

ISSUES OF NON-BANK FINANCIAL INSTITUTIONS INVESTMENT ACTIVITY IN UKRAINE

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Abstract. The article states that non-bank financial institutions allow for an appropriate level to effectively accumulate and redistribute financial resources to the needs of the economy. The analysis of non-bank financial institutions role was made on the financial services market of Ukraine, non-bank financial institutions development issues were established and improvement methods of non-bank financial institutions activity in Ukraine were proposed. Strengthening the existing financial market, the creation of a new financial modalities and developing the legal framework of regulation, new financial relations in non-banking activities will increase the efficiency of the domestic market of non-bank credit institutions and ensure the development of the financial market of Ukraine.

Key words: non-bank financial institutions, financial market, regulation issues

INTRODUCTION

For a variety of reasons, modern Ukrainian investment climate is not favourable for both domestic and foreign investors. Therefore, necessity to increase investment activity in Ukraine involves non-bank financial institutions strengthening in investment processes.

So far, non-bank financial institutions are minor in Ukraine, and their participation in investment services provision mostly remains to be insignificant. However, upward dynamics of various financial services market segments development shows its significant potential and feasibility of its use in the future in order to ensure national economic growth [Lunchenko 2011].

Many national scientists dedicated their papers to non-bank financial institutions investment issues research: L. Balanyuk [2010], V. Lunchenko [2011],

N. Slavyanska [Slavyanska, Neznamov 2011], A. Neznamov [Slavyanska, Neznamov 2011], S. Ponomarenko [Ponomarenko et al. 2011], G. Kovalenko [Ponomarenko et al. 2011], A. Shulh [Ponomarenko et al. 2011], etc. However, a lot of issues have been left out by scientists and practitioners, in particular, competitive opportunities of non-bank financial institutions and their development prospects within financial services market have not been studied completely.

RESEARCH METHODS

Developed countries experience shows that effective performance of non-bank financial institutions produces significant economic effect. It enables to give substantial influence on investment resources increase in national economics by satisfaction of economic entities needs in requisite capital. Such course is especially relevant for Ukraine within modern conditions of investment and innovative model formation for national economics and its financial system development.

The purpose of this article is to define modern financial institutions issues in order to assign methods of their investment activity improvement and attempt to activities for further development of Ukrainian financial services market.

Modern Ukraine needs funds for economic development. Based upon western countries experience, the source of such funds can be developed system of non-bank financial institutions. They exist in Ukraine, however, their activity is not effective enough yet. For its further development and important economic development source formation on its basis, it is necessary to know, how good (or bad) they operate at the present moment, which problems they have in their performance, and what tendencies can be development of non-bank financial institutions further in Ukraine.

Non-bank financial institutions in Ukraine undergo initial period of their formation, their development remains to be slow-moving, even chaotic sometimes. They were established due to worsening of ordinary people living conditions, their needs in financial services, additional financial resources for their livelihood, provided by credit cooperation.

Non-bank financial institution is a legal entity, which in accordance with Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets" provides one or a number of financial services and which is entered in the State Register of Financial Institutions under the procedure established by Ukrainian legislation [Resolution of the National Bank of Ukraine... 2004].

Non-bank financial institutions by the means of accumulation of individual investors' funds and their investment into various economic projects secure equilibrium at capital market upon matching of supply to demand on financial re-



sources, redistribute and reduce financial risks, secure upsurge of various investors' financial investments liquidity owing to obtained funds professional management [Balanyuk 2010]. Types of non-bank financial institutions are given in the Table 1.

TABLE 1. Types of non-bank financial institutions

Types of non-bank financial institutions	Definitions
Insurance companies	financial institutions established in the form of joint-stock, wholly owned, limited partnerships or double liability companies in accordance with Law of Ukraine "On Business Entities", considering that number of participants of each such financial institution should be at least three, and other peculiarities stipulated by this Law, and obtained insurance license in accordance with established procedure (hereinafter referred to as insurers-residents)
Pension funds	subject of the second level of pension provision system-private pension fund, which is established and operates in accordance with legislation regarding private pension provision, corresponds to requirements of this Law in order to obtain license for service provision in pension insurance accumulation system
Credit unions	non-profit organization established by individuals, trade unions, their cooperative associations with a purpose of satisfaction of its members' needs in reciprocal crediting and financial services provision for the account of credit union members' consolidated contributions
Co-investing institutions	corporate investment fund or unit investment fund
Financial companies	financial institutions providing only financial services specified in the Attachment to Certificate of Financial Institution Registration, including those, provision of which is possible only upon relevant licenses/ /permits issue by state authorities, which control relevant financial services markets
Pawnshops	financial institution, which at its own risk provides financial loans to individuals from its own or obtained funds, charged upon property for a fixed period at interest and other pawnshop related services
Leasing companies	legal entity, which transfers its ownership and use right for non-consumptive item (leasing subject), which has identifying details and classified as basic funds in accordance with legislation, to individual or legal entity (lessee) under leasing agreement

Source: Law of Ukraine "On Insurance" 1996, Law of Ukraine "Credit unions" 2001, Law of Ukraine Joint Investment Institutions (Unit and Corporate Investment Funds)" 2001, Law of Ukraine "Private pension provision" 2003, Order of the State Commission for Regulation of Financial Services Markets of Ukraine "Approval of the introduction of information about the financial companies in the State Register of financial institutions and the establishment of requirements for accounting and recording of financial companies" 2003, Order of the State Commission for Regulation of Financial Services Markets of Ukraine "Approval of the Regulation on the provision of financial services pawn shops" 2005, State Committee of Statistics of Ukraine "Approving the Classification of institutional sectors of Ukraine" 2005.

Along with personal business goals, non-bank financial institutions facilitate general economic tasks solving, economic growth in Ukraine.

RESULTS

Non-bank financial services market rapidly develops in Ukraine: there is growth trend of financial institutions, their assets and demand for their services [Ponomarenko et al. 2011]. Among non-bank financial institutions, insurance companies, pension funds, and credit unions dominate in the investment activity. They have social basis and raise funds due to social direction of their activities.

Insurance companies obtained life insurance licenses in Ukraine, are not entitled to carry out any other insurance activities. As long as Ukrainian insurance market has not insurers carrying out solely reinsurance activities (insurance companies obtained licenses for specific type of insurance, are also entitled to make reinsurance of such type), all insurance companies are classified as life and non-life (risk insurance) companies. Such classification is very important, as investment activity approach varies depending on cash flow specifics for each type of insurance companies.

Thus, as of 01.07.2012, Ukraine has 443 registered insurance companies, including 63 life insurance companies and 380 non-life insurance companies [Analytical review of the non-banking financial services... 2012].

Nature of insurance companies' investment activity depends on the following factors: insurance company size, insurer's equity, insurance portfolio factors (prevailing risks, average losses, frequency of losses), and insurance reimbursement policy.

Underliquidity of financial instruments remains to be an important issue for insurers concerning effective investment policy. Especially acute problem with single investment source support of the half of insurance reserves lies in bank deposits having permanent yield and relative deposit guarantee support in accordance with applicable legislation. Other available assets are mostly invested into securities (usually shares).

As for pension funds, their investment activity consists of three components: accumulation of fund members' pension contributions, pension assets management, pension payments.

Pension funds are divided into three types: opened, corporate, professional. Main purpose of the private pension fund is preservation and increase of pension assets value in order to save funds for full pension payment and keep citizens' savings gain level above the rate of inflation after full covering of the fund current expenses. Comparing with any other investment non-bank financial institutions, pension funds activity is mostly involves social responsibility. It is so, because



pension funds pay pension benefits to elderly people, who are no longer able to receive funds from other sources and have been saving funds on pension accounts during long period of time. Due to high level of social responsibility, the most important thing for pension funds is to save assets value than to earn high profit, but with high risk [Lunchenko 2011].

There are four types of investment portfolios, which are classified by investment policy riskiness and members' age criteria. All investors, being holders of individual retirement accounts, are fairly assessed with different risk tolerance levels. The elder an investor is, the more conservative he should be, and he has fewer chances to lose money. In the reports of State Financial Services members are classified by their age into four groups, which correspond to the proposed portfolios types: under 25 years (relevant, the most aggressive portfolio), 25–40 years (moderately aggressive portfolio), 40–55 years (balanced portfolio) and over 55 years old (conservative portfolio). Every portfolio should include available-for-investment assets types, but in different ratio [Analytical review of the non-banking financial services... 2012].

As of 01.07.2012, Ukraine had 97 private pension funds and 39 administrators of private pension funds. In reality, classification of private pension funds by members' by seniority is complex task due to the lack of relevant information. Significant structural changes have been made in classification of private pension funds members by age groups. Thus, during the first half of the year 2012 there was considerable participating share increase of private pension funds members aged from 25 to 40 years old. In comparison with a date 01.10.2011, when people aged from 40 to 55 years old constituted majority of private pension funds members, as of the date 01.07.2012, the share of members aged from 25 to 40 years old was 65.1%. Shares of members aged from 40 to 55, over 55 and under 25 years old decreased during the first half of the year 2012 by 15.8, 7.8 and 0.8% respectively [Analytical review of the non-banking financial services... 2012].

According to the results of the first half of the year 2012, prevailing directions of pension assets investment, as well as in the beginning of the year, remain to be bank deposits (27.2% of invested assets), Ukrainian issuer's shares (17.1%), corporate bonds issued by Ukrainian residents (30.5%), securities, yield of which is guaranteed by the Cabinet of Ministers of Ukraine (12.1%) [Analytical review of the non-banking financial services... 2012]. Therefore, general structure of pension fund assets cannot be clearly referred to any type of investment policy. However, such assets structure is acceptable for present pension fund members' structure.

Slow quality changes at domestic private pension provision market, likewise low level of population involvement in its system are caused by such factors as low level of trust to the private pension provision among population, relative non-transparency of private pension funds activity, lack of necessary investment instruments.



Over the last years, credit unions have very dynamic development in Ukraine. Expansion of crediting and deposit attraction by credit unions were made through loan value decrease and deposit accounts yield increase for credit union members, when bank deposits became less profitable [Slavyanska 2011]. Kyiv city, Donetsk, Lugansk, Cherkasy and Odesa regions are leaders by credit unions number in Ukraine. At that, Odesa region, Kyiv city, Zakarpattia, Lugansk and Cherkasy regions are leaders by the number of credit unions members [Analytical review of the non-banking financial services... 2012].

Despite the total growth of the absolute performance level of credit unions system in Ukraine, their growth rate has decreased considerably, comparing with previous year. According to the results of the first half of the year 2012, as before, the majority of credit unions (296) united relatively small number of members up to 1,000 persons (58.9% of total credit unions) [Analytical review of the non-banking financial services... 2012].

As of 01.07.2012, total credit unions assets amounted to 2,549 million UAH, and comparing with the beginning of the year 2012, its volume increased by 6.8% (as of 01.01.2012, assets volume was 2,386.5 million UAH). As of 01.07.2012, total credit unions equity amounted to 1,043.2 million UAH, and comparing with the beginning of the year 2012, its volume increased by 10.65% (as of 01.01.2012, it amounted to 942.9 million UAH) [Analytical review of the non-banking financial services... 2012].

Credit unions are popular due to more simple credit procedure, especially mortgage lending comparing with banks and higher rates than bank deposit rates. At the same time, credit unions development is hampered by such factors as lack of general information concerning mechanisms and operational principles of credit unions, low population trust to such financial institutions, lower transparency level in credit unions activity comparing with banks.

Thus, in consideration of the foregoing, it is possible to mark out key issues of non-bank financial institutions activity development in Ukraine (Figure 1).

State control of non-bank financial services domestic market is important, because its expansion, including creation of breakthrough financial conditions of operation and establishment of legal basis for regulation, new financial relations in the field of non-bank activity, take place in the age of financial supremacy globalization [Pace non-banking... 2011].

The conducted analysis of non-bank financial institutions development key issues enabled to mark out regulatory issues, scientific information issues, economic issues of non-bank financial institutions at Ukrainian financial market. It should be pointed out that implementation of ways and means of activation of non-bank financial institutions investment activity will promote investment process and make real improvements in the economic structure of society.



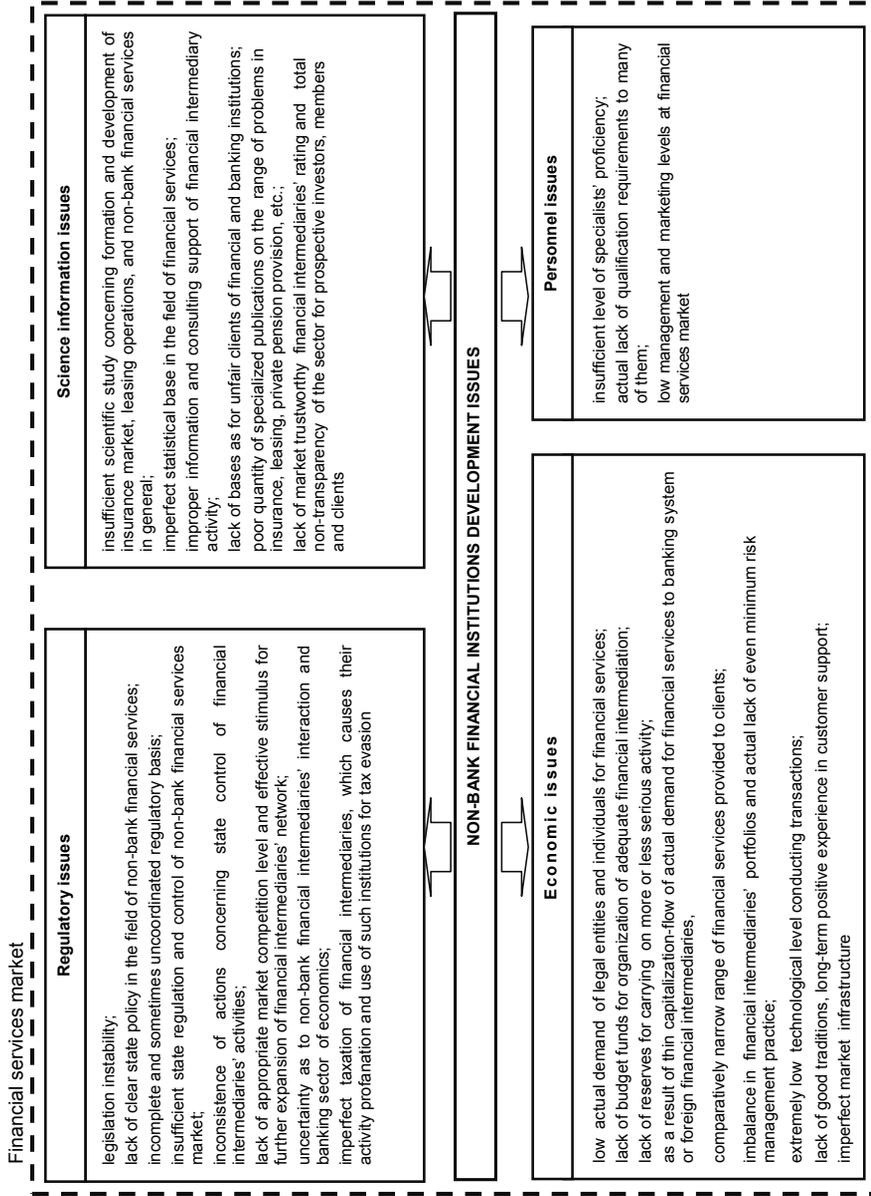


FIGURE 1. Issues of non-bank financial institutions development in Ukraine

CONCLUSIONS

With a purpose of solving the above-mentioned issues, there are marked-out ways and means of solving issues of non-bank financial institutions development in Ukraine, which would have positive influence on improvement of basic macro-economic indexes of national development and reinforce standing on the world investment markets. They are oriented for improvement of investment climate of Ukraine and strengthening of relations with its strategic partners, as well as rising Ukrainian position in the international rating. In order to secure stability and further development of financial services market, it is necessary to implement series of measures. There are basic measures on improvement of non-bank financial institutions activity for insurance companies:

- tighten control and improve management of insurance reserves by the means of expansion of financial instruments list, wherein insurers' funds can be allocated, promotion of investments for designing and implementation of high-tech equipment, resource and power saving technologies;
- secure guaranteed insurance contributions (in particular, life insurance) in the event of insurance company bankruptcy;
- stimulate provision of combined services through the proposal of complex insurance products, which would increase operating efficiency at the time of financial destabilization; stimulate development of liability insurance against investment and financial risks;
- ensure regular monitoring of insurers' assets, who, on the reporting date often refill them on the account of bank loan funds; raise demands to the authorized capital, which would facilitate capitalization growth and development of insurance against financial risks requiring considerable reimbursement, reinsurance development.

For pension funds:

- secure positioning of pension provision on financial services market by the means of information distribution among the population concerning its advantages;
- introduce tax incentives (exemption from taxation of funds transferred to the private pension account, deferral of tax payments, etc.) for business entities;
- tighten control over maintenance of pension fund administrator's sufficient equity, requirements concerning fund assets diversification and quality;
- create adequate system of investment, operational and management risks monitoring.

For credit unions:

- extend credit cooperation potential through legal entities' involvement to it;
- transfer activity for cashless settlements with a purpose of tax control and reduction of shadow transactions;



- establish credit unions members' deposit insurance fund, which, at the same time, would require implementation of supporting mechanisms;
- tighten control over adherence of solvency criteria and standards, assets quality, transaction riskiness and liquidity;
- establish service infrastructure institutions providing training, financial risks minimization services to credit unions.

The foregoing measures will enable to increase performance efficiency of non-bank financial institutions and secure further development of financial services market in Ukraine.

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DZIAŁALNOŚĆ INWESTYCYJNA NIEBANKOWYCH INSTYTUCJI FINANSOWYCH NA UKRAINIE

Abstrakt. Przeprowadzone badania pozwoliły na ocenę niebankowych instytucji finansowo-kredytowych działających na rynku usług finansowych Ukrainy. Ocenie poddano zdolności akumulacyjne i redystrybucyjne tych instytucji w kontekście potrzeb gospodarki. Znaczenie dla gospodarki niebankowych instytucji finansowych na Ukrainie oceniono na podstawie usług finansowych świadczonych przez te podmioty. W artykule zaproponowano zmiany w regulacjach działalności tych instytucji. Zaproponowane zmiany dotyczyły wzmocnienia rynku finansowego poprzez stworzenie nowych zasad finansowania i opracowania ram prawnych regulacji tego rynku. Ponadto, wskazano iż poprawa relacji instytucji niebankowych na krajowym rynku kredytowym zapewni dalszy rozwój rynku finansowego Ukrainy.

Słowa kluczowe: niebankowe instytucje finansowe, rynek finansowy, regulacja rynku

