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Borysiuk Olena
Ph.D., Candidate of economics,
The Associate Professor of the Department of finances, bank business and insurance
Lesia Ukrainka Eastern European national university (Ukraine, Lutsk)

Stashchuk Olena
Ph.D., Candidate of economics,
The Associate Professor of the Department of of finances and credit
Lesia Ukrainka Eastern European national university (Ukraine, Lutsk)

Rudyk Natalia
Ph.D., Candidate of economics,
The Associate Professor of the Department of of finances and credit
Lesia Ukrainka Eastern European national university (Ukraine, Lutsk)

THE INFLUENCE OF THE BANKING SECTOR ON THE SECURITY OF FINANCIAL MARKET

A dominant role in the financial market of Ukraine are plays the banking system.

Improper performance of the banking system by its core functions undermines economic ties between business entities and becomes one of the main threats to the financial market of Ukraine.

In general, according to scientists, the economic security of the country is a separate element of the system financial security of the country, which ensures the state of protection of the vital important needs and interests of person, country and society in the economic sphere from internal and external challenges, threats and dangers [5].

In general sense the financial-economic security of the banking system is the state of most effective use of financial resources to prevent threats and ensure the stable functioning of banking activities.

The main objective of ensuring the economic security of the banking system is to achieve maximum stability of its functioning, as well as to create the bases and prospects of its development regardless from objective and subjective factors and threats.

The banking sector is characterized by greater risk comparison with other industries of the economy. Risk is understood to mean the likelihood or threat of loss a bank of its own resources, lack of incomes or carrying out additional costs as a result ensuring of financial transactions.

The risks of threats to the economic security of the credit-banking sector are diverse, therefore, it is proposed to divide them into external and internal (Table 4.8).

Table 4.8

Types of threats to the economic security of banking business

Internal	External
1. Threats associated with carrying out a risky credit policy of the bank.	1. Threats caused by changes in the economic, political and social spheres of the country.
2. Threats caused by low quality management of the bank.	2. Threats caused by unfavorable market conjuncture.
3. Threats related to violation of the liquidity a credit institution.	3. Threats connected with criminalization of the banking sector.
4. Threats connected with violation of banking legislation.	4. Threats connected with fluctuations on the world markets.

Source: systematized on the basis of sources [4; 7]

Given the fact that the financial stability of the banking system is influenced by external and internal factors, the security of banks should be aimed at neutralizing their negative impact and achieving a certain effect from taken the measures.

The level of economic security of the banking system is determined by:

1. The level of competition on the bank market.
2. The quality of bank regulation and supervision by the National Bank of Ukraine.
3. The level of development of industries of the national economy.
4. The level of dependence the banking system of the country from the internal and external sources of financing.
5. The level of capitalization the banking system of the country.
6. The stability of the national currency.

Correlation the assets of bank and non-bank financial institutions in Ukraine is approximately 90-93% versus 7-10% in favor of banks. But periodic crises in Ukraine lead to the impossibility of preserving and increasing their savings, both in the banking sector and in other segments of the financial market. The dynamics of the number of banks in Ukraine in the last months of 2018 is shown in Table 4.9.

Table 4.9

The number of commercial banks in Ukraine in 2018

Date	Number of operating banks	Of them with foreign capital	Including with 100% foreign capital
1.01.2018	82	38	18
1.02.2018	82	39	18
1.03.2018	82	39	18
1.04.2018	82	39	20
1.05.2018	82	39	20
1.06.2018	82	39	20
1.07.2018	82	40	23
1.08.2018	82	40	23
1.09.2018	81	40	23
1.10.2018	81	41	24
1.11.2018	79	39	22

Source: [2]

Today the financial system of Ukraine is experiencing one of the most massive crises during the years of independence which is reflected on the activity of financial markets of the country. The number of banking institutions has tends to decrease. Over the past six years the number of banks has declined more than doubled, by 53.4%. One of the important reasons of reducing the number of banks is their recognition as insolvent - in addition to the violation of legislation that regulating the issues of prevention and counteraction of the legalization of incomes obtained by criminal means, there was insufficient level of their capitalization and the inability of shareholders to provide the appropriate level financial support. The number of banks with foreign capital also declined significantly - by 26.4%.

Another trend that has a significant influence on the security in financial-credit sphere linked to use of digital financial technology in the financial markets. For example, the implementation of technologies block chain involves significant changes in the regulation of financial market, optimization of interaction between the National Bank of Ukraine, authorities and participants of financial market. In this direction the National Bank of Ukraine has developed a concept and a roadmap for the development of cashless settlements in Ukraine. Part of concept under the name of Cashless Economy is solutions that are based on the technology block chain. Introduction of cashless payments is one of the priority directions of development of the banking system of Ukraine. Particular attention is paid to new technologies that can simplify calculations for both citizens and small and medium businesses [8].

At the same time, the level of economic security of the banking system depends from the aggregate of bank risks, the incorrect management of which leads to emergence of threat the security of bank. If we consider the economic security of bank as an element of the security the banking system, then the risks in the work of the bank

directly affect to the operation of the banking system. Bank risk, as a rule, is identified with the monetary and financial losses of bank.

On the other hand, bank risks are considered as a possibility of a negative outcome in an uncertain situation and, as a result, as an opportunity to generate income based on the volatility of financial markets (currency, stock market). Bank risk is a situational characteristic of activity the bank that reflecting the uncertainty of its outcome and characterizing the probability of a negative deviation from the expected [5].

In Table 4.10 shows the risks of individual banks and the banking system as a whole through implementation of digital financial technologies.

The detailed distribution of aggregate liabilities and capital of banks by groups, according to the classification of National Bank of Ukraine is given below in Table 4.11.

In accordance with the decision of National Bank of Ukraine dated 29 December 2017, No. 444, the criteria for distributing banks to separate groups by 2018 remain the same as in 2017:

Table 4.10

Risks and opportunities arising from the influence of digital financial technology

Sphere of influence	Risks	Opportunities
Consumer sector	Confidentiality and security of data; lack of continuity in banking processes; unacceptable marketing practices.	Providing more specialize banking services; reduction of transaction costs; acceleration of banking processes.
Bank system	Strategic risks and risks of profitability; increasing the relationship between financial parties; high operational risk; risks management by third parties; risk of terrorist financing - money laundering.	Improvement and more efficient ensuring of banking processes; innovative use of data for purposes of marketing and risk management; potential positive influence on financial stability due to increased competition.

Source: [4]

Table 4.11

Distribution of liabilities and capital by groups of banks according to the classification of National Bank of Ukraine

Groups of banks	Unit measurement	Liabilities		Capital	
		01.01.2018	01.04.2018	01.01.2018	01.04.2018
Banks with a state share	million UAH	656 369	645 816	77 483	71 728
	% to systems	55,97%	56,85%	47,36%	45,09%
Banks of foreign bank groups	million UAH	357 109	334 285	58 530	59 355
	% to systems	30,45%	29,43%	35,78%	37,31%
Banks with private capital	million UAH	159 283	155 838	27 584	27 998
	% to systems	30,06%	13,72%	15,07%	17,60%
Total bank system of Ukraine	million UAH	1 172 761	1 135 939	1637	1591

- banks with a state share - banks in which the country directly or indirectly owns share more than 75% of authorized capital the bank;

- banks of foreign bank groups - banks whose controlling stakes are owned by foreign banks or foreign financial-bank groups;

- private with private capital - banks in which among the ultimate owners of a qualifying holding are one or more private investors who directly and/or indirectly hold at least 50% of authorized capital the bank.

On 15 February 2018 the National Bank of Ukraine by decision of the Board Directors No. 101 “On Approval of the Method for Calculating the Liquidity Coverage Rate (LCR)” approved a new standard for banks - the liquidity coverage rate or LCR.

LCR is the ratio of high-quality liquid assets of the bank to the amount necessary to cover the increased outflow of funds from the bank within 30 days. The standard reflects the level of stability of a particular bank to short-term liquidity shocks. Taking into account the significant level of dollarization of the Ukrainian banking system, banks will have to comply with the LCR standard both in national and in foreign currencies. Starting from 1 June 2018 calculation of standard LCR is performed in test mode. From 1 December 2018 banks will calculate LCR daily and report to the National Bank of Ukraine on a monthly basis. This standard was introduced in order to maintain financial stability and increase the stability of the banking system to possible liquidity shocks [8].

In addition, the National Bank of Ukraine has introduced an annual assessment sustainability of the banking sector. The objects of stress testing will be 25 banks, which collectively account for more than 90% of assets of the banking system. Stress testing of interest and currency risks will be conducted. The result of testing will be assessment of capital adequacy for each bank in the forecast period for each of the macroeconomic scenarios. Adherence to banks of sufficient levels of core and regulatory capital is a key condition of efficient functioning of banking institutions under current macroeconomic conditions, and also serves as evidence of ability the bank to absorb the negative effects of a possible crisis.

When organizing an effective the security system of bank activity must adhere to the following principles:

- complexity - ensuring the safety of personnel, material and financial resources from possible threats by all available legal means, methods; ensuring the security of information resources throughout the life cycle, at all technological stages of their processing and use, in all regimes of functioning; ability of the system to development and improve according to changes in the conditions of operation the entity;

- owned by foreign banks or foreign financial-bank groups;

- private with private capital - banks in which among the ultimate owners of a qualifying holding are one or more private investors who directly and/or indirectly hold at least 50% of authorized capital the bank.

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- of non-standard schemes of work with other players in the banking services market and search of informal approaches with customer relationships, raising

standards for the providing traditional banking services, developing fundamentally new banking products and services and create a positive image of the bank.

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