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LEGAL AND ORGANIZATIONAL PROBLEM SUPERVISION OF BANKING GROUPS IN UKRAINE

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Summary. Indicators and analyzes trends in the banking system of Ukraine and singled out the main problems of regulation and control of banks and banking groups. Grounded shortcomings of the current legal, methodological and technical

framework to implement consolidated supervision over the activities of banking groups. We consider the organization of banking supervision of banking groups and suggests areas of improvement.

Key words: *banking group, bank supervision, prudential standards, the parent bank, the early warning system, supervision on a consolidated basis, non-bank financial institutions.*

The banking sector is a constant struggle for survival in the current environment in Ukraine and, unfortunately, the measures taken by the banks and the regulator to stabilize the situation are not sufficient, and partly ineffective. Results of the banking system in 2014 confirm this: deposits in national currency decreased by 13,3 %, and the outflow of deposits in foreign currency reached 35,8 %, which led to a reduction of credit activity of banks; number of unprofitable banks increased 2,6 times against 2013, and the damage got 52 banks or 33 % of the total, compared with 20 banks in 2013. Under these conditions, 2014 was a year of total introduction of temporary administrations in the banks of Ukraine (for the year introduced in 32 banks), and the number of such banks is still increasing.

Thus, a problem of reformation and, in some cases, improvement of the existing control system of the National Bank of Ukraine of banks and banking groups are becoming more urgent. Efficient organization of the system will relieve deep and protracted problems of financial market participants.

A significant number of these problems are caused by the fact that requirements to identify banking groups entered into force in 2012, but the organization of supervision remained unchanged. A methodology and methods of registration, monitoring and inspection of banking groups also was not changed. Hence, NBU is “statist” regarding banking

groups, not having adequate tools impact on the financial market participants.

Having analyzed the requirements of the current legal framework we defined next deficiencies and problems of banking supervision:

- the National Bank have not mechanism at the stage entrance control measures to the subjects that form the banking group, that is, before the decision on registration of a banking group;

- a supervision of banking groups performed the same tools (economic norms, norms of compulsory redundancy, early warning system indicators) that the individual banks, despite the risks of banking group is different from the risks of individual bank. In addition, it is not created new communication mechanisms for sharing information, not updated an early response and proactive measures;

- NBU currently does not have authority to inspect other (non-banks) group members;

- a rehabilitation or liquidation of members of a banking group would be decided by each separately. In case of liquidation of group' member the procedure has to finish by exclusion the member and re-registration of the group without liquidated part. In case of liquidation of the bank – banking group will stop to exist.

By the results of the research we have made the following conclusions. The system of banks' supervision on an individual basis established by the Na-

tional Bank of Ukraine due to current legislation has turned out not only flawed but also ineffective in combating internal and external challenges that emerged during the unstable macroeconomic situation. Supervision on a consolidated basis (identification, recognition and control) of banking groups in Ukraine, in our opinion, was not accompanied by sound and consistent supervision of its, that can add even more negative for the domestic banking and financial system, which is developing in the direction

of capital consolidation of banks and non-bank financial institutions. In the current conditions it is extremely important to increase the quality of all forms and methods of banks' and banking groups' supervision. To establish effective supervision system should to improve its organization, to reestablish communication and sharing information of all members, to improve the methodological and methodical bases of supervision at all stages.

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