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**The essence and role of financial
intermediation in development of Ukrainian economy**
**Про сутність і роль фінансового посередництва в розвитку
економіки України**
**О сущности и роли финансового посредничества в развитии
экономики Украины**

The article analyzes the essence of financial intermediation, problems and perspectives of development thereof in Ukraine; estimates the models of financial intermediation applied in international practice and studies theoretical issues thereof at Ukrainian market of services.

У статті аналізується сутність фінансового посередництва, проблеми та перспективи його розвитку в Україні; запропоновано моделі фінансового посередництва, які існують в міжнародній практиці, досліджено теоретичні питання формування фінансового посередництва на ринку фінансових послуг.

В статье анализируется сущность финансового посредничества, проблемы и перспективы его развития в Украине; предложены модели финансового посредничества, которые существуют в международной практике, исследовано теоретические вопросы формирования финансового посредничества на рынке финансовых услуг.

Definition of the matter: International financial markets increase year after year the sector of services provided by intermediaries. Contemporary intermediaries are professional market players, and have their important role in functioning thereof and finally influence on development of any country's economy. The most widely spread financial market intermediaries are institutions providing financial services, which in their activities intermediate financial flows by involvement thereof and by investment of the resources mobilized into different financial assets. Main task of financial intermediaries should be defined by their ability to provide economical activities with financial support and finally to ensure the efficient capital redistribution in society. Stability of economy, market transformations and public welfare, i.e. complex and comprehensive development of all spheres of a country depend on increase in qualitative and quantitative indexes of intermediaries' activities.

Analysis of Recent Researches and Publications: Theory of financial intermediation originates from the 50th of XX century. Noticeable contribution into development thereof was made by scientists like D. Gerly, O. Geshkenkron, J. Tobin, who emphasized functional integrity of financial intermediation.

In 70th the development of theory of financial intermediation has been mainly limited by studying banks' activities on financial services market. These matters have been reflected in researches of H. Douglas, D. Revel, G. Bryan etc. At the end of 70th and in 80th of XX century the system of international crediting underwent changes due to expansion of transnational corporations. Earning capacity of activities with financial instruments decreased due to high inflation. Jamaican currency system was established. Economical development of any country from that time is connected with the development of financial system thereof. At that period, traditional theory of financial intermediation was developed, and developers thereof (D. Diamond, H.Leland, D. Pile, E. Prescott etc.) realized the role of financial intermediation, reasons of existence thereof, recovered that necessary conditions for intermediary activities are: an intermediary's own capital formation and high quality of its assets. 90th of XX century could be characterized by study of peculiarities of developed countries' finance and credit systems, and development of their financial services markets. Simultaneously they defined the role of financial intermediaries, who promote fast development of financial services market. Among scientific researches of that period, works of O'Donnell, E.Ballarín, F.Derek are worth to mention.

Detachment of separate parts of the matter, not solved before: The developers of modern concepts of financial intermediation: R.Burns, G.Goldsmith, K.Kalomiris, D.Boyda, as well as Ukrainian scientists like V.Bazylevych, T.Govorushko, V.Mischenko, M.Savluk, S.Cherkasova etc. mostly pay attention on the matters of ensuring liquidity and management of risks. The need in studying of these matters is connected with new financial instruments, applied by the financial intermediaries, as well as with enlargement and modernization of standard business. On contemporary stage of financial services market development, the mechanism of financial intermediation is studied in modern literature insufficiently. Certain types of financial intermediation are being considered mainly separated from each other, and not connected in a structure at all. Study of financial intermediation as an independent economical phenomenon is important for theory and practice, especially nowadays, as financial market infrastructure and regulatory mechanisms thereof are being created; non-standard bank operations are being developed. It is very important at solving the main tasks of a country service market development, to consider the peculiarities of certain financial intermediaries' activities, integrity of their types, and functional interdependence at the market.

Aim of the article: Aim of the present article is to provide theoretical grounding for the processes of establishing intermediation at the financial services market of Ukraine, to generalize main world models of intermediation, to analyze advantages and disadvantages of intermediation development.

Main body: There are different approaches to definition of financial intermediation in modern economical literature. Thus, in financial encyclopedia: [1, page 433] 'financial intermediation is the system of indirect finance support, characterized by involvement of financial resources aiming at their further investment into financial assets'.

Cherkasova S.V. treats financial intermediation as an accumulation and redistribution of free capital existing at the society and performance of financial transactions, accompanying these processes [2 p. 56].

The Commercial Code defines financial intermediation as an activity, connected with accepting and redistribution of financial funds, except the cases, stipulated by law [3].

There are, indeed, different approaches to interpretation of the essence of financial intermediation, and it is expectedly, because this category of financial services market has been studied only for 20 years.

Modern conditions of development of economy allow defining confidently, that the stage of financial services market development is characterized by the amount of financial intermediaries and difference thereof, as well as by the range of financial services, provided thereby.

In structure of Classifier of Economical Activity Types (CEAT), valid since 01.01.2012, financial intermediation include 3 chapters: rendering financial services, except of insurance and pension supply; insurance and reinsurance and non-governmental pension supply, except of compulsory social insurance; auxiliary activities in the sphere of financial services [4]. Pursuant to CEAT, financial intermediation could be subdivided into basic and auxiliary. *Basic intermediation* includes rendering financial services and insurance, reinsurance and non-governmental pension supply. *Auxiliary intermediation* includes also the sphere of financial services, related to management of financial markets.

International practice provides no unified approach to the classification of financial intermediaries. It could be explained by the absence of unified model of financial intermediation, established in different countries.

In Table 1 the author has arranged and represented the types of intermediaries according to main features.

Nowadays in developed countries certain models of financial sector structural organization, where financial intermediaries act, have been formed.

Table 1 Classification of financial intermediaries

Features for classification	Type of intermediary
Pursuant to CTEA	⇒ basic ⇒ auxiliary
Pursuant to legal status	⇒ legal entities ⇒ individuals
Pursuant to types of financial institutions	⇒ subjects of bank systems ⇒ depositary institutes ⇒ non-banking financial institutions ⇒ investment intermediaries ⇒ subjects of depositary and clearing systems
Pursuant to territorial characteristic	⇒ local ⇒ regional ⇒ state ⇒ international
Pursuant to servicing market	⇒ special

players	⇒ universal
Pursuant to conclusion and fulfilling agreement with financial instruments	⇒ direct (direct market players) ⇒ indirect (form infrastructure)
Pursuant to organizational form	⇒ joint-stock companies ⇒ limited liability companies ⇒ private enterprises ⇒ specialized departments
Pursuant to market segments	⇒ intermediaries at security market ⇒ intermediaries at borrowed capital market ⇒ intermediaries at monetary market ⇒ intermediaries at currency market ⇒ intermediaries at gold and precious metal market etc.

Among the models mostly widespread are market oriented, bank and mixed [5, page 98]. Each model includes its legal regulation of financial intermediaries' activities and defines the scope of professional participants.

Market oriented model could be characterized by the existence of certain balance between the development of banks and non-banking financial institutions, and well-developed non-banking sector, devoted to implementation of investment, insurance and other financial services. This model subdivides financial intermediaries into three types:

1) Depository institutions – intermediaries, with main functions to involve the funds of public and companies in form of deposits and providing loans to individuals and subjects of economy;

2) Saving institution of contractual type – institutions, performing long-term accumulation of customers' capitals, aimed at further payments for certain purpose for the benefit of such customers (insurance companies, non-state insurance funds);

3) Investment intermediaries – financial institutions, which scope of activities consists of joining the funds of individual investors and investment of these funds into different financial assets to earn income (investment and mortgage banks, investment companies and investment funds).

Bank model –type of intermediation, providing the leading role in performing transactions to banks, having right to perform, except of standard operations, also mortgage, investment and certain insurance ones, etc. Key role of banks in financial intermediation is typical for Ukraine also. Bank model structure distinguishes: bank institutions (bank intermediation) and non-banking financial institutions (non-banking intermediation). Basis for such subdivision are criterion of intermediaries' participation in forming the supply of money at the market. Banks have various possibilities to offer monetary funds at the market, and non-banking institutions do not have such possibility. Non-banking institutions are specialized on certain types of financial transactions, and at the financial services market they take small gaps, thus play secondary role in financial intermediation. Banks are the main financial intermediation agents, possessing key role in performing the list of financial operations. According to the results of year 2012, banking system of Ukraine

includes 176 banks, licensed by the National Bank of Ukraine to perform bank operations, and they developed faster, than economy of the state. Consequently, income of Ukrainian banks increased in 54.3 % compared to year 2011, equity capital – in 64.2%; liabilities – in 77.5%, assets – in 75.0 % capital [6] Due to increase of income, public become solvent customer of the banks.

Banks, being financial intermediaries at financial services market, have mostly two functions: emission – typical of banks only and consisting of emission of additional payment instruments into money flow, and transformational, consisting of transformation of money flows with certain characteristics into another, promoting fastening of capital turnover and increasing its efficiency. Execution of the banks' functions as intermediaries should be performed through their bank transactions, generally subdivided into standard and non-standard. *Standard* intermediary services are: payment and cash services for customers, involvement of funds into deposits, creation of new payment instruments, providing credits. *Non-standard* are new operations and services, arisen in 90th of XX century. Non-standard services are trust administration of a customer's property, depositary operations, placement of capital issues and management thereof, factoring, leasing services, evaluation of property, consulting services etc. In recent years widely developed become a bank's participation of leasing operations, thus leasing companies involve big banks to negotiation regards leasing, drawing up required documentary etc. Compared to new efficient system of liquidity improvement, and decrease of financial risk at organization of payments is called factoring. Factoring operations in Ukraine are used by banks since 1989. Besides, share of factoring in balance thereof nowadays is small and consists of from 0.5 to 5%. Factoring business requires great investments, and in Ukraine very few persons are ready to it.

Implementation of non-standard operations by banks do not require reasonable additional resources, although ensure increase of incomes, decrease of general level of risk and widening the volumes of activities provide widening the scope of customers and increase of level of services rendered there for.

Nowadays banks constantly try to extend the scope of their services. In margins of commercial bank institutions, investment banks have arisen and promoted implementation of services, new for banking activities.

Mixed model of financial intermediation comply the activities of banking and non-banking financial institutions. Reasons for such model are the processes of internationalization and globalization of financial market, providing contingence of models, extending the scope of functions of financial intermediaries, increase of the list of their financial operations.

According to current legislation, financial intermediation in Ukraine, as at many markets of developed countries, is subdivided into two types: bank and non-bank intermediation.

World experience has shown that creation of big and efficient sector of non-banking institution is a long-lasting process. Nevertheless, during the last three years we observed riot growth of insurance market of Ukraine, reaching in limits of 3.7% GDP [7]. Hence, insufficient level of reliable capital issues supply restricts activities of financial institutions, such as pension funds and insurance companies.

Assets of non-banking financial institutions are still insignificant compared to assets of banks. Thus, jointly the assets of banks and non-bank institutions as of

31.12.2011 consist of 1,134.2 billions UAH, including banks – 1,054.3 billions UAH (93%), non-bank financial institutions – 79.9 billions UAH (7%). As of 31.12.2011 the State Register of Financial Institutions included 1,979 non-bank financial institutions (442 – insurance companies, 613 – credit society, 96 – non-state pension funds, 251 – financial companies, 456 – pawn shops etc.) [7].

The main reasons for arisen and development of non-banking sector is the development of money segment of local financial services market and involvement of people and subjects of economy into investment processes.

Nowadays *non-banking financial intermediation* in Ukraine is characterized by lack of finished legislative and regulatory basis for regulation of activities thereof, improper organizational and economical mechanism of functioning, low share of assets in GDP, insufficient protection of customers, and thus plays secondary role in financing the national economy and in redistribution of capitals.

In Ukraine, mostly, non-banking financial intermediation include leasing companies, credit societies, non-state pension funds, insurance companies, institutions of common investment etc.

Leasing companies, specialized on investment with own and involved financial funds are quite widespread in Western countries and are gradually developing in Ukraine. Leasing is comparative new specific form of financial relations, joining the elements of crediting in kind and in monetary form, thus it is a form of material and technical supply with simultaneous crediting and rent.

Despite of wide range of difficulties, such institutions as credit societies also possess their gap in intermediary activities on money market of Ukraine. Nowadays credit societies do not play reasonable role on Ukrainian market, but their development is the matter of strategic choice and will of persons involved. Main reason for weak development thereof is legislation discrepancy and its complete contradiction to generally accepted norms of international law, i.e. lack of proper legal basis for regulation of such credit societies' activities.

Subjects of non-state pension supply saving system are non-state pension funds (NSPF); bank institutions (which open depositary pension accounts); insurance institutions acting on non-state pension supply market as operators; legal entities performing administrative management of NSPFs and pension assets thereof etc. As of 01.01.12 the State register of financial institutions contains information about 96 NSPF and 40 administrators of NSPF, among them 33 institutions are licensed for NSPF administration [7]. System of NSPF has been developing fast enough for the last several years and has potentials for further development of pension supply for public.

Creation of efficient insurance intermediation system in Ukraine plays very important role for development of the whole insurance market. Usually potential insured person got acquainted with an insurance company mainly through insurance intermediary. Seriousness and expertise, and most of all, reliability thereof, reliability in use of confidential information disclosed by the customer, influence the image of not only the insurance company, but also the insurance market as a whole. Insurance intermediation also leads to creation and ensuring working places, increasing public income, formation and preservation of middle class.

International experience show, that in development of intermediation activities of non-bank financial institutions could be more efficient compared to those of bank

institutions. For example, rendering one or two types of services concentrates the activity and creates conditions to increase the quality of such services. Focusing the activities at rendering wide range of services, typical of banks, obviously leads to less efficiency of such activities.

The importance of financial intermediaries' activities is shown by their functions. If financial intermediaries act at highly efficient, well-developed financial services markets, which function on the grounds of integrity, transparency, competitiveness, centralization, activities thereof ensures denomination of savings – small borrowings of an intermediary are being constantly accumulated and than become a basis for conclusion of security agreements for bigger amounts. An intermediary has better access and possibilities to access information regards wider scope of issues relating to capital issues turnover; performing a range of deposit transactions, emission of own financial assets and placement thereof at borrowers' market accumulate monetary funds for further investment thereof into the development of economy. Intermediaries' use of hedging mechanisms, ensuring insurance protection, providing guarantees, following diversification in course of finance documents portfolio creation etc. promotes decrease of financial risks. Well-developed, highly efficient financial intermediaries help investors to make reasonable and operative decisions regards investing funds into financial assets and ensure realization of these decisions. Financial intermediaries of these markets empower investors to withdraw funds at any time and invest them on more beneficial terms, if required.

Conclusions and propositions: The phenomenon of financial intermediation in Ukraine is on the stage of establishing and development. Appearance of financial intermediaries in Ukraine become one of the reasons for development of domestic financial services market, now having its own legislative basis, financial instruments and participants.

Authors of the article propose features for classification of financial intermediaries; although these features are not final and could be completed in process of new researches.

Causes of establishment, as well as reasons of insufficiency of the most widespread intermediary financial institutions in Ukraine are defined; ways of their further development in contemporary market environment of Ukraine are supposed. Overcoming problems, relating to financial institutions activities, rendering intermediary services, and fastening of development thereof will promote more complete satisfaction of need in additional financial resources, ensuring efficient capital transformation and rendering wider scope of high-quality financial services.

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