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PERSPECTIVES FOR DEVELOPMENT OF BANKING SECTOR IN UKRAINE

ПЕРСПЕКТИВНІ НАПРЯМИ РОЗВИТКУ БАНКІВСЬКОГО СЕКТОРУ УКРАЇНИ

ANNOTATION

One of the priorities of the financial sector reform within the Ukraine-European Union Association Agreement is the extension of financial inclusion, which is inextricably connected with financial literacy and protection of consumers of financial services in the provision of digital financial and quasi-financial services, the use of blockchain, machine learning, new cybersecurity standards and more. The results of the research of financial literacy of the population of different countries are presented. Five key priorities for financial literacy strategy proposed by NBU have been considered in the article. The conception of the National Bank on protecting consumers of financial services is presented, namely: creation of a new unit in the NBU (call center); enhanced disclosure requirements; new procedure for consideration of customer's complaints; overseeing market behavior.

Key words: bank, strategy, financial inclusion, financial literacy, innovation.

АНОТАЦІЯ

Одним із пріоритетних завдань реформування фінансового сектору в межах Угоди про асоціацію між Україною та Європейським Союзом є розширення фінансової інклюзії, яка нерозривно пов'язана з фінансовою грамотністю та захистом прав споживачів фінансових послуг при наданні цифрових фінансових та квазіфінансових послуг, застосування блокчейну, машинного навчання, нових стандартів кібербезпеки тощо. Передумовою стабільного розвитку фінансового сектору та зростання економіки в цілому є підвищення рівня довіри фізичних та юридичних осіб до фінансових установ та ринкової практики. Комплексною програмою розвитку фінансового сектору України до 2020 року розпочато всеосяжне реформу-

вання фінансової системи України. У межах реалізації програми реформ пройдено стадії очищення та перезавантаження банківського ринку, проведено заходи із запровадження міжнародних стандартів діяльності на ринках небанківських фінансових послуг та цінних паперів, завершуючи роботу над реалізацією Комплексної програми та з метою подальшого розвитку фінансового сектору України у проекті Стратегії розвитку фінансового сектору України до 2025 року було визначено пріоритетні напрями розвитку фінансового сектору: зміцнення фінансової стабільності; сприяння макроекономічному розвитку та зростанню економіки; розвиток фінансових ринків; розширення фінансової інклюзії; впровадження інновацій у фінансовому секторі. В роботі наведено результати дослідження рівня фінансової грамотності населення різних країн. Розглянуто п'ять ключових ршень-пріоритетів стратегії фінансової грамотності від НБУ шляхом зміни фінансової культури українця (податкова, кредитна, пенсійна тощо), які відповідально ставитимуться до власних фінансових рішень, займатимуться довгостроковим фінансовим плануванням, заощаджуватимуть, контролюватимуть свої фінансові рахунки, розсудливо використовуватимуть кредити та управлятимуть боргами; фокусування на молодь; побудови єдиної комунікаційної платформи та створення освітньо-інформаційного центру (ОІЦ), який планується відкрити у 2022 р. Наведено концепцію Національного банку щодо захисту прав споживачів фінансових послуг, а саме: створення нового підрозділу в НБУ (call-центру); посилення вимог до розкриття інформації; новий порядок розгляду звернень громадян; нагляд за ринковою поведінкою.

Ключові слова: банк, стратегія, фінансова інклюзія, фінансова грамотність, інновації.

АННОТАЦІЯ

Одной из приоритетных задач реформирования финансового сектора в рамках Соглашения об ассоциации между Украиной и Европейским Союзом является расширение финансовой инклюзии, которая неразрывно связана с финансовой грамотностью и защитой прав потребителей финансовых услуг при предоставлении цифровых финансовых и квазифинансовых услуг, применение блокчейну, машинного обучения, новых стандартов кибербезопасности и тому подобное. Приведены результаты исследования уровня финансовой грамотности населения разных стран. Рассмотрены пять ключевых решений-приоритетов стратегии финансовой грамотности от НБУ. Приведена концепция Национального банка по защите прав потребителей финансовых услуг, а именно: создание нового подразделения в НБУ (call-центра); ужесточение требований к раскрытию информации; новый порядок рассмотрения обращений граждан; надзор за рыночным поведением.

Ключевые слова: банк, стратегия, финансовая инклюзия, финансовая грамотность, инновации.

Formulation of the problem. One of the strategic goals of the National Bank of Ukraine, as well as one of the priorities of the financial sector reform within the Ukraine-European Union Association Agreement, is the expansion of financial inclusion, which is inextricably linked with financial literacy and protection of consumers of financial services in the provision of digital financial services and quasi-financial services, crowdfunding, blockchain, machine learning, new cybersecurity standards, and more.

Analysis of publications. Some aspects of the theory and practice of financial inclusion, financial innovation, financial literacy have been considered in the works of Ukrainian scientists, namely in the works of O.I. Baranovskii, T.A. Vasilieva, S.M. Kozmenko, L.V. Kuznetsova, V.V. Kovalenko, V.I. Mishchenko, T.S. Smovzhenko and others.

The purpose of the article (formulation of the task). The purpose of the article is to substantiate the key directions of development of the domestic banking sector in order to grow the economy as a whole and increase the level of trust of individuals and legal entities in financial institutions.

Presentation of the main research material. The prerequisite for the stable development of the financial sector and the economy growth as a whole is to increase the level of trust of individuals and legal entities in financial institutions and market practices. A comprehensive program to develop Ukraine's financial sector by 2020 has begun a complete reform of Ukraine's financial system. Within the reform program, the stages of clearance and restarting the banking market have been completed, and the efforts to introduce international activity standards in the markets of non-banking financial services and securities have been taken. Completing the implementation of the Comprehensive Program and for further development of the financial sector in Ukraine, a joint working group composed of representatives of the National Bank, Secretariat of the Cabinet of Ministers, the Ministry of Finance, the Deposit Guarantee Fund, the National Securities and Stock Market Commission, the National Commission for State Regulation of Financial Services

Markets, in Strategy of financial sector development in Ukraine until 2025, identified the following priority directions of the financial sector growth: strengthening the financial stability; promotion of macroeconomic development and economic growth; increase of the financial markets; expansion of financial inclusion; implementation of innovations in the financial sector [1].

According to the latest data from the World Bank, 37% of Ukrainians are outside the financial system, i.e. they do not have a bank account. The number of people actively using Internet and mobile banking in Ukraine is 7-8 times lower than in Poland and the USA. In these countries more than 95% of retail payments and transfers are made remotely, i.e. without the need to visit a bank, but the bank branches in Ukraine are overloaded with cash transactions [2].

Financial inclusion means that citizens and businesses have access to financial products and services, regardless of income, age, place of residence or activity. In the modern world, financial inclusion is regarded as one of the most important drivers of the economic development.

The Organization for Economic Co-operation and Development (OECD) defines financial inclusion as the process of promoting accessible, timely and complete access to a wide range of financial products and services, extending their use to all sections of society through the implementation of existing and innovative approaches, including financial awareness and education in order to advance both financial prosperity and economic and social inclusion [3].

According to the World Bank, more than 100 countries in the world have either already developed a national strategy for financial inclusion, or have the components of financial inclusion added to broader national strategies.

It is important to increase financial inclusion for different stakeholders: for regulators and the state as a whole, as it attracts all segments of the population into the economic system, which as a result promotes economic growth through mobilization of population savings, investing in the development of the state economy, diversification of the financial system; for financial service providers as it increases the number of consumers of financial services; for consumers, as they can use modern financial services more efficiently and conveniently, thus enhancing personal prosperity. Financial inclusion contributes to raising and stabilizing incomes, more efficient asset management, and reducing vulnerability to economic crises.

Achieving financial inclusion requires a thoughtful and coherent approach to identifying problems and opportunities, using financial and non-financial relationships, and agreeing on the actions of a wide range of stakeholders. Financial «inclusion» is possibly provided when all the public authorities have an appropriate approach to regulating the financial sector, which would give financial institutions more freedom to inno-

vate and focus on segments of citizens with poor financial services.

The informed consumer is another important prerequisite for the development of financial inclusion in Ukraine. Such citizens make more prudent financial decisions and also support the efficiency of the financial system, creating a demand for high quality financial services.

Today, the world's leading countries, including the United States, the United Kingdom, Canada, the Netherlands, Australia and New Zealand, are making much efforts to increase their financial literacy. Best practices come together under the auspices of powerful international organizations: the World Bank, the Organization for Economic Co-operation and Development (OECD), the United States Agency for International Development (USAID), etc.

The OECD regularly surveys the financial literacy levels of adults and young people, and has set up a dedicated online platform, the International Network for Financial Education (INFE), to communicate with representatives of various countries patronizing the development and implementation of national financial literacy strategies.

Thus, according to the OECD study, Ukraine's overall financial literacy index is 11.6 (out of 21). This index is based on grades for financial knowledge, attitude and behavior. The Ukraine's index is on the lowest level among the 30 countries in the 2016 OECD survey, namely like Poland's index (11.6). Ukraine's result is also slightly lower than the average (12.1) for the six low- and middle-income neighboring countries surveyed by the OECD (Belarus, Georgia, Hungary, Poland, the Russian Federation, Turkey). The difference in results between Ukraine and other countries is explained by low attitudes and knowledge scores [4]. Financial literacy grades are the lowest in the 18-24 age groups (10.6). Grades for financial knowledge and behavior increase significantly with increasing income, but the ratio is the same regardless of income level. The level of use of financial products in Ukraine is low. Only 60% of respondents said they had used a certain type of financial product over the past two years.

61% of respondents have savings made in a certain way. However, for many respondents, the savings are short-term. 52% said they saved money by keeping it in their wallet or cash at home. Only 12% of Ukrainians said they had saved money by transferring money to a bank deposit account. More than half of those who have savings in a deposit account also kept savings at home. It demonstrates a very strong culture of preferring cash and avoiding relationships with banks.

The level of financial welfare of Ukrainians is low; in addition to that many Ukrainian families barely making ends meet. For Ukraine, as a low-income country according to the European standards, income is crucial to the overall financial prosperity of the population. But the research shows that, regardless of the income level, well-being is also influenced by people's behavior towards

money (avoiding loans to finance everyday needs), their attitudes (whether they focus on the short-term and costs, or the long-term and savings) and their extensive financial knowledge. Programs to increase financial literacy should include «soft» issues that relate to culture in society, such as worrying about tomorrow and a willingness to discuss financial issues. The level of financial literacy is the lowest in the 18-24 age groups.

In foreign countries, various institutions are the leaders in raising financial literacy, but often this function belongs to the central bank or the Ministry of Finance. The direct mandate for implementing arrangements on financial literacy belongs to financial regulators of the world leader countries in terms of economic development, human capital and level of financial literacy: Canada, Japan, the United Kingdom, Australia.

In addition, in a number of countries, financial literacy is taken care of by top officials of the state, for example, in the Netherlands, financial literacy is within the competence of Queen Maxima. Her Majesty Queen Maxima takes care of issues of financial inclusion and financial literacy at the global level. She is the UN Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA), the honorary patron of the Global Twenty-First Global Partnership for Financial Inclusion (GPFII), a Trustee of the Global Initiative for the Future World Economic Partnership for economic inclusion [5].

Recently, the powers of the National Bank in the area of financial literacy have been regulated at the legislative level. 309 MPs voted in favor of amendments to the Law on the National Bank, which allow the NBU to take measures to increase the level of financial literacy of the population. Giving the National Bank the authority to implement financial literacy measures will help to increase the sustainability and consistency of public policies in this area [6].

The National Bank considers financial literacy primarily as building financial culture, changing behavior. This requires sustained efforts in a clearly defined approach, as well as transparency, accountability of resources and measurability of results. It also enhances the involvement of a wider range of partners, including coordination programs and international assistance.

The National Bank, as the leader of financial sector reform, developed and presented the vision of the Financial Literacy Strategy in June, 2019, which aims to unify, coordinate and consolidate efforts by government, business and civil society to improve financial literacy at the national level. The NBU identifies five key priorities for financial literacy strategy:

- 1) changing the financial culture. It is the knowledge, skills and attitudes needed to ensure responsible financial behavior and enhance the financial inclusion of the Ukrainians. Its components have a whole range of cultures: tax, credit, retirement, etc.

2) making the Ukrainians financially aware as the Europeans are. It is expected that citizens will share the European values and be prepared to live up to the European standards, be able to make their own budget, be responsible for their own financial decisions, be engaged in long-term financial planning, save, control their financial accounts, and use credit judiciously.

3) focusing on youth. Young people between the ages of 10 and 24 (Generation Z and Generation Alpha) are the main target audience. The focus on youth dictates new approaches to learning, and, therefore, the whole strategy. It is young people who can act as change agents who will teach their friends, parents, grandparents the financial knowledge and skills that citizens need to make informed decisions and are responsible for their financial behavior.

4) developing a single communication platform. A unified, single-brand communication platform brings together all stakeholders and activities, becomes recognizable and helps to build trust.

5) creating an Educational Information Center (EIS). It is the center of financial education and communication regarding the mandate and functions of the National Bank, which will combine: visitor center, money museum, youth education center, teacher competence center. The EIS is scheduled to open in 2022 [7].

In order to build confidence in the financial sector and increase the level of financial inclusion, special attention is paid to an effective system for protecting the rights of consumers of the financial services. For the past eight years, none of the government agencies has been concerned with protecting the rights of consumers of financial services in Ukraine.

Thus, in 2018, the National Bank received more than 13 thousand complaints from consumers angered by the quality of financial services. In the first half of 2019, 8 320 citizens appealed to the National Bank of Ukraine, which is 1 522 (22.39%) more than in the same period of 2018. Most of the citizens' requests were related to the CNPF NBU members. At the same time, traditionally topical issues raised by citizens in appeals to the National Bank of Ukraine remain the issues regulating credit agreements between borrowers and banks – 1 522 appeals (18.29%), payment systems and innovative development – 831 (9.99%), banking supervision – 774 (9.30%), money circulation – 613 (7.37%), relations under deposit agreements – 441 (5.30%) of the total number of appeals received in the current year [8].

The National Bank will now stand for the consumer protection in financial services. For the relevant Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Protection of Consumers of Financial Services" (before that: Bill No. 1085-1), 309 MPs voted in the first reading. The document imposes obligations on the National Bank to protect consumers of financial services and provides it with tools to regulate the

behavior of financial market participants towards clients. Thus, Ukraine will become the 120th country where the state will protect consumers of financial services. And the National Bank will become the 98th central bank in the world to implement this function [9]. In countries such as the Gambia, Guatemala, Guyana, Honduras, Jamaica, Kyrgyzstan, Madagascar, Mongolia, Poland, Romania, the Russian Federation, Tajikistan, the consumer protection function is not vested in the financial market regulator.

The National Bank has proposed new approaches to protecting consumers of the financial services. The concept provides:

- creation of a new unit in the National Bank, which will take care of consumers of the financial institutions. It will set requirements for consumer protection, provide the financial institutions with clarifications of legislation, proposals and recommendations on consumer protection. It is also expected that its work will improve the system of processing appeals to the National Bank, in particular through the creation of a call center. Consumers of financial services will also be able to conveniently submit complaints on the National Bank's website and in the client's personal office;

- strengthening disclosure requirements. The financial institutions will be required to disclose reliable information about their products on their websites and advertisements, and to warn the client of the potential risks. They will also need to provide convenient tools for comparing the cost of their services (calculator, examples);

- developing a new procedure for consideration of citizens' appeals. The National Bank will provide the financial institutions with recommendations on the procedure for considering citizens' applications, in particular: the recommended order of application submission; the procedure for personal reception of citizens; disclosure of information about the right and procedure for submitting complaints;

- supervision of market behavior. The National Bank plans to monitor implementation of legal requirements of protection of consumers of financial services on the basis of analysis of citizens' complaints for detection of violations of the legislation. The regulator will also monitor the disclosure of information on websites and advertisements, and take action in the event of a breach of law [10].

The implementation of requirements of the draft Concepts for Consumer Protection, which will be approved by the NBU Board after being finalized, will be mandatory for financial institutions and will contribute not only to improving the quality of financial services in Ukraine, but also to increasing confidence in the financial sector, and its further strengthening. Therefore, not only the recipients of financial services and the National Bank, which protects their interests, but also the financial institutions themselves, should

be interested in introducing new approaches to consumer protection.

Conclusions. New technologies and innovations such as mobile financial solutions have already proven efficiency as a catalyst for financial inclusion in the world, but it is impossible to create a universal solution. The balance is needed to be found between solving local problems, promoting innovation, managing risks and protecting consumers. And this requires deeper cooperation of a wide range of stakeholders: government, business, banks and fintech companies.

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