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THE INSTITUTIONS FEATURES OF FUNCTIONING OF COMMERCIAL BANKS AND CREDIT UNIONS IN THE FINANCIAL MARKET OF UKRAINE

A structure and functioning of commercial banks and credit unions is exposed at the financial market of Ukraine. Basic tendencies, state, role and development of commercial banks and credit unions, are considered at the market of financial services of Ukraine. The basic criteria of activity of credit unions of Ukraine are analysed.

Keywords: financial market, financial institute, commercial bank, credit unions, financial services.

Statement of the problem. One of the key problems in the financial market of Ukraine is the uneven development of its institutional structure. Structural imbalances narrow supply of financial services, and create a dependence on financial market dynamics of its key segments – banking sector. Therefore, it is important to build upon the financial institutions that can compete directly with commercial banks and create a positive market momentum for improving financial services. Effective alternative to banking institutions, credit unions act, and therefore an important issue is to identify areas of improvement of their activities to the institutional development of the financial market of Ukraine.

Analysis of recent research and publications. Theoretical and practical aspects of the institutional structure of the financial market considered as foreign and the domestic economic science, especially foreign scientists : L. Zinhesom, E. Soto, R. Kolb, F. Myshkin, R. Rajan, R. Rodriguez, D. Stiglitz, R. Tobin, W. Sharpe. What is important is the contribution of local scientists to study the problems of the financial market of Ukraine. Formation of the structure of the financial market considered: L. Alekseienco, V. Bazylevych, Z. Vasilchenko, V. Kornieiev, V. Mishchenko. The specific activities of credit unions and their place in the institutional structure studied: E. Galushka, M. Krupka, M. Manylych, G. Tereshchenko, A. Jurkiewicz. However, there are several areas of research that require more in-depth scientific

studies, including the interaction between commercial banks and credit unions, crossing their functions in the area of service provision in the financial market and identify institutional factors to increased competition between financial institutions.

Problem. An important issue that requires study is to identify the institutional characteristics of economic activities of commercial banks and credit unions and development areas to increase their functional efficiency in the provision of financial services in the financial market of Ukraine.

The main material. Consideration of the institutional structure of the financial market of Ukraine requires detailing the functions of financial institutions based on their place in the system of redistribution of financial resources. The institutional structure of the financial market consists of three levels: institutions, regulators provide institutional conditions of the financial market, functional institutions engaged in the redistribution of financial resources through institutionalized contracts – financial instruments and institutions infrastructures provide a better implementation of the functions of financial institutions functional level [1, p. 6]. Development Financial Institutions functional level determines the redistribution process and the effectiveness of financial resources in the national economy.

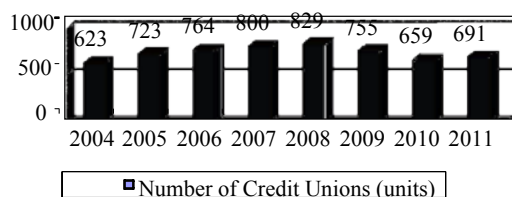
Applied to all kinds of financial institutions relevant functional elements of the institutional framework is [4, p. 10]:

- at institutions whose main function is to ensure the redistribution of functions available cash resources : commercial banks, credit unions, finance companies ;
- at institutions whose main function is to redistribute risks: insurance companies, pension funds,
- at institutions that perform the function of redistribution of property: collective investment institutions.

As Professor V. Korneev, redistributing segment on available cash resources, there are three main elements of the structural organization of financial markets [3, p. 28]. This commercial banks, credit unions and finance companies the key and most advanced in the Ukrainian economy is the banking sector. Historically, the first thing he formed and became the determinant of the financial market of Ukraine since the early 90s of the twentieth century to the present.

However, an alternative and an important element of the institutional structure of financial markets at the functional level in terms of executing the redistribution of financial resources, serve credit unions and finance companies. If financial companies provide financial services, partially affecting the scope of market interest commercial banks, credit unions operating in the segment of consumer lending – “paternal» commercial banks and acting as a direct competitor banks [7, p. 89].

Analyzing the status of credit unions to note two points. First, high quantitative dynamics of these financial institutions by 2008. Second, a significant reduction in the number of credit unions in the post-crisis period (Pic. 1).



Pic. 1. The dynamics of credit unions in Ukraine, 2004-2011 gg.

Compiled by the author according to [8]

The explanation for this is the high sensitivity of the financial institution to financial market. Since the form of credit unions are direct competitors in a stronger banking system, the

possibility of their survival depends on more credit risk (with less emphasis on the creditworthiness of the borrower) and deposit operations (with a greater percentage of the loan), and this leads to a rather high level of risk the financial activities of the credit union [2, p. 92]. Stiff competition from credit unions more powerful resource for commercial banks and customer base helped raise the proposed credit union interest on deposits and its fixation on the high-level, compared with banks level.

In a way it is possible to attract and retain investors, but it has increased the cost of credit offered by credit unions. Comparison of rate of interest on deposits and loans of commercial banks and credit unions shows that the interest rate of deposits of credit unions (25%) is almost twice the interest rate commercial banks (12.8%), but the percentage of loans more than doubled in credit unions (36.4%), compared to banks (17.8%), which reduces the number of honest borrowers and marginalizes customer base, and the main task of the institutional functioning of credit unions – reducing the cost of borrowed resources is performed.

High interest rates on loans credit unions generate additional risks of delinquency and loan default. According to G. Tereshchenko, institutional weakness of Credit Unions of Ukraine lies with inflating interest rates, because it leads to bad loans as a result of rising debt union to depositors and reduce the credibility of these institutions [6, p. 93].

It should be noted that the share of assets of credit unions in total assets decreased steadily since 2008. This trend illustrates the very high sensitivity of credit unions to the crisis, in fact they all financial institutions have experienced the most negative impact of the crisis [5, p. 136]. There is a significant imbalance between the economic potential of commercial banks and credit unions, which is an illustration of the calculation of the ratio between the number of commercial banks and credit unions and average assets per financial institution (Table 1).

In an analysis of the dynamics of credit unions and commercial banks is the tendency of advanced quantitative development of commercial alliances. If in 2004 one bank fell 3.89 credit unions in 2007 is 4.57 (an increase over the period 2004-2008), and the ratio of

average assets per financial institution shows that if by 2006 relative asset growth of credit unions in relation to banks was a positive trend (2004 to 1 hryvnia assets accounted KS 621.5 uSD. assets of banking institutions, and in 2006 only 489.8 USD 1 hryvnia assets of banking institutions), despite actual discrepancy by volume, it is possible to note the positive trend of increasing assets of credit unions.

Since 2007, banks have increased their assets, per financial institution growth for 2007-2009 was 46 %, while credit unions have managed to build up assets of only 11 % in 2008, and in 2009 actually decreased average assets at 1 COP at 24%. These trends clearly indicate the depth of the problem of comparative institutional development banks and credit unions.

In fact, the banking sector in terms of not only dominated credit unions, and you can tell dissolves their institutional activity. The financial capacity of the commercial banks makes them a priori more competitive position, marginalizing credit unions and other financial and credit institutions.

The loss of economic potential credit union generally reduces the competitive tension in the market deposit-credit financial services, but also it reduces the quality of financial services and the loss of very broad customer base, meet the financial needs which commercial banks

can not comprehend either physically or organizationally. Ultimately, the displacement of the financial market credit unions work against most commercial banks, as declining customer base, reduces the amount of cash payments.

Conclusions. The development of high-quality financial market is competitive provision of each of the institutional segment, and therefore stabilization of credit unions and increase their economic potential is an important and urgent task, the solution of which lies in the resolution of conflicts in the activities of commercial banks and credit unions prevailing in the financial market of Ukraine.

We believe that further development of credit unions in Ukraine will be determined by the concentration and rate of growth of assets. In this sense, the prospective financial capacity is an association of credit unions and provides greater flexibility in operating activities through the establishment of co-operative banks. Developing the concept of cooperative banks functioning as the core operations of credit unions in a given region is a promising area of research and needs further development.

Another important promising line of research supports the development of the concept of quality of institutional regulation of credit unions. Proximity to the banking sector and the specifics of the credit union, in our opinion, can moni-

Table 1

The ratio between the number of banks and credit unions and average assets for each commercial bank/credit union in the 2004-2010 Famine in Ukraine

index	year						
	2004	2005	2006	2007	2008	2009	2010
Number of active banks, ed.	160	165	170	175	184	182	194
Total assets of banks billion.	34,34	223,02	353,09	619	973,3	1001,6	1090,2
Assets 1 Bank mln.	839,63	1351,6	2077,0	3537,1	5289,7	5170,3	5619,6
Number of operating credit unions, ed.	23	723	764	800	829	755	659
Total assets of credit unions billion.	0,84	1,94	3,24	5,26	6,06	4,218	3,43
Assets of the credit union for 1 mln.	1,35	2,68	4,24	6,58	7,31	5,58	5,24
The ratio between the number of banks and the number of credit unions (CUs / bank)	3,89	4,38	4,49	4,57	4,5	4,14	3,39
The relationship between average asset 1 bank and credit union bank 1	621,5	504,1	489,8	773,9	724,5	926,5	1072,3

Prepared according to : <http://www.bank.gov.ua/>; <http://www.dfp.gov.ua/>

tor their activity institution – banking regulator – the National Bank of Ukraine. Important area for further research in this area is to develop a mechanism of regulation and the development of prudential regulations for example banking regulations.

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