

CASHLESS TRANSACTIONS: EFFECTIVE MECHANISM FOR FINANCIAL STABILIZATION AND CAPITALIZATION OF THE BANKING UKRAINE REGIONS SYSTEM

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Abstract

Benefits of active use of banking system cashless payments have already been confirmed by international experience of developed countries. They create favourable conditions for the accumulation of population funds in the country's banking system, increasing the capitalization of banks, expansion of the economy investment base and minimize the "shadow cash flow" etc. At the same time, the condition of cashless payments system development and its infrastructure in Ukraine does not allow to provide the real economy sector with the bank resources. Therefore, the development of cashless payments has to be one of the priorities of the national payment space development strategy. This is the implementation of such strategy that will help to solve important tasks as for enhancing financial stabilization and capitalization of the banking system, will give an impulse to the economy development, strengthen the national currency.

Key words: *cashless payments, capitalization, banking, payment cards, infrastructure, salary projects, general reserves.*

1. INTRODUCTION

The development of any bank is largely determined by the level of its capitalization. Sufficient level of capitalization provides a stable development of both individual bank and the banking sector as a whole. Increasing the capitalization of the banking system of Ukraine means financial stability and proper servicing of money liabilities undertaken by banks. Therefore, the increase of capitalization of the banking sector of Ukraine is a key issue for the banking system of Ukraine's regions, as far as the low level of domestic banks capitalization is unable to provide bank resources for the real economy sector.

Considering the above mentioned, the purpose of this article is to analyze and substantiate the prospects for development of cashless payments in the country and their impact on financial stabilization and capitalization of the banking system of Ukraine.

1.1 What is the banking system of Ukraine and its capitalization?

The stability of the economic situation in the country is a major task today. Successful completion of this task depends on Ukraine's banking system and each bank in particular. The banking system is a set of different types of national banks and credit institutions operating within the overall monetary and credit mechanism. The banking system of Ukraine consists of the National Bank of Ukraine and other banks and branches of foreign banks established and operating in Ukraine in accordance with the Law of Ukraine "On Banks and Banking Activity".

One of the important factors that enable the domestic banking system to have a positive impact on the economy, expand substantial banking services, while avoiding significant risks, and therefore maintaining system reliability is capitalization (Chorna, 2010, Dyba, 2008, Dovhan, 2008). Capitalization is the conversion of means (part of net profit, dividends, etc., or total profit) in additional capital, additional factors of production (such as means of labour, objects of labour, labour power, etc.), resulting in the achieving of its own funds increase.

Despite the presence of significant scientific and methodological framework for the capitalization of the banking system, there is still no common approach to the interpretation of the concept of "bank capitalization." We support the view V. Kovalenko and K. Cherkashyna that "capitalization is a set of actions aimed at a real increase of the bank's capital by reinvesting profits, involving cash and cash equivalents from the outside, as well as by the concentration and consolidation" (Kovalenko, 2010).

2 ANALYSIS OF CASHLESS PAYMENTS SYSTEM IN UKRAINE

Let's consider the prospects of cashless payments development in Ukraine and their impact on financial stabilization and capitalization of the banking system of Ukraine's regions. For this we will perform the analysis of the banking system of Ukraine activity indicators, namely the number of operating banks, the amount of capital funds of economic entities and individuals. A special interest are cashless payments and cash transactions in terms of payments and volume of payments, and also the information on cashless payments infrastructure.

2.1 Analysis of the banking system of Ukraine

By 01.01.2016, there are 117 banks (excluding insolvent banks) in Ukraine. The liabilities of banks make 1.151 trillion UAH, including: funds of economic entities - 318 billion UAH., individuals' funds - 389 billion UAH. Funds at 01.01.2016 are 104 billion UAH. (Fig. 1). The higher the capital, the greater the stability of the bank, that is bank's own capital serves as collateral for all operations - from financing to purchase of securities. This small amount of shareholders' equity significantly reduces the investment opportunities of the credit institution. Capital - is the financial foundation of the banking system, on which depends the reliability of the whole economic system and future development dynamics. Bank's shareholders' equity, attracted and borrowed money is a source for each bank resource base formation.

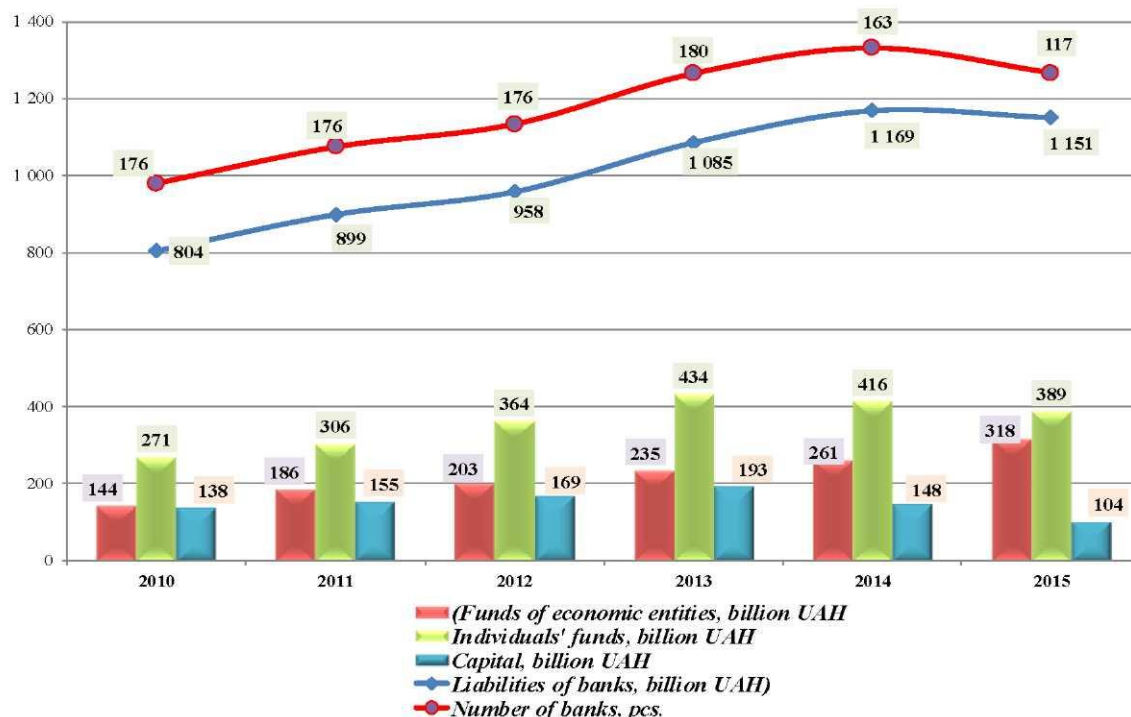


Fig. 1. The evolution of the activities of banks in Ukraine in 2010-2015

Institutions of 117 Ukrainian banks by January 01, 2016 were providing service for 69.8 million customers – legal entities and individuals (residents and non-residents), who opened the current and deposit accounts. Out of 69.8 million customers 67.7 million are individuals and 2.1 million are subjects of business activity (including 1.1 million - individual entrepreneurs) (Key indicators of banks activity in Ukraine, 2016) .

The total number of customers' opened accounts at 01.01.2016 amounted to 112.2 million, including: current - 95.6 million (85.2% of the total number of accounts opened at banks); deposit - 16.6 million (14.8% of the total number of accounts opened at banks, Fig. 2-3).

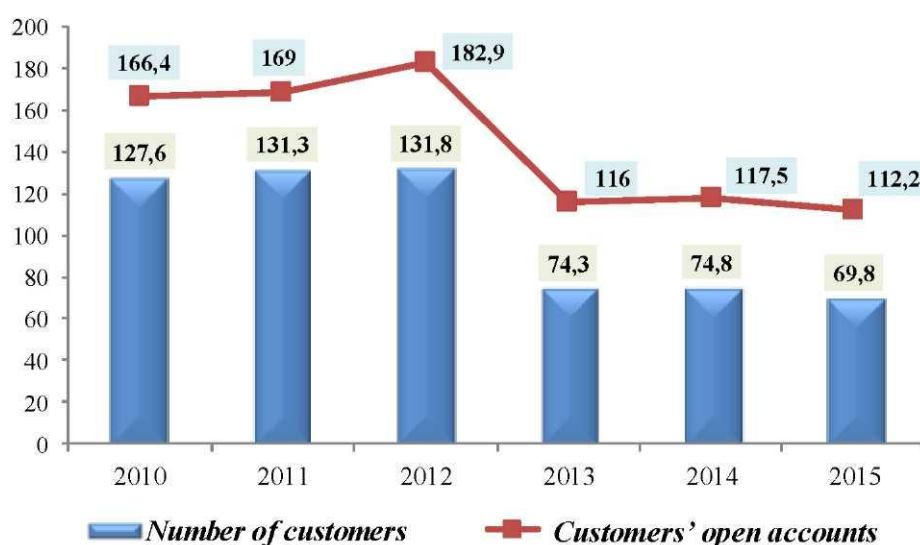


Fig. 2. Dynamics of customers and accounts number in banks of Ukraine, million.

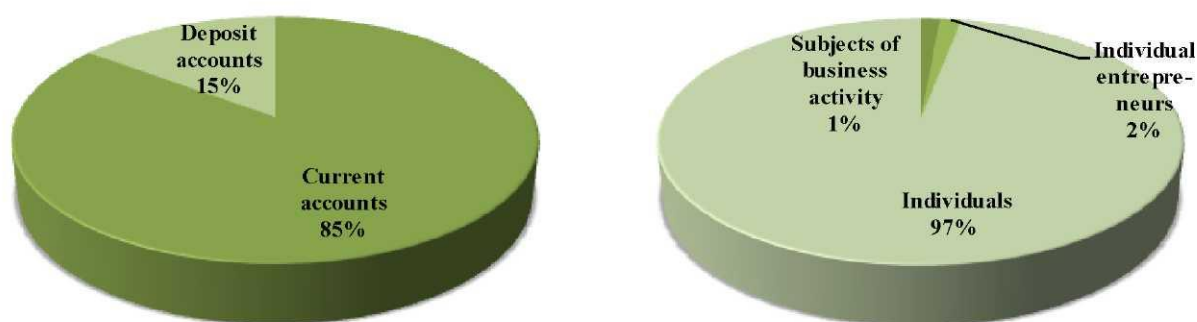


Fig. 3. Structure of the accounts and clients number in banks of Ukraine at the end of 2016.

Of the 117 operating banks, 98 banks are members of card payment systems. More than 43 mln. people (which amounts to 62% of all bank customers) are holders of payment cards, which at present occupy a significant segment of the market. Payment card is a tool for cashless payments. Cashless payments are a strategic direction of the banking system development. The increase of cashless payments will strengthen the financial system and economic development. In fact, about 220 bln. UAH cash are in circulation, in addition the population, as it is estimated, accumulated from 40 to 70 billion US dollars. These funds may be involved in the economy and work for its growth. Expansion of the cashless payments usage sphere will also attract funds into the banking system of the state, thus considerably

increase its credit capacity. In Ukraine, market participants are aware of the importance of cashless payments, it's convenient, reliable, fast and secure.

2.2 Analysis of Ukrainian cashless payments market

Ukraine has the infrastructure for the widespread introduction of cashless payments. On 01.01.2016, there were 31 million of active cards, ATM network has 33 thousand items, and 195 thousand of POS-terminals. (General indicators of payment cards market in Ukraine, 2016). The user needs to be encouraged to cashless payments, giving him certain bonuses and discounts, as well as involving loyalty programs. Banks need to work actively to increase the level of financial literacy. The positive reputation of reliable and stable financial institution is the main capital of any bank.

In 2015 in Ukraine cashless payments using payment cards continued expanding actively and the latest technology, innovative products and services were spreading, payment infrastructure services for contactless payment cards were developing. The share of cashless payments using payment cards increased by 6.2% and was 384.8 billion UAH (31.2% of total transactions on payment cards). By the number of transactions, the share of cashless payments increased by 9.6% and amounted to 1 286.8 million operations (65.5% of total transactions on payment cards, fig. 4).

Comparing data of 2015 to those of 2010 (cardholders made 1.965 billion transactions, among them cashless transactions make 1.287 billion (65%), and cash - 678 million (35%), the number of cashless transactions increased by 1.166 billion pcs. that is certainly positive, and taking into consideration the fact that in 2010 there were made only 692 million transactions, including 121 million of cashless transactions (17%), and cash - 571 million (83%), in 2015 the cardholders have started using payment cards more actively when paying for goods and services, contributing to the development of Ukrainian market of cashless payments.

The total sum of transactions in 2015 was 1.232 billion UAH., of which 385 billion UAH (31%) belong to cashless payments and 848 billion UAH (69%) – cash ones. This means that almost 70% of payment cards users withdraw cash in ATM, and then use it to pay for goods and services. The amount of cashless payments using payment cards in 2010 totalled to 29 billion UAH (7%), and cash withdrawal - 421 billion UAH (93%). Within five years the sum of cashless transactions increased by 24% and their number by 48% (general indicators of payment card market in Ukraine, 2016).

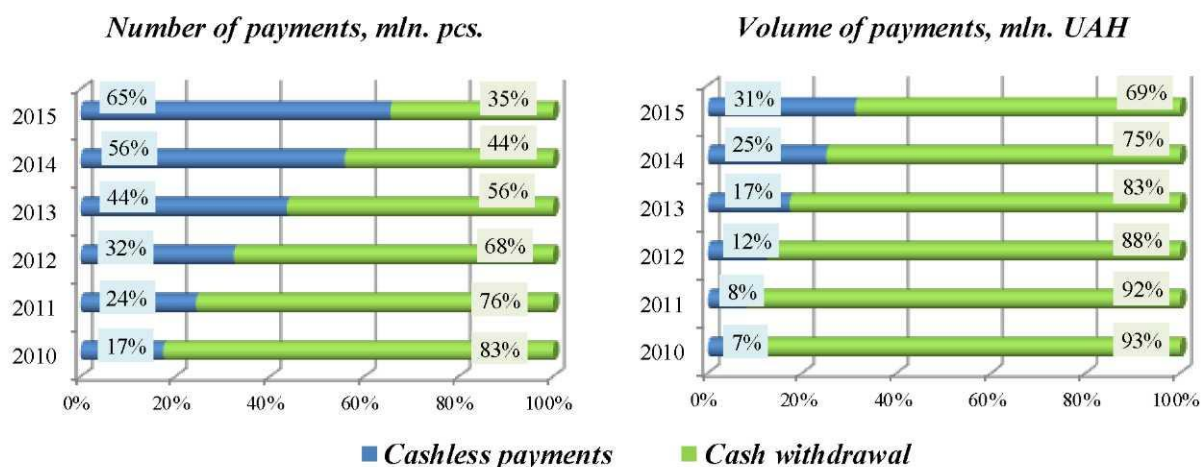


Fig. 4. The share of cashless payments and cash transactions their total volume during 2010-2015

It may be noted that the population is ready to use credit cards for cashless payments more actively, but the infrastructure often does not meet the clients' wishes. Percentage of growth is still highly dependent on trade and service network of card service (by January 1, 2011 the number of trade and service enterprises, which have installed commercial payment terminals and imprints amounted to 57,753 units., and by January 1, 2016 - 131,264 units, which is 73,511 units more). Although in the past six years in the trade and service sector the number of ATMs and payment terminals have increased, Ukraine's population, however, is in no hurry to write off to the archive real money and move to electronic ones. The argument is that at the market or in the barber shop or at corner store it is almost impossible to pay in such a way. Therefore, the majority is using "plastic wallet" only for cash withdrawals.

On January 1, 2016 compared to January 1, 2015 increased the total number of: active contactless payment cards - 0.4 million pcs. (33.1%) and it amounted to 1.5 million pcs.; retail payment terminals serving contactless payment cards - 22.2 thousand units (33.6%) and amounted to 88.2 thousand units. Number of trade and service enterprises, enabling their customers to perform cashless transactions increased in 2015 by 6.3% (7759 units) and reached a number of 131,264 units. Cardholders carried out the vast majority of transactions in Ukraine (98.1%). Outside of Ukraine only 1.9% of transactions were carried out.

Among the banks by the number of payment cards and the infrastructure of their service by January 1, 2016 among leaders there were PJSC CB "PrivatBank", JSC "OshchadBank" and JSC "Raiffeisen Bank Aval". Regarding the regional breakdown of the payment cards number and their service infrastructure, the highest figure by the number of payment cards, ATMs and payment terminals show city of Kyiv, Dnipropetrovsk and Kharkiv regions.

3 PROSPECTS OF CASHLESS PAYMENTS IN THE STATE

Business appreciates the progressive efforts of the National Bank on payment market in the direction of increasing the share of cashless payments, reducing the shadow economy, establishing a fair regulatory environment, increased financial literacy and promoting cashless payments. Resolution of the National Bank of Ukraine of 18.06.2015, № 391 approved the "Comprehensive program of financial sector of Ukraine 2020" (Comprehensive program of financial sector in Ukraine until 2020, 2015). The program includes many important aspects that are not only highly specialized (related to experts and members of the banking market), but also those that concern every Ukrainian, as conditions determine outstanding payment instruments in the financial market. Among the main achieving means it is possible to allocate development of cashless payments. One of the major trends that permeated the program is the greatest development of cashless payments in Ukraine, which in 2020 should lead to the reduction of cash in circulation from the current 18% (relative to GDP) to 12%. The level of cashless payments in local payment system, which now stands at 1.2%, should grow at least to 30%. By the end of 2016, the National Bank of Ukraine should develop and implement the concept of cash flow policy aimed at efficient, smooth and safe operations of cash and the gradual decline of cash flow for cashless by offering access to the international market of Internet-payments, and create conditions for the increase of cashless payments through the introduction of innovative payment products and development of electronic payments.

The first steps on this way are made already today. According to NBU, 7 payment systems are registered in Ukraine, payment organizations of which are banks and 9 organizations, payment organizations of which are non-bank institutions. On May 21, 2015 the NBU registered the payment system WebMoney.UA - subsidiary company of "Financial Company" Elmi" as domestic payments system. Payment organization of this company is the Bank "National Capital", which accumulated the funds in the accounts and provides users the obligation of redemption of the claim in the title signs system.

Available today, the system will be subject to significant changes. There will be the review of the profits distribution rules between the Government and the National Bank, which will be used for the gradual general reserve rise to reach 7% in 2015, 10% in 2016 from monetary liabilities. General reserves are the means mobilized by the bank funded with profit after taxation to compensate the unexpected losses from various kinds of uncertain risks. By the results of the financial year, commercial banks create a reserve fund, which is essentially a general reserve, that is a reserve to cover losses from statutory activities. General reserves are the funds raised for insurance from unspecified risks inherent to banking activities. Macroeconomic Strategy of Ukraine till 2020 provides the achievement of such financial sector indicators: the consumer price index should be no more than 5% per annum; the level of foreign reserves - not less than \$ 38.7 billion.; the level of dollarization of loans and deposits - less than 40%; interest rates on new loans in the national currency - not more than 12%.

Card products have always been the priority to many banks. Especially when it comes to leading banks of the market. With salary projects banks are increasing volume of payment cards, and thus increase their revenue from fees for opening and maintenance of a card. By providing such a product as a salary project, the banks have a specific benefit, because during the transfer of funds to the card company pays the bank staff a commission. In addition, the employer pays an annual fee for cards service. Of course, this is another source of income for the bank, because he gets a commission for the service. The main advantage is that the salary projects are free cash for the bank. That bank can use it and, let us say, sell more expensively as a credit. In addition, the corporate client is rarely limited in cooperation with his chosen financial institution only for salary projects. Promoting salary projects, banks offer corporate customers not only use the service to transfer salaries to cards but also use credit, deposit products, cash settlement and other transactions. For banks attracting customers for the product "salary project" is interesting and promising. In this cooperation the bank is interested not only in getting income from service companies and increasing liabilities in the accounts, but in the opportunity to attract individuals (employees) to the service. Expansion of the cashless payments use also will attract funds into the banking system of the state, thus considerably increase its credit capacity.

4 SUMMARY

For the support and further growth of financial systems it is necessary that money operate in the system mainly in cashless form. This will allow to improve fiscal discipline, as it implies a clear record of financial market operations, control of the tax base, etc., which will contribute to reducing the shadow economy. Transfer of each 10% of available cash flow will increase twice in clearing balances on banks correspondent accounts. This trend, even without providing savings on cash flow, will strengthen the banking system, reduce the cost of loans, will boost the economy, will favour the production of goods and services, will strengthen the national currency. The increase in cashless payments will contribute to financial stabilization and capitalization of the banking system of Ukraine's regions.

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