

Zachosova Nataliia, DSc (Economics), Associate Professor, Professor of the Department of Management and Economic Security, Bogdan Khmelnytsky National University of Cherkassy, Cherkassy, Ukraine

ORCID ID: 0000-0001-8469-3681

e-mail: natazachosova@gmail.com

Nosan Nataliia, PhD (History), Associate Professor, Associate Professor of the Department of Economics and Entrepreneurship, Cherkasy State Technological University, Cherkassy, Ukraine

ORCID ID: 0000-0002-4005-8333

e-mail: natali_nosan@ukr.net

Bauer Gulia, Master's Degree in Management and Economic Security, Bogdan Khmelnytsky National University of Cherkassy, Cherkassy, Ukraine

ORCID ID: 0000-0001-7494-5523

e-mail: bauer.g1988@gmail.com

New Developments in State Regulation of Banking Safety and Security of the Non-Banking Financial Market: Expectations from SPLIT

Abstract. *Introduction. The financial market of Ukraine is in a state of instability now, but it is still beginning to show signs of a post-crisis recovery. Therefore, at the state level, the most important issue is the search for the most effective model of financial market regulation aimed at the priority of ensuring banking safety and security of the non-banking financial sector. It will simultaneously stimulate the development of financial services markets and will have a positive impact on the economic system of the country as a whole.*

Purpose. *The purpose of the article is to clarify innovative approaches to state regulation of banking safety and security of the non-banking financial sector that will appear in the process of transition to the model of the existence of two regulators in the financial market, as well as systematization of the advantages and disadvantages of regulatory processes that await professional participants in financial services markets after the introduction of split - the division of functions between regulatory institutions in the financial market.*

Results. *Innovations of legislative initiatives on regulation of banking and non-bank segments of the financial market are analyzed. The role of state regulation in the process of ensuring the safety of the functioning and development of financial services markets is explored. The expectations of participants of the banking and non-bank segments of the financial market from the split of functions of national regulators are generalized. The ways of avoiding possible negative consequences from the transition to a two-vector mode of the financial services market and its participants regulation are offered.*

Conclusions. *According to the results of the study, the following ways of avoiding possible negative consequences from the transition to a two-vector regime for regulating the financial services market and its participants are as follows: to start multilateral negotiations with market participants to clarify and take into account their attitude to the transformation of the regulatory mechanism, to create a unified statistical database of the functioning of financial institutions, to establish networks and advisory centers for coordinating the activities of financial market participants and clarifying new rules of financial work in the banking and non-bank segments of the financial system.*

Keywords: *financial market; regulation; national regulator; banking safety; non-banking financial market.*

УДК 336.71

Зачосова Н. В., доктор економічних наук, доцент, професор кафедри менеджменту та економічної безпеки, Черкаський національний університет імені Богдана Хмельницького, м. Черкаси, Україна

Носань Н. С., кандидат історичних наук, доцент, доцент кафедри економіки та підприємництва, Черкаський державний технологічний університет, м. Черкаси, Україна

Бауер Ю. С., магістрант кафедри менеджменту та економічної безпеки, Черкаський національний університет імені Богдана Хмельницького, м. Черкаси, Україна

Новації державного регулювання банківської безпеки і безпеки небанківського фінансового ринку: очікування від SPLIT

***Анотація.** Охарактеризовано сучасний етап розвитку процесу регулювання вітчизняного фінансового ринку та його професійних учасників. Визначено сучасні проблеми еволюції ринків фінансових послуг, зумовлені вадами у організації процесу регулювання їх функціонування на державному рівні. Проаналізовано новачі законотворчих ініціатив щодо регулювання банківського та небанківського сегментів фінансового ринку. Досліджено роль державного регулювання у процесі забезпечення безпеки функціонування та розвитку ринків фінансових послуг. Узагальнено очікування учасників банківського та небанківського сегментів фінансового ринку від спліту функцій національних регуляторів. Зроблено припущення щодо проходження етапів трансформації підходу до регулювання стану безпеки банківського та небанківського фінансових сегментів після спліту. Запропоновано шляхи уникнення можливих негативних наслідків від переходу на двовекторний режим регулювання ринку фінансових послуг і його учасників.*

***Ключові слова:** фінансовий ринок; регулювання; національний регулятор; банківська безпека; небанківський фінансовий ринок.*

Problem statement. The financial market of Ukraine is currently in a state of instability after the global financial crisis of 2008-2009 and the internal economic and political crisis of 2014, but now it begins to show signs of a post-recession recovery. However, the tendencies of development of various segments of the financial market – banking and non-banking – require regulation, supervision and control, since the self-development of market architecture is distorted by the negative influence of numerous threats to the state and results of the activities of financial institutions. State regulation of the financial market in the current conditions of the functioning of its professional participants can ensure minimization of destructive influence on the level of their economic security of numerous risks, the result of which in the long run will be the loss of the state of its financial security at the macro level. The importance of state regulation of the banking services market is primarily due to the need to ensure unity of the market, oversee the functioning of banking institutions and protect the rights of consumers of banking products. However, despite the presence of one national regulator in the regulation of the banking services market, the mechanisms of control and supervisory influence on this segment of the financial market in the conditions of the transformation of the world economy are complex. This is especially noticeable now, in a situation when Ukraine faces a difficult task of finding the optimal option for ensuring financial security, stability and autonomy on the one hand, and the need for economic growth and market efficiency – on the other. The regulation of the non-bank financial market is currently carried out by two national regulators, which sometimes overlap and repeat each other's functions, and in some cases, for example, while ensuring the assessment and monitoring of the security of the market and its participants, none of the regulatory bodies has the competence to carry out this task professionally. Therefore, an important issue is the search for the most effective model of financial market regulation in order to guarantee the priority of ensuring Ukraine's banking safety and security of the non-banking financial sector, which will simultaneously stimulate the development of financial services markets and provide a positive effect for

increasing the power of the economic system of the state as a whole.

Analysis of the recent research and publications. Problematic issues of the functioning of the mechanisms of state regulation of the banking services market and the non-banking financial sector are widely covered in Ukrainian and foreign professional economic literature. In particular, various aspects of financial regulation are considered in the works of such foreign scientists as F. Capie [1], A. Chalmers [2], G. Stigler [3] and other. A significant place in the development of this problem is occupied by the works of domestic researchers such as R. Bacho, who studies the state regulation of financial services markets in the EU countries [4], T. Bezborodova, and O. Reryanyuk, who study modern regulatory models of financial markets [5], N. Davydkova, who explores the conceptual framework for regulating the banking services market in Ukraine [6] and many others [7, 8]. Today, there is growing debate among scholars over whether it is necessary to move from the model of regulation of the domestic financial market in which this function was performed at once by three institutions: the National Bank of Ukraine (NBU), the National Securities and Stock Market Commission (NCSSMF) and the National Commission, which carries out state regulation in the field of financial services markets (the National Financial Services Commission), to a model where control over banking and non-bank financial sectors will pass to two national regulators. Thus, the chosen topic for research is relevant, and that it is timed in time.

Formulation of the research aim. The aim of the article is to clarify innovative approaches to the state regulation of banking safety and security of the non-banking financial sector that will appear in the process of transition to the model of the existence of two regulators in the financial market, as well as to systematize the advantages and disadvantages of regulatory processes that await the professional participants in financial services markets after the introduction of "split" – the division of functions between regulatory institutions in the financial market.

Presentation of the main research material. Under the regulation of the financial services market in the

scientific literature is traditionally understood the streamline of the professional activity of all participants in this market (including professional participants) by state regulatory bodies and self-regulatory organizations of the participants themselves. In the legal and regulatory context, "state regulation of financial services markets is the implementation by the state of a set of measures aimed at regulating and supervising financial services markets in order to protect the interests of financial services consumers and preventing crisis phenomena" [9]. State regulation and supervision in the financial services market is understood by the President of the Ukrainian Society of Financial Analysts Prozorov Yu. V. as "a consistent change in the structure of the economic interaction of the state and market participants in the process of regulating the financial market in order to increase its investment attractiveness" [10, c.3-4]. Thus, at the legislative level, the priority of regulation of banking and non-bank segments of the financial market is counteraction to the end of the financial crisis, which returns our attention to the issue of ensuring the safety of financial institutions, their clients and the market as a whole. The second definition defines the function of regulating the financial market as to ensure its competitive advantages to stimulate the interest of foreign investors and the effective implementation between them and the domestic economy of the function of a financial intermediary, which also can not be realized without guaranteeing the safety of their financial assets when professional market participants get them. Therefore, we consider it expedient to highlight the process of state regulation of banking safety and security of a non-bank financial market as a separate and important function, the execution of which in Ukraine now is immediately assigned to three state institutions.

The National Bank of Ukraine monitors on a consolidated basis the activity of banking groups. The National Commission, which carries out state regulation in the field of financial services markets, monitors on a consolidated basis the activity of non-bank financial groups, the predominant activity of which is carried out by financial institutions supervised by the National Financial Services Commission. The National Securities and Stock Market Commission carries out supervision on a consolidated basis the activity of non-bank financial groups, the predominant activity of which is carried out by financial institutions supervised by the NCSSM [9].

On July 7, 2016, the Verkhovna Rada of Ukraine adopted in the first reading a draft Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine Concerning the Consolidation of Functions of State Regulation of Financial Services Markets", according to which a partially consolidated (integrated) model of financial market regulation is introduced in Ukraine. The entire financial sector will be regulated by two regulators. This will be done by transferring the functions of the National Financial Services Commission to the NBU and

the NCSSF (the so-called split). The NBU will regulate and supervise the activities of banks, insurance companies and insurance intermediaries; leasing companies and economic entities that, by their legal status, are not financial institutions but have the right to provide financial leasing services (legal entities-lessors); factoring companies; credit unions; bureau of credit histories; pawn shops; other financial companies. The scope of the NCSSF's responsibility will include regulation of non-state pension funds and construction financing funds, as well as real estate funds [11]. The purpose and outcome of such a division are "security and stability of the financial system, protection of the interests of depositors, creditors and other consumers of non-bank financial services and prevention of crisis phenomena" [11].

The need for reforming the domestic banking and non-banking financial sector security regulation system was updated in 2019 due to the fact that for the domestic financial market there are a number of problems that national regulators failed to solve in recent years. Among them, in particular, should be distinguished such as:

- unsatisfactory financial intermediary activity to provide financial information to the population, ie low level of transparency of financial institutions;
- the actual absence of individuals in the stock market who are the important domestic investors for the needs of the domestic economy financing;
- low level of financial literacy of the population, which does not allow potential consumers of financial products and services to actively integrate into the financial market system;
- low level of functionality and efficiency of financial market infrastructure components;
- low level of modern information systems and technologies use in the processes of implementation of financial products and services;
- low level of financial inclusion;
- insufficient financial basis for the evolution of the stock market, low level of investment attractiveness of financial instruments and low level of investment activity of domestic investors;
- deformation of the stock market architecture;
- lack of powerful financial centers;
- immaturity and riskiness of investment resources of the stock markets of Ukraine, lack of quality assurance management on behalf of the trustees;
- the inability of the financial market to withstand fierce competition with financial markets in Europe.

Measures of state authorities aimed at reforming the state regulation of the markets of non-bank financial services of Ukraine are carried out in conditions of uncertainty. Continuous attempts to implement reformist measures reduce the confidence of financial institutions themselves to national regulators and, at the same time, negatively perceive consumers of financial products and services.

The role of state regulation in ensuring the safety of the financial services markets functioning and development is to: establish requirements for the activities of financial institutions during their creation (licensing requirements), control over compliance with economic standards, supervise of the quality of financial products and services, monitor the level of information transparency of financial intermediaries. We believe that after the split of the functions of the national regulators of the financial market, it will finally be possible to develop standards for ensuring the security of the financial market and its participants, to formulate strategic guidelines for the security-oriented development of the financial market, as well as to introduce the monitoring of the level of economic security of financial institutions as one of the elements of decision-making about the continuation of

financial institution staying in the market or starting a procedure for recognizing it as bankrupt.

Split means that the National Financial Services Commission will be completely liquidated, its functions will be transferred to the NBU. But is it reasonable in a situation where this structure received a lot of practical experience during the crisis and finally there was a perception of how to adequately manage this specific market? This is both "institutional memory" and the experience of overcoming the effects of financial crises, and an effective function of protecting the rights of consumers of financial services. And most importantly, the regulator has skills to work with a large diversified non-bank financial services market [12].

At the same time, experts and market participants have positive expectations about the split of regulatory functions, despite some negative projections (table 1).

Table 1 Expectations of participants in the banking and non-bank segments of the financial market from the split of functions of national regulators

Changes in regulation	Positive expectations	Negative expectations	Probable consequences for the security of financial market participants
Regulation of NBU activities of non-bank financial institutions	Elimination of duplication by regulators each other functions, reduction of the level of bureaucratization of the processes of market participants functioning	Increased requirements for financial state and performance results of institutions	Increasing the requirements for the state of economic and financial security of financial institutions
Diversification of regulatory requirements depending on the scale of the financial institution's activities	Expansion of opportunities for entry to the market of new players of different forms of ownership and financial capacity	Strengthening the level of supervision for systemically important financial institutions, limiting their ability to use risky financial instruments and strategies	Possibility of formation of specific-oriented economic security systems taking into account the scale of activity and the requirements of the regulator to ensure it
Termination of the activities of the National Financial Services Commission	Decrease in budget expenditures for the maintenance of an institution whose functions are to some extent duplicated by other national regulators	Regulation of the activities of financial institutions without understanding and taking into account their specifics and peculiarities of the development of the market segment	Establishing new requirements for the state of economic security on the basis of models of economic security systems of banking institutions

Source: compiled by authors using [9-12]

The division of functions between the two regulators of the financial market is one of the stages of transition to an innovative model of monitoring and control of the state of financial services markets of Ukraine in accordance with European requirements and standards. The next stage is quite expected to be the formation of a megacontroller of the financial market and its professional participants. A specific part of the work of the coordinating institution can be transferred to self-regulatory organizations and professional associations of financial products and services implementers. In particular, they may be entrusted with the functions of collecting and systematizing static data on the functioning of different segments of the financial market, providing information and consulting services to market participants, developing

financial institutions' ratings on the level of their transparency, developing documentation support for reporting to national regulators, etc.

As already noted, the awareness of the importance of keeping financial security both at the level of certain financial institutions and segments of the financial market and at the state level as a whole, laid the foundation for the transformation of the regulation process of the financial intermediary institution. The split of the functions of national regulators will give impetus to the formation of innovative approaches to state regulation of banking safety and security of the non-bank financial sector. In particular, one can expect to unify the requirements for the safety of financial institutions by introducing to them a list of activity standards, such as

those in force in Ukraine for banks. In addition, much attention will be paid to ensuring a high level of transparency of data on the current state of financial institutions, including their level of economic security. There will be clearing the market from participants that do not meet the minimum requirements for the availability of capital, staffing and risk management. The level of supervision over the quality of financial services will be strengthened and measures will be taken to ensure the

protection of the rights and interests of consumers of financial products and services. The introduction of guarantee mechanisms for fulfilling obligations by financial institutions to clients in certain segments of the financial market is likely to be done.

Stages of transformation of the approach to regulating the level of banking and non-banking financial segments security after the split of regulator functions are presented in fig. 1.

Stages	Characteristic	The result for the market
Transition	Split of the function of regulation between two regulators, transition from a segment model to a twinpix model	Restructuring of supervisory model, unification of requirements and loss of preferences by individual market participants, imbalance of information and financial flows
Adaptation	Separation of control and oversight functions within the regulatory framework between regulators	Exit from the market of some professional participants, the emergence of new types of financial institutions, raising the level of their financial and economic security
Stabilization	Effective functioning of two national regulators in the financial market	Entry into the market of new professional participants, expanding the range of financial products and services, their standardization, improving the quality services
Transformation	Search for ways to optimize the financial market regulation process to simplify it and to increase its efficiency	Increasing the level of competition between institutions of different types, the emergence of financial supermarkets, increasing the level of financial inclusion, the emergence of new financial risks
Final stage	Creation of a single mega regulator for control and supervision of the state of the financial market and its participants	Arranging financial and information flows, qualitative development of market infrastructure, guaranteeing the quality and availability of financial products and services

Figure 1 – Stages of transformation of the approach to regulating the level of banking and non-banking financial segments security after the split of regulator functions

Source: compiled by authors

Thus, the state has been chosen to optimize the regulation of the financial sector and the activities of financial institutions. At the same time, finally, at the national level, the need to ensure the country's financial security through the adaptation of domestic traditions of control over the conduct of financial business to world and European standards is realized. The final stage of the modernization of the regulatory system in the financial sector is the creation of a single financial market megaregulator. However, for this purpose, it is necessary to successfully pass the stage of the split of the functions of the national financial regulators and to ensure a progressive, safe-oriented development of the financial market and its professional participants.

Conclusions. The split of functions to regulate the activities of participants in the banking and non-banking financial sector and to control their level of economic security can have both positive and negative

consequences for the development of the domestic financial system. According to the results of the study, it is possible to propose the following ways of avoiding the possible negative consequences of the transition into a two-vector regime for the regulation of the financial services market and the activities of financial institutions: to hold the multilateral negotiations with market participants to clarify and take into account their attitude to the transformation of the regulatory mechanism, to work out financial market development strategies after the termination of the activities of the National Financial Services Commission, to create a unified statistical database on the functioning of financial institutions, to establish a network of counseling centers for coordinating the activities of financial market participants and explanation of the new rules of financial banking and non-banking segments of the financial system.

Література:

1. Capie F. Trust, Financial Regulation, and Growth. *Australian economic history review*. 2016. №56/1. p. 100-112. DOI: <https://doi.org/10.1111/aehr.12082>.
2. Chalmers A. W. Financial Industry Mobilisation and Securities Markets Regulation in Europe. *European Journal of Political Research*. 2015. №54/3. p.482-501. DOI: <https://doi.org/10.1111/1475-6765.12099>.
3. Stigler G. J. The Theory of Economic Regulation. *The Bell Journal of Economics and Management Science*. 1971. Vol. 2, No. 1. p.3-21 DOI: <https://doi.org/10.2307/3003160>.
4. Бачо Р. Й. Государственное регулирование рынков финансовых услуг в странах ЕС. *Глобальные рынки и финансовый инжиниринг*. 2015. Том 2. № 3. с. 157-176. DOI: <https://doi.org/10.18334/grfi.2.3.497>.
5. Безбородова Т. В., Теряник О. А. Сучасні моделі регулювання фінансових ринків. *Держава та регіони. Серія : Економіка та підприємництво*. 2015. № 3. с. 68-74.
6. Давидкова Н. М. Концепція регулювання ринку банківських послуг в Україні. *Причорноморські економічні студії*. 2016. Вип. 1. С. 118-122.
7. Zachosova N., Babina N., Zanora V. Research and methodological framework for managing the economic security of financial intermediaries in Ukraine. *Banks and Bank Systems*. 2018. Vol. 13, Iss. 4. p.119-130. DOI: [https://doi.org/10.21511/bbs.13\(4\).2018.11](https://doi.org/10.21511/bbs.13(4).2018.11).
8. Zachosova N., Babina N. Diagnostics by Financial Regulators of Financial Institutions Preparedness to the Implementation of Economic Security Management. *Baltic Journal of Economic Studies*. 2018. Vol. 4. No. 4. p.106-115. DOI: <https://doi.org/10.30525/2256-0742/2018-4-4-106-115>.
9. Про фінансові послуги та державне регулювання ринків фінансових послуг : Закон України. URL: <https://zakon.rada.gov.ua/laws/show/2664-14> (дата звернення: 08.02.2019).
10. Прооров Ю. В. Спліт чи неспліт ринку фінансових послуг: світовий досвід регулювання та нагляду + уроки для України. URL: http://www.academia.edu/35218553/Спліт_чи_неСпліт_CMD_10.11.2017_.pdf (дата звернення: 05.02.2019).
11. Національний банк презентує Стратегію макропруденційної політики. URL: https://bank.gov.ua/control/uk/publish/article?art_id=82709684&cat_id=55838 (дата звернення: 15.02.2019).
12. Волковская В. Прошлое уходит. Почему идея финансового мегарегулятора устарела. URL: <https://finance.liga.net/ekonomika/opinion/proshloe-uhodit-pochemu-ideya-finansovogo-megaregulyatora-ustarela> (дата обращения: 08.02.2019).

References:

1. Capie, F. (2016). Trust, Financial Regulation, and Growth. *Australian economic history review*, 56/1, 100-112. DOI: <https://doi.org/10.1111/aehr.12082>.
2. Chalmers, A. W. (2015). Financial Industry Mobilisation and Securities Markets Regulation in Europe. *European Journal of Political Research*, 54/3, 482-501. DOI: <https://doi.org/10.1111/1475-6765.12099>.
3. Stigler, G. J. (1971). The Theory of Economic Regulation. *The Bell Journal of Economics and Management Science*. 2/1, 3-21. DOI: <https://doi.org/10.2307/3003160>.
4. Bacho, R. Y. (2015). State regulation of financial services markets in EU countries. *Hlobal'nye rynky y fyansovyy ynzhynyrnyh*, 2/3, 157-176. DOI: <https://doi.org/10.18334/grfi.2.3.497> [in Russian].
5. Bezborodova, T. V. & Teryanyk, O. A. (2015). Modern models of regulation of financial markets. *Derzhava ta rehiony. Seriya : Ekonomika ta pidpryyemnytstvo*, 3, 68-74 [in Ukrainian].
6. Davydkova, N. M. (2016). Concept of regulation of the banking services market in Ukraine. *Prychornomors'ki ekonomichni studiyi*, 1, 118-122 [in Ukrainian].
7. Zachosova, N., Babina, N. & Zanora, V. (2018). Research and methodological framework for managing the economic security of financial intermediaries in Ukraine. *Banks and Bank Systems*. 13, 4, 119-130. DOI: [https://doi.org/10.21511/bbs.13\(4\).2018.11](https://doi.org/10.21511/bbs.13(4).2018.11).
8. Zachosova, N. & Babina, N. (2018). Diagnostics by Financial Regulators of Financial Institutions Preparedness to the Implementation of Economic Security Management. *Baltic Journal of Economic Studies*, 4/4, 106-115. DOI: <https://doi.org/10.30525/2256-0742/2018-4-4-106-115>.
9. Verkhovna Rada of Ukraine (2014). On Financial Services and State Regulation of Financial Services Markets. Retrieved from: <https://zakon.rada.gov.ua/laws/show/2664-14> [in Ukrainian].
10. Prozorov, Y. V. (2017). Split or Disruption of the Financial Services Market: Worldwide Regulatory and Supervisory Experience + Lessons for Ukraine. Retrieved from http://www.academia.edu/35218553/Split_chy_neSplit_SMD_10.11.2017_.pdf [in Ukrainian].
11. The National Bank presents the Strategy of Macroprudential Policy. Retrieved from https://bank.gov.ua/control/uk/publish/article?art_id=82709684&cat_id=55838 [in Ukrainian].
12. Volkovskaya, V. The past goes away. Why the idea of a financial mega-regulator is outdated. Retrieved from <https://finance.liga.net/ekonomika/opinion/proshloe-uhodit-pochemu-ideya-finansovogo-megaregulyatora-ustarela> [in Russian].

