

**DISPOSITION FACTORS OF THE BANK BRANCH NETWORK OF
UKRAINE UNDER MODERN ECONOMICAL CONDITIONS**

Annotation. This article examines approaches to the structure of the bank branch network and researches principle trends typical for banks of Ukraine during the post-crisis period, marks out main peculiarities and conditions for carrying out centralized and decentralized policy of management of the bank branch network. Analyzing the nature of factors that have an impact on the processes of the territorial density of bank system makes it possible to conclude about heterogeneity of their influence on banks of different groups.

Key words: branch of a bank, decentralization, disposition factors, branch network, centralization.

I. Introduction. Ability to keep customers and bring new ones is of great importance for effective activity of every bank, as well as continual search for modern bank technologies and service, and their implementation. Competitive ability of banks defines the level of development and structural perfection of marketing network. This helps not only increase volumes of transactions, but also improve their quality. Creating and functioning of branch network is connected with essential costs of financial and material resources that demands applying to reasonable approach in dealing with issues about development of the regional network. Inefficient functioning of Ukrainian banks during the post-crisis period resulted in reduction of many branches in order to cut down the costs. Objective necessity of the analysis of development factors of bank institutions network on the territory of Ukraine causes urgency of the research issue.

It should be pointed out that both researchers of our country (O. Vasiurenko, O. Veselyy, R. Hrytsenko, Y. Kachayev, O. Krykliy, O. Miroshnychenko, I. Fomin,

A. Yaroshenko, A. Peresada, U. Korobov, A. Mescheryakov and others) and foreign researchers (J. Sinki, P. Rose, N. Baxter, U. Breddic, Y. Bernshtam, A. Odariuk, Y. Prus, R. Saifulin and other) were engaged in studies about territorial management of bank system.

Appreciating highly the contribution of the native and foreign scientists there is a necessity of further extending of research data in consideration of the specific character and function peculiarities of the bank system of Ukraine during the post-crisis period.

II. Target setting. The object of the article is characteristics variants of management and analysis of modern development tendencies of the bank branch network in Ukraine, research of the regional peculiarities of placement of banking institutions and analysis of the factors influencing the process.

For the article given the following research methods were used: analysis method (conception studies of management of the bank branch network); method of induction (defining of common factors having an impact on placement of the bank branch network belonging to different groups); comparative method (in studies of different researchers' ideas concerning definition of factors which influence the management of the bank branch network); multiple method (while analyzing the number of structural units according to the bank groups); method of datasheet view and graphical as well (to show digital data by means of visual images).

III. Research results. As the practice of financial relationships in Ukraine has it, the inner balance of bank between the leading banks and their branches often gets upset, and effectiveness of their activity decreases because of unevenness in development of the latter ones in regions. That is why the banks pay great attention to their own regional policy trying to improve the branch network and reform the system of their financial management.

Nowadays the most widespread way of branch network management consists of three levels [7]:

– the first level– the central apparatus of the corporate body in Kyiv or in one of the cities that are regional centers, which carries out the management of the branch activity;

– the second level – branches (regional management institutions and departments), located in major economically active regions giving the total complex of banking services;

– the third level – departments with no balance in the regional centers and towns which are under the command of departments of the second level. They mainly service both natural person and corporate body [3].

The choice of any concept is determined by the following factors: aims of the bank, its attitude towards the customers service, general management philosophy appropriate for the bank institution given. When the bank governing body is attracted only by the opportunity to involve deposits from different regions, there is a tight control over its work by the central office where the biggest part of active transactions is concentrated. Decentralization is unavoidable if the number of transactions is being increased and the branch network is being extended.

According to the concept of the tightly centralized management system a maximum number of the branch activity is regulated. These are current and operational planning, manpower policy, resources and portfolio management forming, etc [1].

Peculiarities of the centralized management policy are the points as follows: tight daily technological control over operational activity of branches; forming of the centralized resource and financial basis for the whole of the bank; general tariff policy which provides for some authorities for regional institutions managers as to the changing of tariffs approved in defined scope; elaboration of detailed regulations, instructions, standing orders, typical forms and standards of banking products in the range of the bank; fixing of limits for active and passive transactions and a tight control over their keeping.

This approach is reasonable to a certain extent. It should be kept in mind, however, the peculiarities of regions where branches carry out their activities,

conservation of democratism in decision-making concerning branches; need for the daily first response for their requirements; arrangement of conditions for creative initiative of managers and regional departments specialists and maintenance of best traditions established in the branches of big banks [4].

Researches have shown that there is a tendency to reduce the branch network of banks in Ukraine nowadays. This is clearly illustrated in Figure 1. The reason for such tendencies is reorganization of the bank network in order to decrease administrative expenses.

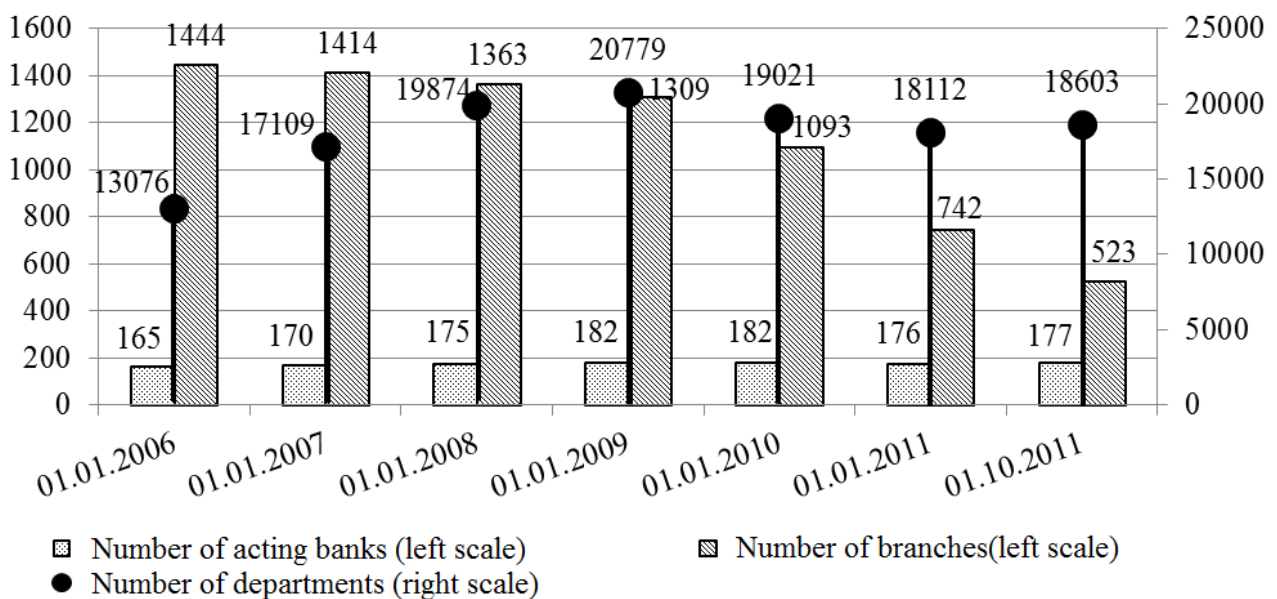


Figure 1 – Dynamics of the number of bank institutions in 2006-2011, items (illustration is based on sources [5, 7])

It should be pointed out that in Ukraine within a certain period of time the number of banks is quite stable, but the amount of separated departments was varying during the analysis period. During the post-crisis period there was a tendency to centralization, that is why in order to decrease administrative expenses banks cut the number of branches. Reduction of the amount of territorially separated departments with no balance is caused by the reduction of the foreign banks network.

The bank system of Ukraine is characterized by a considerable territorial concentration [2]. Hence, the banks of Ukraine, their branches and departments are concentrated in certain regions (Figure 2).

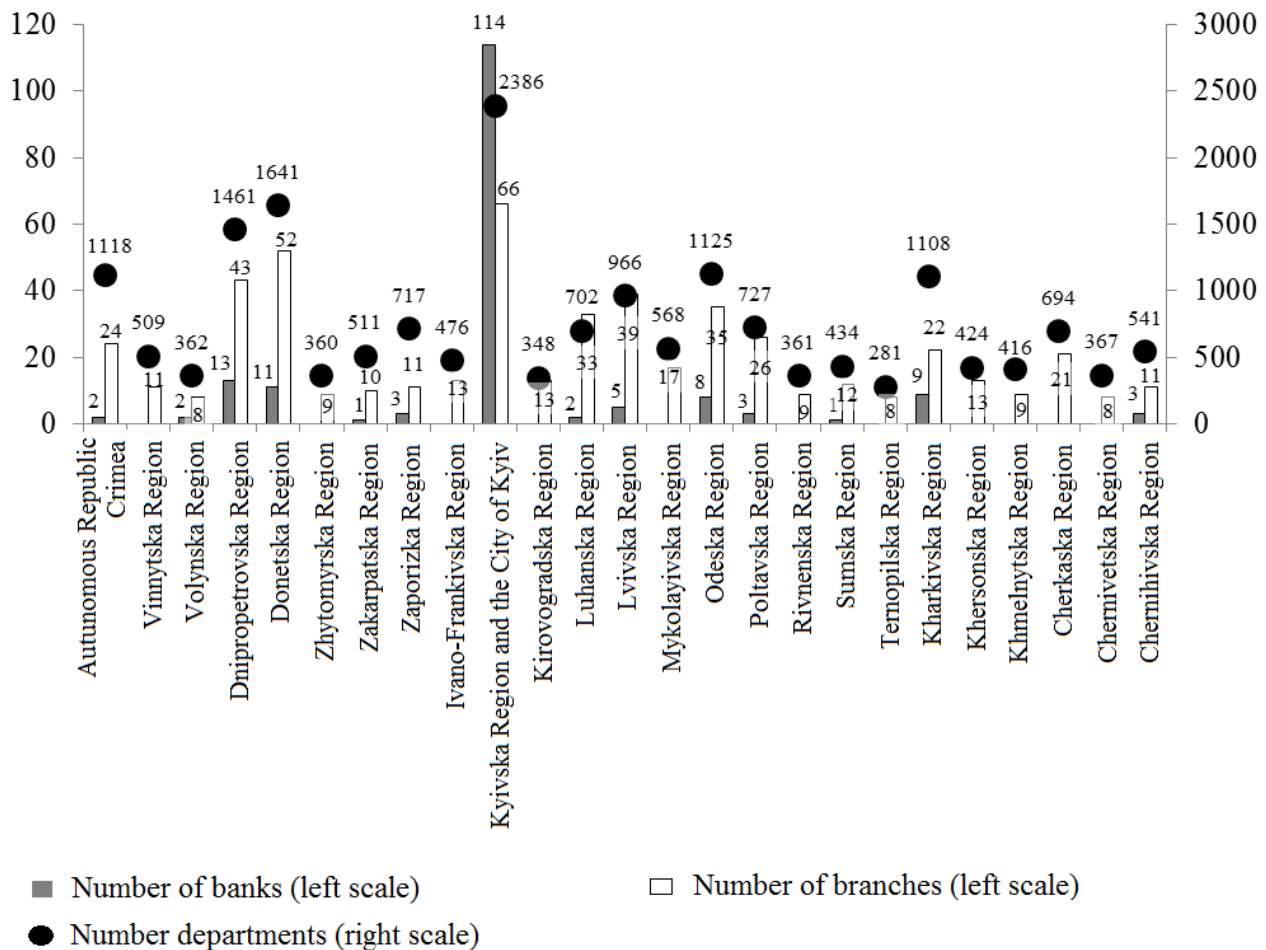


Figure 2 – Disposition of banks, branches, departments in the regions on October, 1, 2011, items (illustration is based on source [5])

As of 01.10.2011 the biggest part (64,41 %) of banks out of 177 functioning banks-corporate bodies which are territorially concentrated in 13 regions of Ukraine and Autonomous Republic Crimea was registered in the capital city region. There are 25,99 % of banks of Ukraine concentrated in Dnipropetrovska, Donetska, Kharkivska, Odeska and Lvivska regions. And there are only 9,60 % of banks on the territory of other regions, and no banks-corporate bodies in 11 regions of Ukraine.

The central position of the network including 60,04 % bank branches belongs to the seven Ukrainian regions, such as Kyivska (66 branches), Donetska (52 branches),

Dnipropetrovska (43 branches), Lvivska (39 branches), Odeska (35 branches), Luhanska (33 branches) Kharkivska (22 branches) and Autonomous Republic Crimea (24 branches). The least involved in bank infrastructure are Chernivetska, Volynska and Ternopilska regions – there are only 8 branches on the territory of each of them.

The disposition of the bank institution is geographically uneven concerning the whole territory of Ukraine and the average number of population of the corresponding regions (Figure 3).

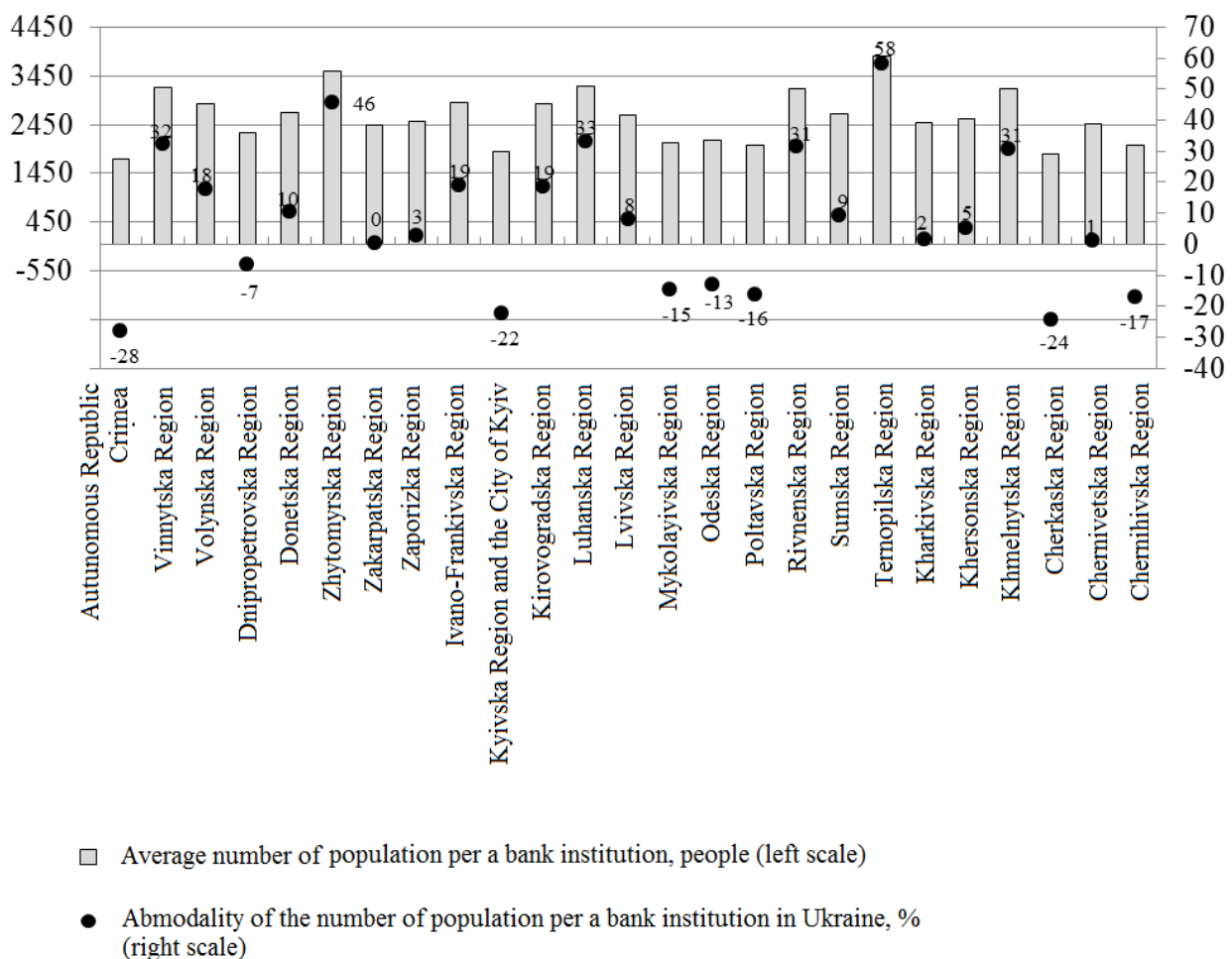


Figure 3 – The number of population of Ukraine per a bank institution and the deviation of the index from the average one as of the date of October, 1, 2011, (illustration is based on source [5])

Thus, for example, in Ternopilska Region the number of population per a bank institution exceeds the average general Ukrainian index by 58,23 %. Hence, one bank

institution has 3850 people; in Autonomous Republic Crimea and the city of Sevastopol it is 1756 people per a bank institution, which is 28,93 % less than on average in Ukraine.

Such an uneven distribution of bank institutions in Ukraine is determined by the development peculiarities of the regions, their social-economical state and investment appeal. Social-economical state of the region and the prospects of its further development have a considerable impact on the territorial expansion of banks which is reasonable, for just those very factors cause the future forming of the client base with its income and define the scale of the bank transactions carried out [7].

At the same time, the connection between these factors is not functional. Therefore, apart from the factors mentioned the expansion of banks to the regions of Ukraine is determined by other, more subjective factors as well. Combination of the factors influencing the choice of a region by the bank is shown in Figure 4.

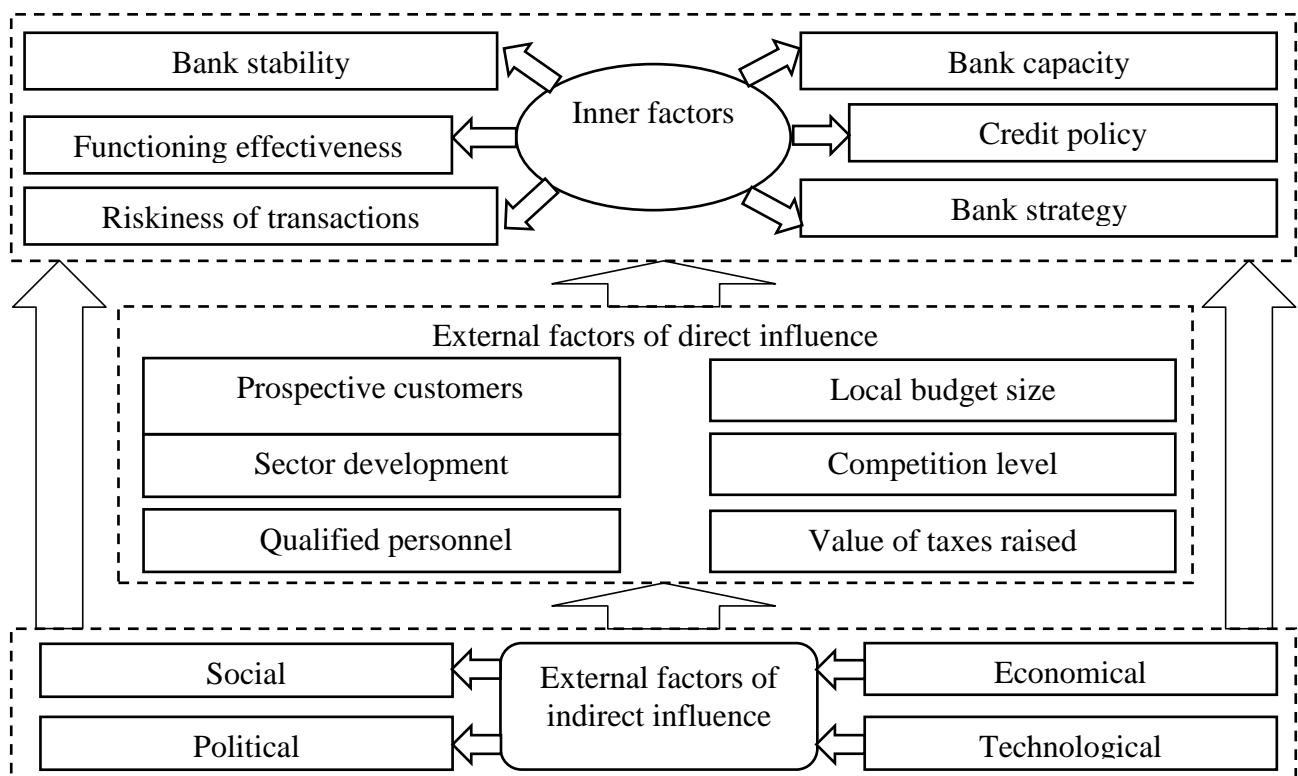


Figure 4 – Factors influencing the choice of a bank while choosing a region (authoring)

Peculiarities of the external factors influencing the processes of the territorial concentration include:

- considerable differentiation of the regional factors according to the power and directivity of their influence on the level of the territorial concentration of banks ;
- increased impact of such factors as the number of the employed and the quantity of institutions of the market infrastructure, the number of population, maturity of the transport infrastructure, quota of detrimental enterprises, unemployment rate;
- high level of the homogeneity of the regional factors influence on all the indexes of the territorial concentration of the bank activity [6];
- correlation of internal factors and territorial concentration of banks in the regions of Ukraine is quite multiple-value. Firstly, there is a considerable difference in the power and directivity of influence of the territorial factors on the bank activity indexes in the regions. This is conditioned by both technological peculiarities of banking and high rate of their territorial differentiation. Secondly, there is an increased interdependence of the level of bank activity territorial concentration and the average power of banks [7].

The size of the banks has a considerable impact on development of the native bank branch network, which also specifies peculiarities of the regional strategies of different bank groups (Table 1).

Table 1 – Bank branch network in Ukraine according to the groups of banks (table is based on source [5])

Group of banks	Number of banks, items			Number of branches, items			Average number of branches, items		
	01.01. 2010	01.01. 2011	01.10. 2011	01.01. 2010	01.01. 2011	01.10. 2011	01.01. 2010	01.01. 2011	01.10. 2011
Group I	18	17	17	582	367	294	32	22	17
Group II	19	22	21	157	113	64	8	5	3
Group III	21	21	21	193	134	71	9	6	3
Group IV	124	116	118	161	128	92	1	1	1
Total	182	176	177	1093	742	523	x	x	x

The biggest banks that appeared on the basis of the state banks like public companies of «Oshchadbank», «Prominvestbank», «Ukrsotsbank», «Ukreximbank» have the most ramified regional network. This was caused by favourable historical preconditions and availability of sufficient financial abilities.

Considerable number of branches belongs to integrated banks of the so-called «second wave». These are public companies of «Privatbank», «Raiffeisen Bank Aval», «Nadra». This is explained by availability of sufficient financial abilities and aggressive strategy of development data of credit institutes. It is aimed at coverage of all the territory of Ukraine by its network. It should be pointed out that despite considerable financial difficulties there was no significant cutting down of the branch network for the public company «Nadra» during the crisis period.

As concerns other bank categories, they more reasonably and thoroughly approach the forming of their own branch network giving preference to those regions, where the client base and not high level of bank market monopolization are concentrated.

At the same time further reduction of the number of branches is an objective tendency in terms of necessity of cutting down financial expenses. As mentioned above, the management centralization has its drawbacks, that is why in order to solve these problems some banks like the public company «Ukrhazbank» switch over to cotrolling mechanism over the institutions network by means of two-levelled structure: the main bank is the first level, departments make the second level. Compromise between centralization and decentralization is achieved by creation of regional directorships which are intermediates and have no balance of their own; it carries out only coordination and control functions concerning activity of the departments in one or several regions.

IV. Summary. To sum up, it should be pointed out that the disposition of the main bank offices and their regional departments in Ukraine is quite uneven which resulted because of inequality of economical and social-demographical developments of the regions. Such a state of affairs demands from the banks more detailed attention concerning placement of their institutions using new logistic methods to achieve

optimality in the network activity. Internal factors have a considerable impact on the development of the native bank branch network, first of all their size which specifies peculiarities of the regional strategies of different bank groups. The most ramified branch network belongs to the system banks due to sufficient financial abilities; banks of other categories more reasonably and thoroughly approach the forming of their own branch network giving preference to those regions, where the client base and not high level of bank market monopolization are concentrated.

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