

Serhiy Bohma, Ph.D. researcher,
Ukrainian Academy of Banking of the National Bank of Ukraine, Ukraine

THE IMPACT OF BANKING CONSOLIDATION ON SYSTEMIC RISK IN THE BANKING SYSTEM OF UKRAINE

Consolidation of banks has become one of the most popular ongoing trends in banking systems over the past years. Consequently banking consolidation mainly in the form of mergers and acquisitions (M&As) has led to reduction of amount of banks thus resulting in growth of concentration in banking system. At the same time banking consolidation can have both positive and negative impacts on the financial soundness and systemic risk in banking system. It should be noted that there is no unique fact of one direction impact (positive or negative) of banking consolidation on systemic risk. From one hand, consolidation of banks leads to similarity of banking activity in amalgamated banks etc. From the other hand, after consolidation banking system consists of large financial institutes which have huge capital base, diversify their assets thus enhancing risk-management and decreasing systemic risks in banking system of the country.

It should be noted that banking consolidation in developing countries such as Ukraine has some peculiarities. The main difference of banking consolidation in these countries is that consolidation has other forms and not presented mainly by mergers and acquisitions. Instead of this we can observe simple buying and selling of banks between different investors who often own a few banks at the same time. As a result there is no great decreasing of amount of banks in Ukraine.

Taking this into consideration there is a necessity to investigate the interconnection between banking consolidation in Ukraine and systemic risk in the banking system as systemic financial shocks can trigger a loss of economic value in a substantial portion of a financial system causing significant adverse effects on the real economy.

Systemic risk is often defined as a risk that affects a considerable number of financial institutions or markets in a strong sense, thereby severely impairing the general well-functioning (of an important part) of the financial system. That is a direct connection between systemic risk and financial soundness of the banking system. So for the measurement of systemic risk we can choose the widely used Z-score indicator of banking system's financial soundness and financial soundness indicators (FSIs), developed by the International Monetary Fund (IMF).

Speaking about the measurement of bank consolidation, we need to specify some moments. In world practice, mainly in well developed countries, practitioners, supervisory bodies and scientists measure bank consolidation as a bank's share of the total assets, loan market, total deposits et al. of the

banking industry. It should be noted that this estimation is often carried out before-and-after making of mergers and acquisitions as main forms of bank consolidation. But it is very difficult to use such approach in Ukrainian practice because of absence of large quantity of complete mergers and acquisitions with banks' participation.

In consideration of impossibility to use this approach for Ukrainian practice we propose to develop it according to domestic peculiarities so the indicator will include banks' position both in the loan and deposit market.

There is no doubt that banking consolidation has a great influence on banking concentration. Supervisory bodies always estimate possible consequences of bank mergers and acquisitions on the level of concentration in the banking system. For example, the US Bank Merger Screening Guidelines establish that if post-merger market Herfindahl – Hirschman Index (HHI) is over 1 800 points and the increase is over 200 points, then the merging parties should be prepared to provide qualitative information that will mitigate possible anticompetitive behaviour.

So, summing up mentioned above, for Ukrainian practice we need to develop another measure of bank consolidation that is not connected mainly with mergers and acquisitions by banks. At the same time this measure should take into consideration the possible impact of bank consolidation on concentration in the banking system of Ukraine.

Thus, using the proposed measures we can determine the impact of banking consolidation on systemic risk in the banking system of Ukraine. On this basis supervisors and controllers of bank activity in Ukraine can take appropriate arrangements to reduce the probability of systemic risk realization in banking system under the influence of consolidation of banks.

*Yuliya Lapina, Ph.D. researcher,
Ukrainian Academy of Banking of the National Bank of Ukraine, Ukraine*

CORPORATE GOVERNANCE INFLUENCE ON THE INVESTMENT BANKS' PERFORMANCE

Investigation of the investment banking peculiarities allowed distinguishing fundamental differences in their operation activities, to identify the main economic indicators by which it is possible to assess the effectiveness of financial intermediaries in the investment banking market. Thus, it is important to suggest the scientific and methodological approach of determining the quantitative assessment of the effectiveness of specific investment banking activities, which will include the system of most relevant factors influencing on the financial figures, namely, asset, cost, risk, capital and liquidity management effectiveness.