J11517-008

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FORMATION OF THE SYSTEM OF BANKING SUPERVISION UNDER THE INFLUENCE OF FOREIGN CAPITAL

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Introduction. The evolution of approaches to banking supervision organization is a continuous process of improvement of methods of supervisory activity. This process is objective and is associated with regular financial innovations, the appearance of new financial instruments, the development of new forms of cooperation between financial institutions. In globalization of world financial system the boundaries of traditional sectoral segmentation of financial markets are disappearing and banks are hardly competing with non-banking financial institutions. A so-called "financial globalization" (an increasing integration of national financial markets into a single global market) [1] considerably complicates the activity of national regulators of banks-members of banking groups and financial transnational corporations (financial conglomerates). Meanwhile, the form of presence of foreign capital (in Ukraine – participation in the authorized capital of banks and opening of branches) in the banking system of the country is determined by local legislation and requirements of national central authorities of monetary regulation (as a rule, central banks of countries).

In support of the urgency of investigation of this issue for Ukraine it should be noted that the study of existent experience of regulation of foreign capital in the domestic banking sector promotes to identify global trends, which determine the development of world economy, as well as becomes an important methodological aspect of organization of effective regulatory and supervisory policy in the country.

The main task of this publication is to investigate the background and the content of main approaches to banking supervision organization in different countries of the world and Ukraine, taking into account the scale of foreign capital presence in their banking systems. It is also necessary to deeply investigate the determination of whether transition to consolidated model (megaregulator) of supervision of financial market participants of Ukraine is logical or special.

Basic content. The global financial crisis, among other things, revealed weak points of banking supervision and disclosed the content of immediate problems of banking activity regulation. Of course, it caused a number of changes that had to be implemented into a state policy concerning the banking sector. Main adjustments and changes in the banking regulation (including those under the influence of foreign capital) concerned, first of all, the following aspects:

– establishment of prudential requirements to bank activities based on the results of external and internal rating and usage of more objective approaches to assessment of market and operational risks ("adjustment" of protective role of equity capital, stress-testing);

– development of policy of macro-prudential supervision in the financial sphere;

– establishment of regulation of internal environment of banking functioning (corporate structure) and not recognized until recently the external environment – financial and banking groups.

Almost to the end of the twentieth century systems of regulation and supervision of banking institutions (including those with capital of foreign origin) provided for an analysis of their activity state only by the means of prudential monitoring and inspections (microeconomic approach). In this so-called formal approach important components of supervision such as professionalism of management in the system of risk management, bank stability under the influence of systemic risks and prospects of its development in significant changes (both positive and negative) of external environment are beyond the attention of control authorities. Under these regulatory conditions capital actually "freely" (with the exception of direct restrictions or prohibition) came into (and out) the banking systems of the recipient countries, often visually demonstrating the level of investment and technological attractiveness of financial markets of the countries concerned. A number of Eastern European and South American regions actively began to focus on the resources of foreign origin for the banking system. As a result of this expansion banking assets in Central and Eastern European countries were 80 % controlled by foreign investors (share of foreign capital in the banking system of Estonia was almost 99 %, Czech Republic – 97 %, Lithuania – 77 %, Poland – 70%) [1].

In fact, the global financial crisis in 2008 led to the establishment of substantive principles of banking supervision, which subject was not the formal, but real support of sustainable and stable functioning of the banking system of the country. The main component of the supervisory process in the application of the risk-based banking supervision is the monitoring of the bank risk profile – the aggregate data on the bank risks to which it is exposed (or potentially exposed), as well as the internal system of risk assessment and management. Meanwhile, the traditional set of prudential standards had to acquire a dynamic character – values change depending on the financial situation. Almost new format of financial supervision integrated macroeconomic monitoring into stress tests of financial states, depending on which traditional macro prudential standards of banking activity have to change systemically and dynamically as well as new macro regulators of relevant financial markets.

The supervision on a consolidated basis became one of the instruments of a risk-based approach to regulatory impact on activity, primarily of banks with foreign capital. That is because of the need for its implementation is formed due to the process of financial globalization, emergence of different scaled (including international) amalgamations of banks and other financial institutions, as well as the diversification of their operations. The appearance of banking groups and the emergence in this connection of specific bank risks, generated by other members of the banking group, arranged conditions for the appearance of consolidated supervision of banking activity [2].

A realistic assessment of the bank`s correspondence with supervisory standards should take into account all financial and credit institutions in which it is involved or those which are appropriately associated with it. That is the idea of supervision on a consolidated basis. That is, it is an integrated approach of banking supervision that allows estimating the stability of the whole financial group, taking into account the risks faced by the bank, regardless of whether these risks are reflected or not in the bank`s statements and companies related to it. Meanwhile, the consolidated supervision does not mean carrying out of banking supervision on the base of the consolidated financial statements of the banking group. In addition, it does not replace, but supplements the supervision on individual basis.

The adoption of the relevant law in 2011 by the Supreme Council of Ukraine [3] was due to the need of improvement of the approach to state supervision in the financial services market through the implementation of consolidated supervision of groups, which consist of financial institutions, including banks. The main criterion for determination of the financial group became the relations of control between its participants. Depending on the main controller in the group or prevalence of the type of financial institutions (banks or non-banking financial institutions) financial groups are divided into bank groups and non-bank financial groups. The law supports a separation of powers between state regulators concerning supervision on a consolidated basis depending on the type of financial group.

The traditional way to determine the banking group is through the parent bank and its subsidiaries and associated companies. The modern method of determination of the banking group is the prevalent banking activity (regardless of group structure). Its use contributes to the support of effectiveness of supervision on a consolidated basis in the following areas: consideration of existing groups in terms of their core financial business, regardless of their legal and formal structure (prevention of regulatory gaps) and taking into account the available resources and potential of supervisory authorities (prevention of regulatory arbitrage).

The regulator of financial group has the right to establish requirements for corporate governance and risk management systems, regulatory capital adequacy and also to establish prudential standards and limits on certain activities, including activities in other countries. Meanwhile, the financial institution included in the group does not go out of control of other financial regulator. Thus, members of the group automatically move to regulation and supervision of two government agencies.

In many countries, central banks often play a role of the megaregulator of financial market, particularly in the case of underdevelopment of non-banking financial institutions or the case of banking-central model of the financial system development. The megaregulator is relatively popular model and almost 50 countries have tested it as a single financial market regulator. The main reasons for desire to create the megaregulator should be determined.

First, it can be justified in conditions of the financial sector development towards universalization. The more diversified financial products and services, the more difficult to classify and regulate them by specialized supervisory authorities.

Second, the cause to create the megaregulator can be complicated by the structure of the financial sector itself. Financial intermediaries, which operate in the financial markets, merge with each other that greatly complicates the supervision. In this situation, the supervisory bodies are not able to assess the overall risks of amalgamation.

Basing on the study of the practice of recent institutional reforms in the financial sector and its regulation, we can determine a number of facts, which substantiate a leading role of the central bank of the country in the structure of supervisory authorities. The assignment of the functions of regulation and supervision of financial institutions, which are residents of the country (including those with foreign capital or international origin) to the central bank, took place in the United Kingdom (Financial Services Authority), Germany (Federal Financial Supervisory Authority), Japan (Financial Services Agency), Ireland (Financial Services Authority of Ireland), Slovakia (Financial Market Authority).

In countries such as the USA, Germany, France, Belgium, Portugal, central banks had to implement the macroprudential policy [4].

However, initially the idea of a single regulator was rejected in the US, and in 2013 the megaregulator of Britain was divided into two structures: Financial Conduct Authority and Prudential Regulation Authority.

The creation of the megaregulator on the base of the NBU can provide the following benefits: to promote coordination in the activities of regulatory bodies, eliminating duplication of supervisory functions, the use of common approaches, methods and forms of supervision, formation of the unified information support, strengthening regulatory responsibility for decision-making as well as reduction of government expenses on the regulation of financial market. Methodically such megaregulator, due to its resource capacities and functional support can also provide the following: to carry out the regular government monitoring of all entities of financial infrastructure, to promptly identify systemic risks and implement measures at the macro level to reduce their manifestation, to cooperate with regulators of other countries to support stability of domestic financial market.

Conclusion. Thus, the features of regulation and supervision of institutions of financial market with their available resources (organizational, financial, technological) of foreign origin in different periods of operation of banking systems generated the ground for qualitative and quantitative transformation of national structures and approaches to state control over the financial market in general. The next stage of reformation of the system of banking supervision in Ukraine – the transition to macroprudential framework of creation of financial market's megaregulator already has some organizational and legal basis (supervision on a consolidated basis), and is also with absence of logic of institutional changes in the global trends of searching the optimal behavior direction in modern conditions.

In addition, the identified directions of reformation of Ukrainian system of banking supervision in modern conditions of post-crisis economic and political functioning are in line with the achievement of the main objectives of the banking system reform in general. According to the Strategy of reformation of the banking sector of Ukraine, these directions include the following: support of financial stability of the banking sector and macroeconomic stability in the short-term and long-term periods, activation of the banking system to mobilization of local and external resources to stimulate economic growth, further usage of the EU standards and international experience in the activity of domestic banking system, as well as improvement of supervision on a consolidated basis, strengthening the protection of investors, creditors and consumers of banking services, the development of financial markets and improvement of banking market infrastructure as the basis for the development of diversified financial system.

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Bashlay S. V. Formation of the system of banking supervision under the influence of foreign capital [Electronic recurs] / S. V. Bashlay // SWorld Journal. Economy. – 2015. – Vol.J11517. – P. 45-49. – URL: http://www.sworldjournal.com/e-journal/j11517.pdf.