

SECTIONS III: Finance, Monetary Circulation and Credit

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NON-CASH PAYMENTS AND THE ACCOMPANYING RISKS



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Actuality. Today, Ukraine's economy requires rapid structural and technological changes coupled with improving the mechanism of non-cash payments,

because its current condition is characterized by a disorder of the payment and settlement systems and payment crisis. Monetary state, pricing, credit relations, financial situation, as well as the standard of living, are depends on the state of non-cash payments, timely and full receipts from taxpayers.

Numerous numbers of banks, the interest of the state in carrying out the non-cash payments in particular for control of taxation of business entities and other factors contribute to the widespread use of non-cash payments. Thus, the study on non-cash payments is actual and has theoretical and practical interest.

Purpose. The article is aimed on the research for the major trends, tendencies and perspectives of development non-cash payments in Ukraine, ordering of risks that accompanying them.

The main material. Non-cash payments - payments that are made by banks and economic agents by transferring a certain amount of money from one account to the other.

It should be noted that there is a current worldwide trend to growing of non-cash payments, due to their convenience, efficiency and safety. Ukraine is also in this trend. In recent years in Ukraine, as in the whole world, market of payment cards and cashless payments is growing. First of all, this is due to the emergence of new electronic means of payment in the domestic market - contactless payment cards, mobile payment instruments, increasing the number of ATMs and POS terminals, popularity and convenience of implementation of Internet transactions.

The next figures show the trends in the development of cashless payments. As of 1 January 2014, the number of active payment cards in circulation was 35 622 thousand, which is 2515 thousand more than in 2012. According to the NBU, the positive trend of the number of cards compounded by growth in operations against them. For 2013, the total amount of transactions with payment cards issued by Ukrainian banks amounted to 916,027 million UAH, up 174 547 million more than in 2012. Of these non-cash payments were fixed in the amount of 159 138 million, up

by 67 577 million more than in 2012, the cash is received in the amount of 756 889 billion UAH that is at 107 030 million more than in 2012. Currently, only 30% of Ukraine's population use payment cards. In Europe, this figure reaches 80-90%.

There is an increasing dynamics during 2002-2013 in amount of transactions in which special payment instruments issued by Ukrainian banks were used.

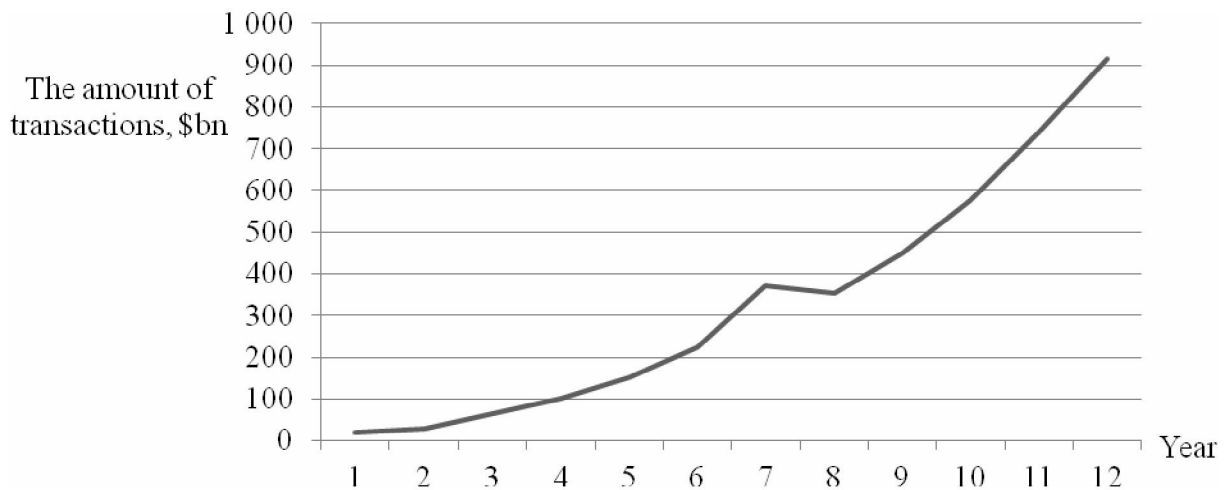


Figure 1 – The amount of transactions using special payment instruments issued by Ukrainian banks in 2002-2013, \$bn

During this time, the using of non-cash instruments has increased almost 46 times.

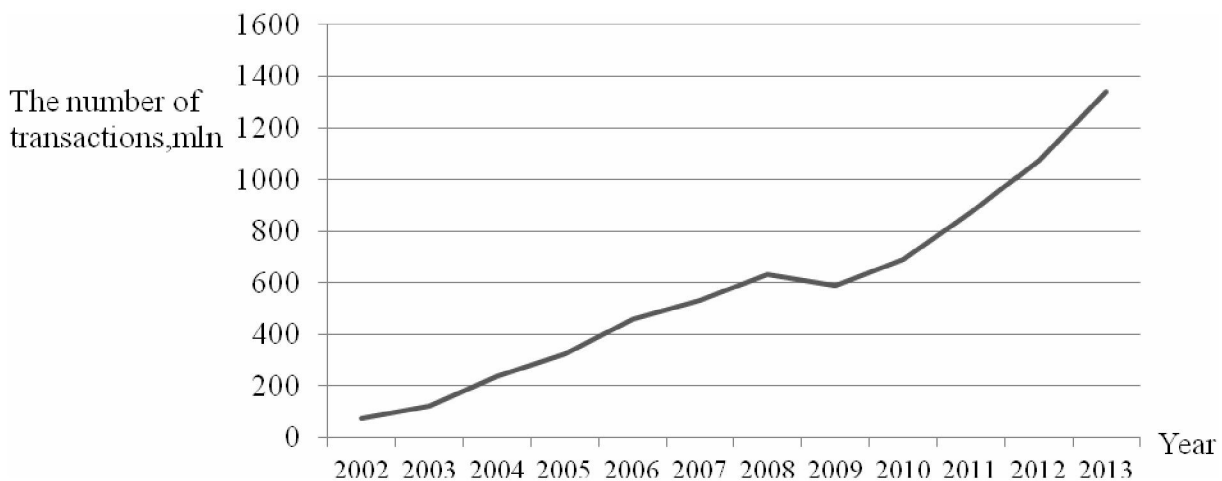


Figure 2 – The number of transactions using special payment instruments issued by Ukrainian banks in 2002-2013, mln

The number of transactions increased in 18 times from 2002 to 2013.

An important factor for the growth of cashless payments is the development of infrastructure services. As of 1 January 2014 in Ukraine established 40 350 ATMs, that is by 4 198 more than in 2012. The total number of terminals is 221 222, which is at 58 498 more than in 2012, including trade ATMs - 192 331, which is at 58 367 more than in 2012, bank ATMs - 28 891, which is 131 more than in 2012.

On August 1, the share of cash in total money circulation in Ukraine amounted to 27.9%, while the share of cash in the money supply in developed countries does not exceed 3-10%. In particular, the share of non-cash payments in the U.S. is about 90% in the EU - 91%, China - 93.8%, South Korea - 97.8%. In Sweden - almost 100%, and in the nearest future the country's authorities are planning to completely refuse of cash. Pragmatic explanation for this: there is no cash - no problem. Risk of robbing banks, shops, ordinary people is reduced. In addition, there are no costs for the manufacture of banknotes and coins.

Fig. 1 shows the structure of non-cash payments in the world for different types of operations:

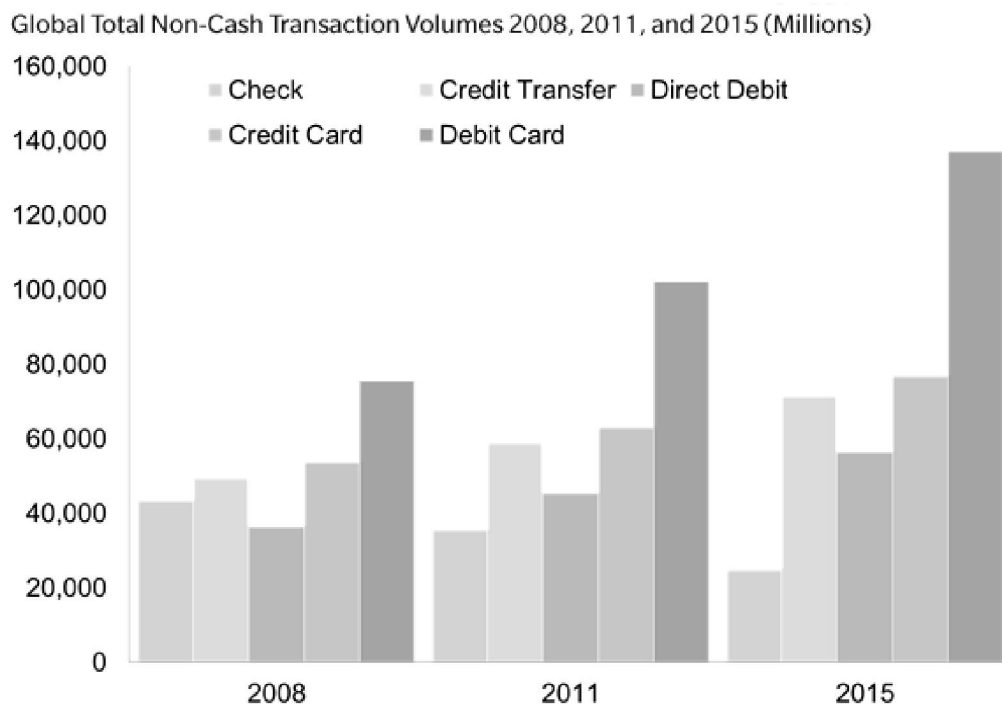


Figure 3 - Structure of non-cash payments in the world for different types of operations

Experts believe that reducing the use of paper hryvnias and massive shift to credit cards can provide savings for the state in the tens of billions UAH per year. However, it should be noted that the usage of such forms of payment associated with higher risk for both the bank and for its clients [1].

Key risks inherent for the non-cash payments:

- 1) credit (unpaid funds by the participant);
- 2) liquidity (lack of funds in the account of the payer);
- 3) law (imperfect normative and juridical basis);
- 4) operational (technical faults and errors in the payment system itself).

The most influential, in our opinion, is credit risk. In Ukraine, the problem is quite relevant, because taxpayers often do not perform their duties. Very important are the personal characteristics of the payer, namely his sense of responsibility for cash transfers. Quite often in Ukraine, especially in the calculations of individuals, the recipient receives only a portion of the funds or payments are late (no fault of the bank), the process may take as few hours or up to several days.

Liquidity risk - the probability of losses due to failure to meet its obligations due to the inability to realize the financial assets at fair value. It is expressed in a temporary shortage of funds, that must be immediately transferred to the account of another economic entity. Even more unpleasant is that we were warned that the transfer will be made in the nearest future, and after that found a lack of funds.

Also here we assign a number of common factors that impact on liquidity risk:

- inability to manage unplanned percent of funds;
- changes in funding sources;
- inability of the bank to close the gaps of their positions at current market rates quickly;
- inability to identify and take into account changing market conditions.[2]

Consider the legal risk. This is lack of risk regulation or modification of laws or other legal documents that can cause credit risk or liquidity risk. As you can see, all these risks are closely linked here, so let's expand on this risk more deeply [3].

Such risks associated with the payment system are: imperfect legal framework, fraud and theft, forgery of financial documents and, of course, errors. So at any time of payment may have problems both technical and related to intentional activities scams. Thus, to your payment information may be amended for the purpose of fraud, where any party other than the central bank may suffer bankruptcy. So in Ukraine are well-known instances when credit cards and cards of pensioners were lost by carelessness, which were used successfully and quickly by crooks. In particular, between 2003 and 2012, the number of operations with plastic cards increased by 26.5 times - from 28 billion to 741 billion UAH. So accordingly, with the growth of such operations is increasing along with them and the level of fraud, in 2012 the number of banks that was conducted these operations with cards increased by 40%. Now there are 57 such banks, herewith 99.7 % of fraud concerns cards issued by international payment systems. Therefore, according to experts, banks keep silent in most cases about actual numbers of its losses on this issue to save their own image. Therefore, the real picture of the number of fraudulent transactions is unknown, but still, we can say that their number is extremely high [4].

According to the latest data, we have the next list of banks, which have the largest number of active cards:

Table 1 – Rating of banks by the number of active cards, January 1 2014

Rank	Bank	The number of active cards, pcs
1	PrivatBank	18330265
2	Raiffeisen Bank Aval	2996005
3	Oschadbank	2349656
4	Ukrsibbank	1151126
5	Ukrsotsbank	877818
6	Delta Bank	738034
7	First Ukrainian International Bank	691942
8	Ukrhazbank	543194
9	Ukreximbank	516695
10	Sberbank Rossii	498197

Operational risk - it's a type of risk that is associated with the violation of banking rules for processing documents and transactions that arises because of external causes and due to errors of employees. Technical systems can fail during making payment at any time. For readiness of system particularly threatens failure of the components of the application system and communication system such as hardware, software, and communication channels. Also, negative impact on the banks' work may be caused by deliberate acts that violate the security of transactions, about which we have already pointed out to you.

Therefore, in case of failure of the system, money won't transfer to the desired account or will be spent a lot of time for that, this will display on a cash position of the economic entity quite negative. Therefore, before you perform calculations, issue cards or do something like that, you need to clearly understand your losses, risks and "victories", to build something like a decision tree, namely define whether banks have private or state ownership, to count money, to think and analyze interest rates in the list of selected banks.

As for Ukraine, it is worth noting that the system of non-cash treatment only gaining momentum. However, there are several problems that hinder the rapid development of non-cash payments.

First of all, we should note the imperfection of domestic legislation in a given direction. The main legal acts regulating the sphere of non-cash turnover are:

- Instructions on non-cash payments in the local currency;
- Law of Ukraine "On Banks and Banking Activity";
- Law of Ukraine "On the National Bank of Ukraine";
- Law of Ukraine "On Payment Systems and Funds Transfer";
- Law of Ukraine "On amendments to some legislative acts on the functioning of payment systems and the development of non-cash payments."

In these legal acts is ambiguous definition of concepts such as "payments" and "non-cash payments". Furthermore, the definition of "form of non-cash payments" is absent at all, as a specific classification of forms that gives us impetus to affirm the incompleteness and nebulosity of information acts [5].

In addition, there are some difficulties with the opening of accounts connected with the collection of certain documents. In this case, opening of account is simpler for individual, who are not an entrepreneur. Since the bank requires only passport and an identification number, whereas the entrepreneur has more requirements for the opening his account.

As for other obstacles, they are finding with introducing new forms of payments, such as payments through credit cards and using the service "Internet-Client-Bank". This includes a large amount of issuing banks payment cards in Ukraine, where there is the state payment system of mass payments called "NSMEP", which isn't too popular. And the problem is that the implementation of card payments puts into practice through several systems, which slows down and complicates non-cash treatment.

Conclusions. Summarizing the results of the research is quite safe to say that in Ukraine at the moment, there is a rapid increase of non-cash turnover in the money supply as a whole. However, it should be noted that at present there are a number of significant obstacles to its acceleration. The primary measures of organization of non-cash turnover in Ukraine, in our opinion, should be the following:

- firstly, streamline the legislation in this area. In particular, correct inaccuracies and contradictions, and create a base law that regulates the operation of entities and individuals on the Internet, the field of electronic financial services and the electronic payment systems;
- secondly, implementing of risk insurance of cardholders from unauthorized interference and unintended use;
- thirdly, expansion of the impact NSMEP in the system of electronic payments. Ideal variant foresees making payments under the control of only the state of payment systems SEP and NSMEP. But it is impossible. Now SEP operates successfully, it includes almost all Ukrainian banks (on 01.01.12 there are 175 banks). This is not about the NSMEP to which the big banks are not willing to join. Therefore, the task is to ensure these conditions for all entities - NSMEP participants, so that they will have incentives to introduce into circulation NSMEP payment cards (such as reducing payments of commission for NSMEP);
- fourthly, the massive information of the public on the benefits of non-cash payments. One may to concentrate on expanding transactions with payment cards.
- fifthly, enhancing the protection of payment systems.

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