

THE CAUSES OF BANKRUPTCY OF BANKING INSTITUTIONS: ANALYTIC-PHILOSOPHICAL GROUNDS

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Annotation. The scientific article reveals and analyses the features of functioning of the Ukrainian banking system in conditions of uncertainty. It investigates the problems of banks that arise during the economic crisis and are accompanied with the bankruptcy of banking institutions. It also provides philosophical reasoning of causes and consequences "of the banking system cleaning" from insolvent banks. The necessity of updating the philosophy of the banking business in the format "bank – client" has been proved.

Key words: banking system of Ukraine, solvency, bad debts, failing banks, financial stability, banking philosophy.

The economic crisis, devaluation of national currency, systematic banking crisis taking place in Ukraine, is a source of further instability and restraining of the economy, growth of unemployment, intensification of poverty and worsening of social and political risks. Trust in the banking system and the level of crediting of the economy have reached the lowest indexes since the independence of Ukraine was proclaimed. Recently, the banking system has had the problem of financial stability and solvency. Every year more and more banks are affected by negative influence of various factors that cause waves of liquidation and bankruptcy. Today, therefore, the need for further research of the causes of bank failures and peculiarities of their functioning in difficult economic conditions is rising. To move forward in the process of developing the national economy, the important aspect of understanding the complexity of the situation is studying these issues from a philosophical point of view.

Works of a lot of Ukrainian scholars are dedicated to the study and research of features of the Ukrainian banking system. Thus, the description of the main stages of the Ukrainian banking system depending on the economic processes taking place in the country is given by I. D'yakonova [1], O. Kolodizyev [2], the problems of financial stability and reformation of the Ukrainian banking system of are studied by V. Kovalenko [3], the prospects of bank development and bases of the mechanism for banking regulation at present are investigated in the works of T. Bolgar [4], the philosophical reasoning of causes of deformations in various aspects of the economy is presented in the works of S. Terepyschoho [5], globalization as the factor that cause modern educational and economic processes is studied in the works of D. Sviridenko [6], the philosophy of educational innovations of information and communication environment as a stimulus in society for development and improvement of economic relations is grounded by G. Moskalyk [7].

The objective of the paper is to study the problems that lead to bank failures and grounding this issue from a philosophical point of view.

In the past three years significant deterioration in the financial stability of banks and the withdrawal of the number of banks from the market have taken

place. The reduction of the main macroeconomic indicators of Ukraine's economy, increase of social tension, duration and intensity of military operations, sharp exchange rate fluctuations lead to a significant imbalance of banking activity.

Having analyzed the current state of UBS, we can conclude that the largest number of operating banks in 2009 has in total 184 institutions, but during the next years their number gradually decreased.

Starting in 2014 under the influence of UAH devaluation, economic digression and political instability in the country a large number of banks faced a lot of problems. Many of them, according to the decision of NBU began liquidating processes, so on 01.01.2015 the number of operating banks had in total 163, which is 11.41% less compared to 01.01.2009, and on 01.01 .2016 the number of financial institutions had in total 117 (-36.41%), and as on December 1, 2016 – the banking system of Ukraine had 98 operating banks. Overall, since the beginning of 2014, due to worsening of solvency temporary administration was introduced for 66 banks.

During eleven months of 2016 18 banks were liquidated [8]. It should be noted that in future the National Bank of Ukraine intends to continue the policy of withdrawing banks from the market, which will cover mainly banks of 3 and 4 groups (medium and small banks), circuit and converting banks will be recognized as insolvent. Thus, such actions of NBU can be classified as clearing from banks that do not meet the requirements of today's financial stability and solvency of which are at a low level. But do not forget that this phenomenon undermines public confidence in the stability of the banking system as a whole, while it undergoes the process of "purification".

Typically, these events are similar to the principles of dialectical law of mutual transformation of quantitative to qualitative changes. This law reveals the internal mechanism of the transition from the old to new quality in every sphere of objective reality, answering questions about the development and movement of all things.

There is the main problem – the outflow of deposits from banks, which will continue until new banks are withdrawn from the market, and individuals – owners of hryvna deposits of more than 200 thousand UAH. (The amount guaranteed DGF) and foreign currency deposits which are frozen in the bank insolvent and become worthless because of hryvna devaluation, remove their deposits before the introduction of temporary administration in failing banks.

During 2014-2015 years Ukraine banks lost 15.6 billion deposits in national currency, or 3.9% of their total amount. It should be noted that the outflow of deposits in the national currency of individuals has a negative trend and has in total 64.6 billion UAH, or 25.5%. However, this reduction in the amount of deposits in the national currency of individuals was partially compensated by the growth of deposits in national currency of legal entities 49 billion UAH due to the growth of current accounts. The increase of current accounts of legal entities was due to the increase in turnover of undertakings through inflation.

The situation with the outflow of foreign currency deposits is much more complicated compared to the deposits in the national currency, which is greatly enhanced by external factors. The banking sector in Ukraine during 2014-2015 years lost 16.2 billion USD deposits or 55.1% of total deposits in foreign currency at the beginning of 2014. During 2014-2016 hryvna devaluated compared to USD by more than 3 times. This sharp devaluation led to an increase in bad debts of banks customers (service activities with mortgage loans in foreign currency became impossible for most borrowers). And one more consequence of devaluation is the increase in foreign currency assets and liabilities and the need for additional capitalization of most banks. Experts estimate that Ukraine's banking sector should be capitalized up to 120 billion UAH and this is possible only in the absence of further devaluation.

Since March 2015, the National Bank has raised the discount rate from 22% to 30% to contain inflation in the country. Such actions do not allow banks to perform one of their basic functions – to give credits to the economy, which further increases the economic crisis in Ukraine. That means that to develop business in terms of such expensive credits is impossible. In early 2015, most commercial banks have suspended their loan program for businesses. Most funding was available on existing credit lines. Banking institutions were able to provide new loans, offered fairly expensive asset. High interest rates were due to high inflation (in 2015 the inflation was – 43.3%) and due to the monetary policy of the National Bank of Ukraine.

So we can see that recently the quantitative index of banks in the Ukrainian banking system has significantly decreased and at the same time the proportion of bad credit debt has increased (Fig. 1) – so on December 1, 2016 it is 24.2% of the total amount of loans, that is more than three times higher than in 2013.

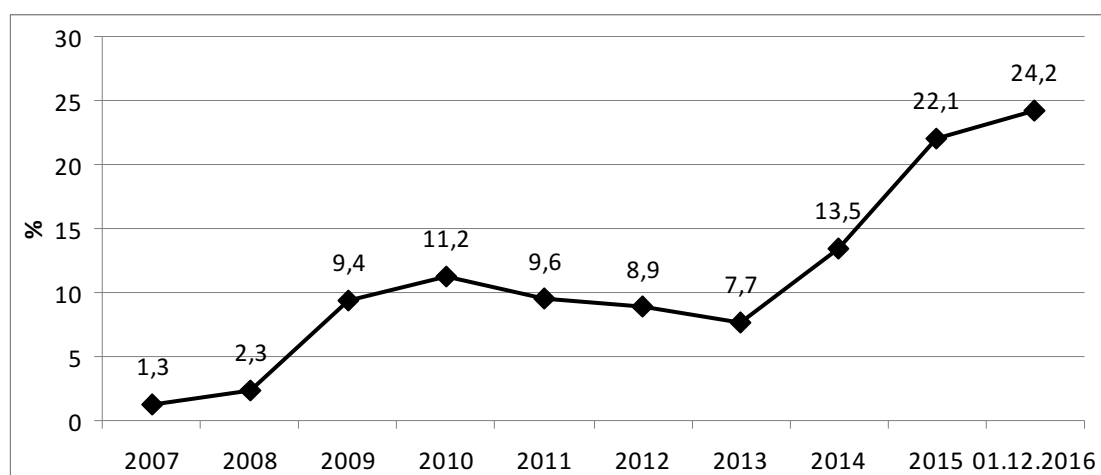


Fig. 1 The share of overdue credit debt in the total amount of loans for the period 2007 – 01.12.2016 *

* Is based on [8]

This dependence is a cause for concern both at the level of individual banks and at the level of the banking system. The National Bank of Ukraine carried out

the regulation and supervision of banking activities based on laws and regulations that are permanently revised and supplemented. However, the lack at banking institutions thoroughly developed policies and banking products, including standardized conditions, process maps, forms, documents and forms of management reporting, the lack of clear division of responsibilities and control procedures make situational decisions by credit employees be possible and lead to:

- increasing the level of operational risks;
- Increasing the time necessary for operations;
- increasing the likelihood of errors;
- the increase in manifestations of possible frauds and abuses.

These conditions force to create new, hybrid concepts of the philosophy of banking and banking cooperation. The introduction of such principles of economic management inevitably leads to distortion at various levels of the bank employees' understanding of concepts such as attitude to work, the quality of customer service, evening-out the concept of "purity uniform" of bank employee, uncritical attitude toward sloppiness and more.

Problem banks pose a threat to the banking system, so they undergo appropriate measures of influence. According to its economic essence, this is a set of guidelines aimed at restoring the financial stability of a bank, organizing its activities in accordance with applicable laws and regulatory acts of the NBU.

According to the Law of Ukraine "On Banks and Banking Activity", the bank, which is recognized as problematic, is classified as insolvent if:

- it does not carry out its activities in compliance with the law;
- it reduces the regulatory capital ratios or capital to one-third of the minimum level;
- it fails to fulfill 10% or more of its obligations before depositors and other creditors during ten consecutive days of its obligations to depositors and other creditors [9].

In the case of regarding a bank as insolvent the national Bank of Ukraine adopts a decision on introduction of temporary administration. In the world practice several mechanisms to work with troubled banks are developed, liquidation, merger and acquisitions, the acquisition of assets and liabilities "Bridge Bank" (transitional Bank) are often used. Thus, the "Bridge Bank" is the bank that temporarily holds the insured deposits and working assets transferred to it from non-viable bank which undergo liquidation, until their sale to investors. Such a bank is created to ensure the continuity of banking operations through the sale (transfer of certain assets and liabilities of non-viable bank during a certain period) [1].

Such processes may seem to be a temporary solution to problems, but in fact, they breed mistrust, massive criticism among customers and reduce cash flows through the formation of a system of public opinion about the total lack of confidence in banks, the perception of the banking system by the population as criminal and mafia groups.

The process of bankruptcy and liquidation of banks significantly affects the

level of performing by borrower its debt obligations to creditors. The information spread by mass media enhances this process.

In particular, it concerns cases in the media often spread unverified and false information regarding downgrades banks. This manifestation of poor competition, of course, creates significant problems in the areas of cash management services, involvement and support of corporate payroll clients, attracting deposits and so on. In particular, it concerns cases of spreading via mass media unverified and false information regarding the decline in ratings of banking institutions. This manifestation of poor competition, of course, creates significant problems in the areas of cash management services, involvement and support of corporate payroll clients, attracting deposits and so on.

Practice shows that such manifestations of mass media encouraged a large number of customers temporarily not to fulfill the terms of credit agreements. These facts occur with low legal culture of population. Not legally trained customers expect that under certain conditions, financial difficulties of banks customers' debts before creditors may be subjected to the process of forgiveness.

Typically, these are the processes, which are difficult to structure out, and accordingly to develop specific mechanisms of resistance or leveling. But for sure these processes are inevitably accompanied by people's negative philosophy on banking.

In such cases, banks should pay attention to the inadmissibility of mass consistent failure of troubled borrowers of the terms of the loan agreements. The study of contemporary problems of the process of rapid growth in numbers of troubled borrowers, characterized by increasing the period of delay of release of the loan repayment schedule has given the opportunity to apply us the term "the wave of debtors." Based on the results of the study, we can conclude that the "the wave of the debtors" has a rapid growth today.

Taking into account these circumstances, as well as the overall economic and financial situation in the country, there is a need to protect the rights of the creditor as a subject of economic relations.

Implementation of effective steps to strengthen creditor rights and to balance the interests of the banking institutions and borrowers, is a necessary condition for stable and effective development of the financial system and the economy, formation of favorable investment climate in the country.

The authorities should be guided by national interests, and to refrain from decisions that reduce the level of responsibility of borrowers

To do this, scientists in the near future have to formulate the idea of a new philosophy of banks and their interaction with customers and the public.

Outlining the problems and analyzing the features of functioning of banks in current economic conditions, we can make certain conclusions. Thus, the main objectives of effective work with problem banks are: maintaining continuous operation of the payment and settlement systems; prevention of problems at one bank activities with other banks, which is a threat to the stability of the entire system ("domino effect"); maintaining the confidence of

the public and participants of the market in the banking system.

The main task today is to restore the stable economic situation in the country and the success of this task depends on the development of the banking system and each bank in particular. So each bank as a separate element of the second level of the banking system must be reliable, competitive and able to support further development of its activities. But, as a risk factor that exists for banks is the deterioration of the quality of their loan portfolios and, consequently, high losses due to provisioning [4].

The withdrawal of Ukraine's economy out of stagnation, launching and effective credit risk management in the future should lead the banking sector out of crisis by changing the format of interaction with customers creating the idea of a new philosophy of banking business.

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