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THE WAYS TO IMPROVE THE DEPOSIT GUARANTEE SYSTEM IN THE MODERN CONTEXT

Object. *The object of the article is to develop the conceptual framework of the deposit guarantee system in Ukraine in the modern context by means of improvement comparing the international practices and bank guarantee system in Ukraine under the legislation in force.*

Methods. *In the course of study there have been used: the method of theoretical general conclusion and comparison, standard one, the one of analysis and synthesis.*

Results. *On the grounds of this study there has been proposed a scientific and methodical approach, which allows improving the deposit guarantee system by introducing differentiated regular collection depending on the value of the integral indicator of the financial stability of the bank and a new system of payments in real-time mode using instruments of the National System of Mass Electronic Payments, introducing mandatory payment of the guaranteed amounts from the Individual Deposit Guarantee Fund since the time when the bank delays payment of funds to a depositor during a certain period of time violating the stipulations of a treaty (in some cases – since the time of introduction of temporary administration).*

Academic novelty. *In spite of some progress existing deposit guarantee system in Ukraine, there has not been significant strengthening public confidence in the banking institutions due to shortcomings related to the Fund underfunding and misallocation of the funds having been accumulated.*

Practical importance. *The results are intended to identify and correct the existing defects of the deposit guarantee system: deposit insurance protection of natural persons only, bring to a spread on individual deposits – the commercial entities or legal entities that belong to small enterprise; to prevent late delivery of information regarding the liquidation of a certain bank having developed a program of timely informing of the public in emergencies.*

Key words. *Deposit Guarantee, Deposit Guarantee System, Individual Deposit Guarantee Fund, Capitalization, Resources, Funds, Banking System.*

Guaranteeing the deposits is one of the guarantees of the financial stability of the economy banking sector. The deposit insurance system should not only protect

the depositors' funds but also facilitate the work with problem banks and thus prevent the occurrence of crises situations. Guaranteeing the deposits is one of the components of the system of financial and economic security, which also includes an advanced system of risk management in credit institutions, a stable macroeconomic environment and the efficient monetary and credit policy, etc [1].

The study of the issue of an effective deposit insurance system there are dedicated the works of such domestic and foreign scholars as G. Desmond, R. Kelly, P. Rose, K. Gavald, J. Stufle, K. Geiger, J. Sabourin, O. Anikin, V. Vinogradov, A. Vishnevsky, O. Bakun, S. Tigipko, O. Ishenko, S. Arzhevitin, S. Bezushey, L. Voloschenko, N. Horbach, Z. Sorokovskaya, V. Bazilevich, S. Zob-Sovich, M. Alekseenko, V. Zhupanin, T. Mazur.

The deposit guarantee systems exist in more than 70 countries of the world. They can conditionally be divided into two types: American and German ones. The American system of deposit insurance provides for a special government body funded jointly by the banks and the government. Moreover, all the banks are required to take part in guaranteeing the deposits [2]. A similar model is used in the USA, Canada, UK and Japan. According to the German model the deposit guarantee system is run by the associations of banks, the banks' participation in the system is voluntary and there is no governmental funding. The German model of deposit insurance is used in France, Switzerland and the Netherlands. Note that within the European Union functioning of deposit insurance is mandatory for all its member states since 1994, when it adopted Directive 94/19/EC "On the deposit-guarantee schemes." According to its requirements each state - member of the European Union creates officially recognizes and controls on its territory one or more deposit insurance systems [3].

Taking into account the international experience, in Ukraine in 1999 there was set up a specialized government institution - the Individual Deposit Guarantee Fund (hereinafter referred to as the Fund), which has made some progress in strengthening confidence in the banks in times of the economic growth. The first test of reliability of the system has become a large-scale 2008-2009 banking crisis that, judging by the crisis results, failed. For a short action period the Fund was physically unable to accumulate sufficient funds before the crisis, especially since 2001 it started to recover the deposits of the then bankrupt banks: Slaviansky (2001), Ukraine (2001), Olbank (2003), Nash Bank (2003) and others. According to the Accounting Chamber, during 1999-2007 years in Ukraine were liquidated 10 banks, resulting in 247 thousand depositors of these banks were paid compensation totaling 319 million [4]. A number of banks, whose deposits were being paid, went up. The risk to all the banking institutions, particularly the banks with the national capital, increased manifold the need to repay deposits from the Fund's resources. There occurred a great lack of balance between the Fund's financial capacity and the new risks that arose to depositors of the banks. A particular difficulty was due to the fact that there also was a risk of bankruptcy to the biggest banks whose deposit amounts exceeded much the Fund's resources [5].

It could have been possible to improve or normalize the situation having provided the adequate financial assistance of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine. A one-time infusion in the amount of USD 30-50

billion to the Fund of the additional funds would greatly ease the depositors' failure of nerve and it would reduce their pressure on all banks and restore the health of the banking system situation as a whole. However, the government and the National Bank took a different path having decided to provide targeted assistance to the separate banks not counting the Guarantee Fund - through the refinancing of certain banks (the NBU) and recapitalization of the selected banks. In this way there had been spent much more money (about UAH 100 billion of refinancing and UAH 17 billion of recapitalization, of which more than UAH 8.4 billion went to Rodovidbank, 5 billion – to Ukrgazbank and approximately 3.6 billion – to the bank Kiev).

But the effect of these actions was much lower than if the funds would have been spent to support the Guarantee Fund. After all, these actions provided an opportunity to satisfy the claims (but not to put them at ease) the separate creditors only (mostly the foreign ones) of certain banks (mostly the big ones) and the depositors of the three recapitalized banks. All other creditors and depositors (and they were the overwhelming majority) had received nothing and started being even more concerned about their funds. And it was for good reason - some of them did not receive their money from the banks and as of the first half of 2011 the NBU in reality covers up such banks without declaring them bankrupts in order not to spend the Guarantee Fund's scanty resources. Assessing broadly the actions of the government and the National Bank, it should be noted not only inefficient use of huge funds but also an express underestimation (or ignoring) the role of the Deposit Guarantee Fund to stabilize the banking system, which will have long-term negative consequences.

An attempt to reduce these effects was important changes in the system of deposit insurance as provided for by the Law of Ukraine "On the system of the Individual Deposit Guarantee" № 4452-UI adopted on February 23, 2012.

The negative features of the law are as follows:

- there are no effective sources to increase the Fund capacity and it will not differ much from the pre-crisis state;
- the criterion of the optimal Fund capacity has been not defined, etc [6].

In spite of the fact that the reforming of the national system of the Deposit Guarantee has started, it has some shortcomings that should be eliminated before the completion of the term of planned measures implementation specified in the law.

To eliminate the shortcomings it is required:

First, the creation of conditions to improve the image of the banking system and the formation of an effective system of deposit insurance should become one of the important tasks of the state management. To avoid the negative effects of the introduction of controversial innovations in the future it is required to thoroughly discuss how to implement them and to take the appropriate decisions.

Second, the Fund expansion of authorities should not reduce the responsibility of the government and the National Bank of Ukraine for the increase of the overall financing of the Fund, and therefore there is the need to increase their participation in the formation of the authorized capital of the Fund and in credit financing of its current needs.

Third, the allocations to the Fund can be increased by introducing a differentiated fee system that has the following scheme: the more risky the bank

institution activities are, the greater risk of its problems to fulfill the obligations before the depositors and, therefore, the greater deposit amount interest such banks should transfer to the Fund. The possibility is left open to increase the initial fee charged to the participating banks, which is now 1% of the bank's authorized capital. We will point out that the introduction of a differentiated amount of deposit reimbursement and differential regular fee will give an opportunity to significantly increase the financial resources of the Fund. This, in turn, can lead to the development of the procedures to guarantee deposits both individuals and, for example, individuals who are business entities and the legal entities that belong to small businesses.

The total amount of funds that are accumulated by the Fund, as of June 1, 2012 is UAH 5 671.1 mln. As you can see by Table 1, for 2012 there was an increase of deposit amount and, except for reducing the number of depositors in summer, the average deposit amount per individual tended to increase that meant the improved public attitude to financial institutions during the reporting period.

Table 1. The Data on the Individual Deposits with the Members of the Individual Deposit Guarantee Fund during 2012

Date	The Amount of Individual Deposits UAH billion	Number of depositors Mln of People	Average Deposit Amount UAH	Cover ratio of deposits %
January 01, 2012	282.6	35	8 072	99.2
April 01, 2012	300.9	37.7	8 098	99.2
July 01, 2012	310.9	34.3	9 068	99.1
October 01, 2012	323.2	36	8 854	99.4

At present the Fund guarantees each bank depositor to reimburse his deposit funds and reimburses money in the amount of the deposit, including interest at the rate of total deposits, but not more than UAH 200 thousand. The Fund guarantees funds in cash and non-cash in the Ukrainian currency or in foreign currency that the depositors placed on the terms of a bank deposit contract, bank account or by executing an inscription deposit certificate. The Fund pays guaranteed amounts in the national currency of Ukraine. The Fund pays recoverable amounts to the depositors of 22 banks, [7] in 2012 January-November these amounts came to UAH 511.3 million (Table 2).

**Table 2. Statistics of Payments to the Depositors
of Guaranteed Recoverable Amounts**

Payments of the Guaranteed Recoverable Amounts	Data on the recoverable amounts received by the depositors of the banks where the Fund has made all payments	Data as on December 01, 2012 on the recoverable amounts received by the depositors of the banks where the payments are being made by the Fund	Recoverable Amounts during 2012 January - November	Including Quarter on Quarter		
				I qu.	II qu.	III qu.
A number of banks where the payments are being made	10	22	22	18	20	21
A number of depositors who received recoverable amounts, persons	247 131	120 466	14 848	739	1 718	2 271
Recoverable amounts, UAH mln.	326.6	4 308.6	511.3	33.9	81.3	47.0

In general, the Fund activities gradually become positive but to reduce the effects of the negative impact of the current financial crisis to the banking sector of Ukraine it is required to continue the process of improving the deposit guarantee system. In the author's opinion the main areas of improvement are as follows:

- the Fund should develop in advance a program to inform the public in the cases of emergency (for example, to provide the people with the information regarding a certain bank dissolution) [8];
- both banks and all financial institutions that invite deposits (such as credit unions) should be the Fund's members (temporary members). Sberbank should also be a member of the Fund [9];
- the Fund should start paying the guaranteed amounts since the time when the bank, complying with a treaty, delays paying to a depositor the funds for a certain period of time (in some cases - since the temporary administration has been imposed);
- Deposit Guarantee system is organized through a combination of organizational and financial participation as private and public structures [2];
- to introduce a differentiated amount of deposit compensation depending on the level of interest rate that a certain deposit has been invited;
- to introduce a new system of payments in online mode using the tools of the National System of Mass Electronic Payments;
- to expand the electronic document flow for the Fund's members (temporary members), bank liquidators and agent banks;
- to introduce a differentiated regular fee depending on the value of the integral indicator of the financial stability of a bank;
- in accordance with the principles developed by the International Association of Deposit Insurance in conjunction with the Bank for International Settlements

(Bank of International Settlements, BIS to extend insurance coverage on deposits of individuals - subjects under entrepreneurial activity and legal persons belonging to the enterpriseprises small businesses. [10]

These measures implementation will increase the depositors' confidence in the banking system that, in turn, will increase the stability of the financial sector of Ukraine.

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