.

Problem setting. The formulation and implementation of key strategic objectives of socioeconomic policies of Ukraine will foster its transformation to a higher level of development, characterized by political stability, effective government regulation, positive economic growth and higher level of social protection. Implementation of these objectives is largely dependent on the effectiveness of state regulation of financial services, particularly at the regional level.

Recent research and publications analysis. Theoretical and practical aspects of financial services were explored by famous foreign economists: K. Marx and F. Engels (1962), A. Marshall (1993), A. Smith (1935) and others. A Russian researcher (Klavdiyenko, 2005) should also be distinguished. Important contribution in the study of this problem was made by Ukrainian scientists V. Hodakivska and V. Beliaeva (2002), I. Mityukov et al. (2001), V. Mishchenko et al. (2003), V. Sheludko (2003), S.I. Yurii and V.M. Fedosov (2008) and others.

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Unresolved issues. Despite a significant number of papers devoted to problems in the functioning of the financial services market, the topic of this article has not been sufficiently explored in economics, particularly the issues associated with state management of financial services with participation of regional branches. Considering the direction taken by the Government of Ukraine in the financial system decentralization and delegation to the regional level of a larger portion of financial resources and powers, there is a need to address further the aspects of the division of management functions in financial services between central and regional authorities.

The goal of the article is providing the theoretical basis, evaluation and improvement of the process of state regulation of financial services at the regional level, aimed at the empowerment of regional branches in order to improve their performance.

Key research findings. Foreign experience in economic regulation and solving the constant problem of "state-market" leads to consideration of state and market regulation as a single organism that adapts to changes in internal and external conditions. A factor of successful economic development is a balanced ratio between state and market, and this predicts that government intervention in the economy should compensate for defects of a market, and the market, respectively, should help to overcome the shortcomings of government through competition development. Government regulation should focus on the rational organization of market economy functioning (Klavdiyenko, 2005: 31). A prominent specialist in the field of international finance, G. Soros believes that the assertion that financial markets tend towards natural balance is irrational. He argues that "financial markets are prone to excesses and if a rapid change of boom and bust economic activity goes beyond the specified limit, the balance will never return to its previous level. Instead of pendulum movement, financial markets recently acted like a thrown stone, destroying one country after another" (Soros, 1999).

Taking into account the influence of the financial services market on the short-term interests of business entities on economic activities and the short-term market functioning in Ukraine, given the low level of experience of Ukraine's citizens concerning activities of financial institutions on the financial services market and their lack of preparedness for high participation, it will require close government supervision of this segment for an extended period of time. The globalization of financial relations and the integration of Ukrainian financial markets into the world economy creates a continuous movement of large volumes of capital, most of which is short-term and of speculative character. As a result, the global market forces limit the regulation of economic processes by state to try to protect its own economic system from cyclical fluctuations under market conditions and external influence.

In practice, government regulation is carried out by two methods: economic and administrative. Based on the international experience of developed countries, preference should be given mostly to economic methods and regulators, based on the laws of economic development that should have a stimulating character that does not violate internal market relations. Using economic methods, government can effectively influence the processes that take place in the economy. In practice, it is important to apply economic methods in economic regulation, with parallel consideration of their impact on market functioning. The effectiveness of this management mechanism will be achieved through interconnection and interdependence of all economic stimuli at

which the maximum efficiency of one stimulus will manifest itself in terms of effective action of others. State regulation is economically justified only when actions of state contribute to economy integrity as a whole, and create preconditions for resolving of issues that are not effectively resolved by market alone.

We believe that the restraining factor at the financial services market in Ukraine is imperfect national legislation. Despite the presence of a significant number of legal and regulatory frameworks governing the area of financial relations (Law # 2121-III 7.12.2000; Law # 1058-IV 9.07.2003; Law # 249-IV 28.11.2002; Law # 2299-III 15.03.2001; Law # 710/97-VR 10.12.1997; Law # 1057-IV 9.07.2003; Law # 2664-III 12.07.2001; Law # 3480-IV 23.02.2006), the majority of legal acts are imperfect. As an example, let's examine the legislation concerning leasing, factoring, insurance and credit unions. According to experts in the insurance industry, the mechanism of disclosure of insurance companies activities is imperfect. This applies to assets, reserves, premiums, restrictions on reinsurance processes, not clearly defined part that insurance companies take in the process of life insurance of the third level of private pensions, excessive government interference in their investment etc. Such examples of the application of certain provisions of imperfect legislation in financial services practice are not common.

A peculiarity of state regulation of the financial services market is its wide range of participants, including banking, insurance, pension and stock market systems, the financial services market covers the operation of national economy as a whole and is extremely sensitive to political and socioeconomic factors. The system of state regulation of financial services market developed at the present time in Ukraine is characterized by the work of such regulatory authorities:

- Banking services: National Bank of Ukraine (NBU), the Association of Ukrainian Banks (AUB).
- Financial intermediation: National Commission for Regulation of Financial Services Markets of Ukraine (NCRFSM), the National Commission on Securities and Stock Market (NCSSM), Association "Ukrainian Stock Traders" (UST), the Professional Association of Registrars and Depositories (PARD), Ukrainian Association of Investment Business (UAIB), First Securities Trading System (FSTS), Ukrainian Exchange (UX).
- Insurance: League of Insurance Organizations of Ukraine (SALW).
- Pension Provision: The National Association of Private Pension Fund of Ukraine and Private Pension Fund Administrators (PPFA).

Deep analysis of the current state of operation of financial services conducted by the author suggests a number of systemic problems that hinder the evolution of the financial services market.

Low investment attractiveness, lack of information transparency, and weak consumer protection inhibit the development of financial services, and constrain bringing it up to the best international and European standards of operation. The financial services market in Ukraine does not fully perform its functions for the economy and society.

Correcting regulation is essential for further development of the financial services market in Ukraine. The current system of regulation of national and regional financial markets is far from perfect. Researchers paid attention repeatedly to the

issues of powers delegation in the field of finance, and of regulation and supervision at the local level. In our opinion, the delegation of certain powers to the regional level in Ukraine should not only optimize the efficiency of central and territorial regulators of financial services, but also would be in line with current global trends. Reducing the concentration of management at the central level and transferring certain powers to the local level will minimize the current problems that exist in the financial industry, particularly at the regional level:

- Inadequate development of regional infrastructure for financial services.
- Low liquidity of regional securities.
- Ineffective regulation and transparency of regional financial services markets.
- Lack of proper separation of powers between national regulatory authorities in their central and regional offices.
- Low level of investment education of general population in the regions.

In our opinion, at the present moment the regional financial services markets have imperfect trading platforms for securities transactions, do not have enough trading pits for transaction activities, sufficient number of operators that are active at the market, and lack quality of financial instruments and other techno-economic parameters. For Ukrainian stock market this is also very relevant, because local tax administrations are not competent in the taxation of securities transactions of individuals and they try to make their own interpretations of legislation. At this time territorial regulation and control of financial services is rather crude and needs further improvement.

In foreign practice, various options of regulation were studied, particularly the creation of two central executive bodies in Russian Federation. The first is the legislation, which forms the regulatory framework for financial services market functioning. Second is the executive, who has the authority to impose penalties for sending audit materials to law agencies. Also other options were considered, including the legislative branches of two chambers: the upper house, which was created at the central level, and the lower house, experts and professionals in financial services, as well as self-regulatory organizations. Executive power is granted to regional departments with double subordination: on the one hand – to central government, on the other – to local authorities (Tarachev, 1997).

Since Ukraine is a unitary state, and local governments are not endowed with considerable powers, a regionally horizontal mechanism and an organized system of financial services regulation should be developed. Thus, the main task is to expand powers of local administrations in order to improve the efficiency of regional financial markets functioning. To form the base of the regional principle of regulatory policy formation in Ukraine, there should be 5 regional offices:

- Western regional branch of Zakarpathian, Lviv, Volyn, Rivne, Khmelnytskyi, Ternopil, Ivano-Frankivsk, Chernivtsi.
- Eastern regional branch: Luhansk, Kharkiv, Donetsk, Dnipropetrovsk.
- Northern territorial governance: Zhytomyr, Kyiv, Chernihiv, Sumy.
- Southern territorial Management: Odesa, Mykolaiv, Kherson and Zaporizhzhya and the Autonomous Republic of Crimea.
- Central territorial governance: Vinnytsia, Cherkasy, Kyrovograd, Poltava.

This regional structure, offered by the authors, allows us solve the issue of powers redistribution between the central and regional levels. Each regional office of the

relevant area includes the mentioned regions and a list of powers. In general, it is proposed to consolidate the legislative functions at the central level to ensure the effective functioning of the national market of financial services as a mechanism to attract investment into the economy. Regions will get controlling and stimulating functions over the financial services markets.

Therefore, a distribution of regulation functions of the financial services market between central and regional powers will minimize the existing problems at Ukrainian market of financial services. The author proposes the following scheme for distribution of functions and tasks between central and regional government regulation of financial services in Ukraine (Table 1).

Table 1. Relationship between the central and regional regulation of financial services in Ukraine, author's development

Central authorities for regulation of the financial services market (FSM)	Regional authorities for regulation of the financial services market
<ul style="list-style-type: none"> - The formation of long-term vision of the national FSM. - Development of regulations and guidelines for the application of Ukrainian legislation at FSM. - Formation of national infrastructure of FSM, which would allow the presence of regional FSM. - Management of regional commissions and control of their activities concerning the implementation of legislation in the field of financial services. - The creation of new financial instruments and implementation of new forms and methods of financing state economy. - Cooperation with international financial institutions. - Legislation to protect rights and interests of all participants at FSM. - The creation of a national information provision system for FSM participants. - Collection and analysis of information and formation of reporting system concerning FSM in Ukraine. 	<ul style="list-style-type: none"> - Oversee the implementation of the legislation at FSM. - Creation of favorable investment climate for investors in regions. - Infrastructure for operations of regional FSM and their relations with the center. - Licensing of professional participants for FSM. - Organization of the qualifying examination for professional organizations operating at FSM. - Monitoring compliance with rights and interests of all categories of participants at FSM at the regional level. - Collecting, processing and presenting information on regional FSM in the territorial commission. - Establishing and maintaining the register of professional participants of FSM and regional issuers.

In addition to these functions, regional authorities should provide solutions for economic problems in the regions, create conditions for their economic development, develop regional segments of the financial market which would allow financing regional investment projects etc. Regardless the division of powers between the central and regional levels, their activity should be linked and coordinated to promote economic independence and increased responsibility of regions. We believe that powers separation with further expansion at the regional level will allow regions attract investment resources. The delegation of most powers to the regional level will allow regions have accurate information on regional financial markets, their abilities and needs, which will allow formation and adoption of rational decisions for further development of domestic financial markets. This system of powers division will allow the creation of a single national Ukrainian market of financial services, and would improve the investment attractiveness of the country, increasing the possibility of attracting domestic investment to the regions along with the number of participants

at the financial services market, distributing financial resources and financial services uniformly within the country and attracting businesses to the financial market.

The proposed structure for distribution of regulatory powers at the financial services market to regional branches would allow for a unified system of regulation of financial services by delegating not only authority, but also responsibility.

The implementation of these objectives is only possible by joint efforts of state government, regional powers and society, partnership of regulators and financial market participants, and by active participation of the public and financial services users.

The basic steps to advanced financial services market include systemic changes at Ukrainian financial services market, the emergence of fully developed financial institutions, the formation of robust mechanisms for providing funds for investors and individuals, and creation of an effective system that protects the rights of consumers of financial services.

Conclusions. We believe that territorial grouping of financial services markets would be optimal for Ukrainian economy because it takes into account the scale of the country, the need for the formation and development of regional financial services markets, and the creation of a single national financial system. It is important to conduct regionally active policies to increase investment attractiveness of the regions for both domestic and foreign investors.

These measures should be a medium-term priority in economic policy of Ukraine. Tools that implement these measures are state strategic management, team style, and creative technology. The result will be competitive nationwide and regional financial services markets that will strengthen confidence in investors and consumers and promote sustainable economic development in a complicated environment of global challenges.

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