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**CHANGES IN UKRAINIAN BANKING SYSTEM: EUROPEAN M&A  
INFLUENCE**

*During last few years, Ukrainian banking system has reached vital consolidation process. It's important to verify how this process can change banking business models, efficiency and competitiveness. Foreign bank entry is frequently associated with increasing competitiveness for local banking market. Also positive dynamics of foreign investments into banking system is factor of integration. There are many European banks that have their subsidiaries in Ukraine. Mostly foreign banks work on retail, are enlisted in top 20 and therefore have much influence on the local market. The aim of the research is to study current trends in European banking system and proposed banking products, for further investigating of possibility of their positive implementation in Ukrainian market.*

**Keywords:** *banking consolidation, M&A in banking*

**The problem stating.** Beginning from 2005 there has been great interest to Ukrainian banking system from the foreign banks that was resulted in number of acquisitions. Till 2011 when 4 western banks leaved Ukrainian market there had been positive expectations. Also another tendency is presented: large Ukrainian banks began enlarge their business abroad by buying banks in CIS and increase their representative offices in western countries.

The main cause of banking consolidation we consider the synergetic effects, which show that activity of integrated banking unit exceeds in quality and quantity the summary result of all its independent. Consolidation approach is common for Ukrainian as well as for foreign financial companies. The synergetic effects are explained by scope economy, combining by complimentary resources and strengthen of the bank's position on the definite market's segment.

**The purpose of the article.** The aim of the article is to analyze the up-to-date tendencies that run on the banking market of Ukraine. Urgency of researching the integration of Ukrainian banks into European Union caused by the following provisions:

- the process of financial globalization covered Ukraine, its economy makes consecutive steps into integration of world economy;
- foreign banks form nets of branches in Ukraine and their contribution in national economy has perspective meaning in long term period;
- domestic commercial banks form net of foreign subsidiaries and that's why they need flexible set of international financial management, usage of modern methods, appliances and tools of corporate administration.

**The last investigations and publications analysis.** H. Grubel [1] in 1977 posed a main question in this subject: Which are the sources of advantage that allow some banks to enter into foreign markets, and to compete successfully with domestic firms, more familiar with the environment? From that time numerous scientists all over the world researched this problem. Research of consequences of integration and consolidation banking system in Ukraine are held by many native scientists and researchers such as V.Geets, V.Mishenko, I.Salo, A.Vozhzhov and others. The uncertainty caused by influence of foreign capital presence in Ukrainian banking system calls particular apprehension of researchers. There is point of view that Ukrainian banking system cannot resist to foreign banks, because their statutory funds considerably exceed local characteristics. As a result of excessive liberalization foreign banks might dominate. This apprehension is understandable nevertheless weighty argument against is that foreign bank that comes into Ukrainian market invests funds, which are not so huge in the scale of all banking system but these funds have influence on growth of the total capitalization. It is obvious that significant growth of domestic banking capital has happen thanks to entry of foreign banks into Ukrainian market.

**The basic material.** One of the vital problems of Ukrainian banking system is problem of its real value. Among 170 commercial banks that have general license for banking operations most of them are not transparent enough for tracing real profit beneficiaries. Also full information about their financial status is not available. Especially it concerns small banks. Generally banks are not involved in shares market trading it means that real market share price for such banks does not exist.

In the end of 2010 53 among 176 Ukrainian banks have foreign capital in their assets, where 20 banks are fully operated with foreign funds. In our research we see that all those banks are different so we have to range them by the owners. The problem of owners in Ukrainian banking is not clear. Due to many factors Ukrainian owners prefer to hold the assets of a bank via their foreign company. Such particularity should be evaluated in proper investigation.

Among other forms of foreign presentation subsidiaries are the preferred organizational form because they seek to penetrate the local market establishing large and mostly retail operations.

In our research we analyze the causes and effects of international bank mergers and acquisitions. Compared with them domestic M&A transactions are not so crucial.

In present time foreign banks use following methods of penetration to the local market:

- by forming branch or subsidiary, representative office;
- by acquisition of shares of acting local or foreign bank;
- by acquisition of acting or new registered bank;
- by merger of foreign bank outside the Ukraine and presenting in the country by their subsidiary.

As researchers say two of every three deals do not work. Large deals perform worse then smaller ones. And only 50% of M&A transactions gain profits for shareholders [3]. The rule works for Ukraine. The problem is in differences of doing

business. Wrong strategic plans, misunderstanding of market needs. Failing in contact with management, clientele and government.

Increased interest to Ukraine from the European banks partially was provoked by deceleration of economic growth in European countries. [4] For several years Ukraine has been considered by foreign global institutions as perspective object for investments.

Another very important stimulus for foreign banks is “follow-the-customer” principle. Foreign banks open their branches and representative offices in those countries where there are offices of mostly multinational or their national companies and corporations. [5] This principle explains banking internationalization. The reason of such a behavior lies in the advantages in terms of information costs for banks working with the foreign subsidiaries of their home country clients. Therefore, the internalization of this advantage should constitute a main motivation in the bank's decision to be present in foreign locations.

In addition there are other forms of influence of foreign financial institutions on providing bank services on local market. This influence can be direct or non direct. Among typical forms of influence we mark out the following:

1. Correspondent banking relations. Analyses of correspondent net of large Ukrainian banks shows that local banks prefer to have business relations with the global institutions.

2. Counterparties relations (dealers' trades, trade finance, microlending).

3. Credit lines and loans.

4. Servicing of common clients, consulting.

The strategy of foreign banks on the local market entrance is not univocal. As Shapovalov A. notices, there are 2 methods of foreign banks expansion: opening of new banks; acquisition and development of banks that already work [6]. In any case a foreign bank shows strategy flexibility and cost moderation.

Medium rate of price-to-book on M&A transactions in Ukrainian banking during 2005-2008 was estimated 5.34, while typical index was 2,48.

Against an idea that the rate is so high because of low capital level we can say that the beginning of good Ukrainian banks sell began from 2005 while bank Aval was sold with transaction index 3.7 [7]. Normal price for an Ukrainian bank in 2007 was 5 multiplication of its statutory fund.

We mark out the following factors of high bank pricing:

- Region's attractiveness;
- The market share that a bank holds as well as it's branch network scale;
- Management and personnel quality.

In 2008 unprecedented transaction of acquisition of the largest Ukrainian bank Prominvestbank by Russian monster Vnesheconombank was held. The Ukrainian government was forced to realize this deal as bank was on the verge of bankruptcy. This deal is the example of nontransparent M&A transaction in Ukraine.

Rather interesting bank consolidation sample is merger of bank units that has the same investor. It is obvious that the result of certain processes has influence on the whole banking market. Thus failed trial of consolidation Reiffeisen bank Aval and Reiffeisen Ukraine resulted to appearance OTP bank in Ukrainian market. The latest

example of bank consolidation is consolidation of Ukrsootsbank and Unicredit Ukraine, which was effected by the declaration of one of the member Unicredit group – Pekao Bank about the exit from Ukrainian market [8]. Obviously the banks consolidation will be reflected in bank rating.

In case if inflow of foreign bank capital is regulated and monitored duly we can assume that the structure of banking system has been improved, banks have stimulus for participating in foreign markets, local stock markets grow dynamically and interest rate declines. Necessary measures are:

- improvement of banks risk management;
- regulation of capital flows (controlling, monitoring);
- threaten the role of monetary politics (development of interbank market, threaten of interest rate role, cooperation between monetary and fiscal politics etc).
- enlarge the scale of banking services and increase their quality;
- decrease of loans interest rates;
- increase of international financing rating of Ukraine and enlarge of volumes of foreign investments in the economy;
- active participation in global process with possibility of keeping and preventions their negative influence for domestic banking sector.

Among negative aspects of foreign banks' influence on domestic banking system generally we notice the following:

- a foreign bank will not invest funds into the economy of another country;
- a foreign bank will support only those companies and economy sectors which are not competitive to the country of the bank's origin;
- a foreign bank can stop their activity and go out from the market suddenly and thus the equilibrium of the market will be broken;
- a foreign bank will not participate on social programs in the country of expansion.

Also there are 2 factors that have great influence on a foreign bank development:

- Economic situation in the country of its origin;
- The changes in the bank's strategy.

As per researchers' a foreign bank invest funds in countries with high level of revenue return, and matters happen when perspective bank closes its branch in one country and relocates it to the more prosperous region [9].

As for the aspect that a foreign investor will not invest the money into the economy sectors that are not of interest for him the sectors we can say that domestic banks play the same game and never will invest unviable for them sphere for example in agriculture. A bank, no difference if it is local or foreign, has the main aim of its activity – the profit. The last crisis showed that thanks for foreign capital the banking system of Ukraine did not prove considerable changes thanks to presence of foreign capital. The share of foreign capital in total capital of the banks consists 40%,

In 2010 we see the objective slowdown of M&A transactions. As Steve Krouskos, Ernst & Young's transaction advisory services said that although there has been an increase in deal discussions, this has not been reflected in announcements as activity is heaviest in emerging markets, carve-outs and joint ventures and these transactions take longer to negotiate. M&A is down to the three C's - cash,

confidence and credit [10]. Other point of view has the president of PKO Bank Polski says that during the recent crisis significant M&A transactions were the result of financial problems at foreign banks [12]. Nevertheless financial problems are not the reason of come out for Bank of Georgia, Home Credit Group and Renaissance Capital that refused their subsidiaries in Ukraine. Maybe they decided to change strategic plans that were moderated after crisis.

As researchers say foreign capital is more profitable for those countries that already have significant level of it in their banking capital. It is explained by the idea if country has low percentage of foreign bank capital that banks do not participate in competition with local ones but only serve foreign companies. [11]

The analyses of foreign banks activity shows that banks still have not realized their potential. Generally banks change their names and some principles of their work but services range, tariffs and deposit and credit rates remain average in the market. Partly all this connected with difficulties of inner organizational transformation, high political risks and persistent market reforms. Accordingly it is early to result the effectiveness of foreign banks influence on Ukrainian market.

### **Conclusions:**

1.It is obvious that due to political unpredictability western capital intends to leave Ukraine while Russian investors are still optimists. It is expected that more foreign banks go out from Ukrainian banking market except of that 4 that have done it.

2.Ukrainian banking sector is involved in integration processes and potential of them is only began to utilize. The research shows positive influence of foreign capital that appears in increasing of capitalization of banking system, decreasing of interest margin, investing climate improvement.

3.Foreign banks assist in growth of Ukrainian banking system while foreign expansion risks may be decreased by proper regulation and controlling by the government. While domestic banking needs funds of capitalization foreign banks play their positive role on Ukrainian market of bank services.

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**Долгальова М.О.,**

***Зміни в банківській системі України: вплив європейських банків***

*За останні кілька років, українська банківська система досягла життєво важливого процесу консолідації. Важливо перевірити, як цей процес може змінити банківські бізнес-моделі, їх ефективність та конкурентоспроможність. Прихід іноземних банків часто пов'язано зі зростанням конкурентоспроможності на місцевому ринку банківських послуг. Також позитивна динаміка іноземних інвестицій в банківській системі є чинником інтеграції. Є багато європейських банків, які мають свої філії в Україні. В основному закордонні банки пропонують роздрібні послуги, зараховуються в топ-20, і тому мають великий вплив на місцевий ринок. Метою дослідження є вивчення сучасних тенденцій в європейській банківській системі і банківських продуктів, дослідження можливості їхньої позитивної роботи на українському ринку.*

***Ключові слова:*** банківська консолідація, злиття та поглинання на ринку банківських послуг

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***Изменения в банковской системе Украины: влияние европейских банков***

*За последние несколько лет, украинская банковская система достигла жизненно важного процесса консолидации. Необходимо проверить, как этот процесс может изменить банковские бизнес-модели, их эффективность и конкурентоспособность. Приход иностранных банков часто связано с ростом конкурентоспособности на местном рынке банковских услуг. Также положительная динамика иностранных инвестиций в банковской системе является фактором интеграции. Есть много европейских банков, которые*

*имеют свои филиалы в Украине. В основном зарубежные банки работают на розничном рынке, числятся в топ-20, и поэтому имеют большое влияние на местном рынке. Целью текущего исследования является изучение современных тенденций в европейской банковской системе и предлагаемых банковских продуктов, дальнейшее исследование возможности их позитивного осуществления на украинском рынке.*

**Ключевые слова:** *банковская консолидация, слияния и поглощения на рынке банковских услуг.*

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