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доцент**FEATURES OF FINANCIAL INVESTMENT
OF BANKS AND NON-BANKING
INSTITUTIONAL INVESTORS IN UKRAINE****ОСОБЛИВОСТІ ФІНАНСОВОГО
ІНВЕСТУВАННЯ БАНКІВ І НЕБАНКІВСЬКИХ
ІНСТИТУЦІЙНИХ ІНВЕТОРІВ В УКРАЇНІ**

Urgency of the research. The current stage of Ukraine's development requires a substantial increase in the volumes of investment by financial institutions to ensure economic growth.

Target setting. It is advisable to study current features in the processes of banking and non-banking financial investment in the domestic practice in order to develop more effective incentives for the participation of the financial institutions in financing business activities.

Actual scientific researches and issues analysis. The scientific works of such scholars as Z. Vatamaniuk, O. Vovchak, O. Golieva, T. Kushnir, S. Moshenskyi and others was aimed at studying the practice of investing in activities of banks and non-banking institutional investors.

Uninvestigated parts of general matters defining. Scientists have not yet sufficiently studied the reasons for weak participation of domestic banks and non-banking financial institutions in providing a stock mechanism for financing business activities.

The research objective. The article is aimed at studying the main areas of financial investment in the practice of domestic banks and non-banking financial institutions, which are institutional investors.

The statement of basic materials. The significant differences in financial investment strategies implemented by banks and non-banking institutional investors in Ukraine are considered in the article. Banks differ from non-banking institutions in goals, objectives and strategies for the implementation of financial investments. Different groups of financial institutions have different interest in investing in securities.

Conclusions. The main volume of bank investments in the stock market is carried out in debt securities. Such investments are mostly short-term. During the research period, the share of investments in securities in the consolidated portfolios of all the groups of non-banking institutional investors decreased, with the exception of NPFs. Influence of banks and non-banking institutions on the distribution of a stock mechanism of financing economic activities remained insignificant.

Keywords: investment; securities; stock mechanism for financing; investment strategy.

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Актуальність теми дослідження. Сучасний етап розвитку України вимагає суттєвого збільшення обсягів інвестицій фінансових інститутів для забезпечення економічного зростання.

Постановка проблеми. Доцільним є вивчення сучасних особливостей в процесах банківського і небанківського фінансового інвестування в цілях розробки більш ефективних стимулів участі фінансових інститутів у фінансуванні господарської діяльності.

Аналіз останніх досліджень і публікацій. Наукові праці таких вчених, як З. Ватаманюк, О. Вовчак, О. Голєва, Т. Кушнір, С. Мошенський та інші були спрямовані на вивчення практики інвестування в діяльності банків і небанківських інституційних інвесторів.

Виділення недосліджених частин загальної проблеми. Науковцями ще недостатньо вивчені причини слабкої участі вітчизняних банків і небанківських фінансових інститутів у забезпеченні фондового механізму фінансування господарської діяльності.

Постановка завдання. Стаття націлена на вивчення основних напрямів фінансового інвестування в практиці діяльності вітчизняних банків і небанківських інституційних інвесторів.

Виклад основного матеріалу дослідження. Досліджені відмінності в стратегіях фінансового інвестування банків і небанківських інституційних інвесторів в Україні. Банки мають відмінні від небанківських інститутів цілі, завдання та стратегії фінансових інвестицій. Різні групи фінансових інститутів мають неоднаковий інтерес до вкладень в цінні папери.

Висновки. Основний обсяг інвестицій банків на фондовому ринку здійснюється в боргові цінні папери. Такі інвестиції переважно короткострокові. В періоді дослідження зменшились частки вкладень в цінні папери в консолідованих портфелях всіх груп небанківських інституційних інвесторів, за винятком НПФ. Вплив банків і небанківських інститутів на поширення фондового механізму фінансування господарської діяльності залишився незначним.

Ключові слова: інвестування; цінні папери; фондовий механізм фінансування; інвестиційна стратегія.

Urgency of the research. The current stage of Ukraine's development requires a substantial increase in the volumes of investment by banks and non-banking financial institutions to ensure economic growth. In the strategies and mechanisms for implementing investment activities by these groups of institutions, there are significant differences that require research for more thorough consideration of the development of financial sector in the state policy.

Target setting. It is advisable to study the differences and current features in the processes of banking and non-banking financial investment in the domestic practice in order to develop more effective incentives for the participation of the investigated institutes in financing business activities.

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Actual scientific researches and issues analysis. The research of such scholars as Z. Vata-maniuk [1], O. Vovchak [2], O. Golieva [3], T. Kushnir [4], and S. Moshenskyi [5], was aimed at studying the practice of investing in activities of banks and non-banking institutional investors. However, the differences in the mechanisms of banking and non-banking institutional investment in the domestic financial market are still studied insufficiently. It makes the chosen direction of the scientific research actual.

Uninvestigated parts of general matters defining. Domestic scientists have not yet sufficiently studied the reasons for weak participation of banks and non-banking financial institutions in providing a stock mechanism for financing business activities and the development of the securities market in Ukraine.

The research objective. The article is aimed at studying the main areas of financial investment in the practice of domestic banks and non-banking financial institutions, which are institutional investors, and determining their role in a stock mechanism for financing business activities in modern conditions.

The statement of basic materials. The bank-centric model of financial intermediation implemented in Ukraine has identified the priority role of banks in financial sphere. Non-banking institutional investors, the functions of which in the domestic practice are fulfilled by collective investment institutions (hereinafter – CII), non-state pension funds (hereinafter – NPFs), insurance companies, etc., by role in the investment sphere are inferior to banks.

The implementation of banking investment transactions is aimed at preserving bank's capital and its growth, ensuring the balance sheet liquidity, forming the necessary amount of reserves and their support.

According to O. Vovchak, the economic essence of bank's investment activities is reduced to financial investments and real investments [2, p. 32]. Since most non-banking institutional investors specialize in investing in financial instruments, the comparative analysis of banking and non-banking institutional investment is advisable to be carried out precisely in this area.

Investment processes belong to the category of active transactions of banks. Banks actively increase financial investments in the periods of a decline of the demand for credit resources and, conversely, funds from securities are withdrawn when the demand for loans increases. The total volume of a credit and investment portfolio of banks characterizes the size of their investment potential and contribution into financing the country's economy by means of credit and stock methods.

There are no objections among scholars regarding the important role of investments in banking. The functions of the portfolio of bank's securities are generating revenues, reducing risks, increasing the liquidity [6, p. 95].

The close combination of credit and investment processes in banks' activities is witnessed by the active expansion of investment and mortgage banks in the world practice, which are beginning to emerge in Ukraine.

The domestic legislation allows banks to be active participants in the securities market. The directions and volumes of investment are determined by banks on their own, based on the developed investment strategy and taking into account economic norms of the NBU.

There are differences in the characteristics of banking and non-banking financial investment (Tab. 1), due to the specifics of economic activities and tasks of these groups of institutions in the country's financial system.

For banks, the process of investing resources in securities complements the main credit activity and is carried out to diversify assets and reduce risks. Investments in government securities ensure the formation of bank reserves and the reliability of bank investments.

The legislation of Ukraine does not specify any restrictions for banks on investing in securities by their types and groups. At the same time, in accordance with normative documents of the NBU in the bank's portfolio there are separate parts: a trading portfolio, securities in the bank's portfolio until maturity, securities in the bank's portfolio for sale and the portfolio of investments in associates and subsidiaries.

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Table 1

Comparative characteristics of investment features in the activities of banks and non-banking institutional investors in Ukraine

Investment principles	Financial institutions:				
	Banks	CIIs	Insurance organizations	NPFs	Credit unions
Investment nature	complementary to credit activity	main activity	mandatory for the formation of reserves	mandatory for the placement of pension assets	Possible under the availability of free resources
Legislative definition of investment directions and objects	N/A	available	available	available	available
Establishing investment limits	is determined by the investment standard	N/A	N/A	N/A	N/A
Presence of boundary-related norms of investments by one object	N/A	for diversified funds	available	available	N/A
Possibility to implement specialized investments	for investment and mortgage banks	for specialized, qualification, stock exchange funds	N/A	N/A	N/A
Need for Diversification implementation	N/A	for diversified funds	available	available	N/A
Possibility to carry out risky investments	available	for venture funds	N/A	N/A	N/A
Possibility to invest in real estate	available	available	available	available	N/A

Source: created by the author

For non-banking institutional investors (with the exception of credit unions), the process of investing in securities is a mandatory type of business, for corporate CIIs, it is a type of activity in which they specialize. The Ukrainian legislation has set clear criteria, guidelines, limits on investment and assets structure for diversified CIIs, NPFs and insurance companies in relation to the placement of assets. The investments of these institutions must meet the conditions of safety, profitability, liquidity and diversification. Non-banking institutional investors, whose activities are socially oriented, must implement the principle of diversification in the process of financial investment and choose quality assets. The possibility to carry out risky investments and without following the principle of diversification is foreseen only for venture and qualification investment funds. For CIIs, NPFs and insurance companies, the Ukrainian legislation defines the limits for investment by types of assets.

The benefits in the processes of financial investment of non-banking institutions should be provided by the investment in government securities and listed securities. These requirements limit the maneuver of investment strategies of the investigated institutes, requiring more careful monitoring of the composition of assets and the state of affairs in the financial market.

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In general, both banks and non-banking institutional investors face the same problems in the process of financial investment due to low reliability, liquidity and profitability of securities. All this requires the improvement of the state policy to stimulate the development of the internal stock market.

In recent years, domestic banks have more actively invested in securities than non-banking institutes. For 2006-2015, the volume of banks' investments in equity instruments increased 13.8 times, reaching 198.8 billion UAH by the end of 2015 [7]. The growth of investment in securities in groups of non-banking institutional investors was observed only until 2013, increasing by 5.3 times in 2005-2012. By the end of 2015, the total volume of investments in securities in groups of non-banking institutional investors amounted to UAH 65.08 billion, which is three times less than the aggregate indicator of banks [8; 9; 10].

Since 2010, there has been a significant increase in the investment activity of banks in the securities market, in the result of which the share of investments in equity instruments in the credit and investment portfolio has increased significantly (Fig. 1). If in 2006-2009 this figure was within 5%, in 2015 it reached 17,1%. This trend is evidence of significant changes in banking strategies. There is a significant decrease in the share of investments in stocks in the securities portfolio of banks. If in 2006 this indicator amounted to 28.4%, by the end of 2015 it fell to 3.4% (Fig. 1). The main objects of banking investments in modern conditions are debt securities, primarily government bonds.

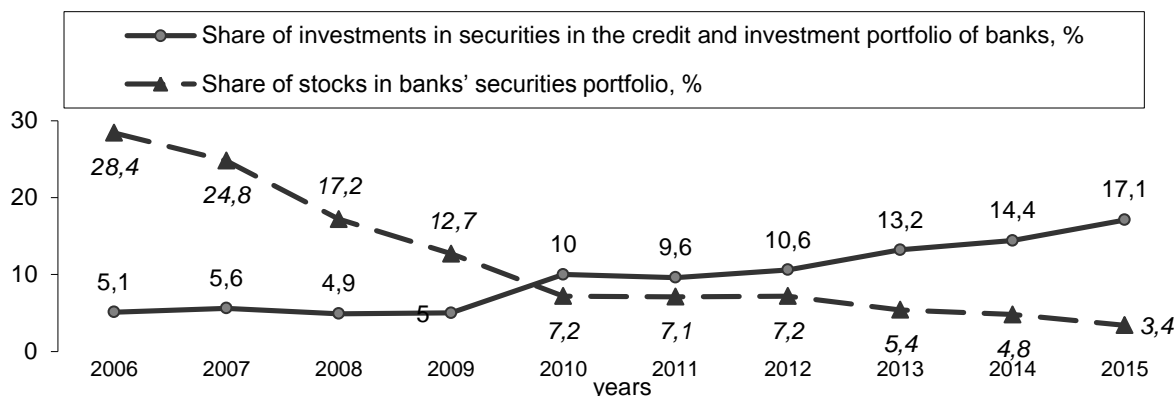


Fig. 1. Share of investments in securities in the credit and investment portfolio of Ukrainian banks in 2006-2015, %

Source: created by the author under the data of [7]

The analysis of the composition of the consolidated portfolio of securities of Ukrainian banks suggests that today the bulk of it is occupied by securities for sale. The share of this component of the portfolio remains the largest in recent years. The shares of portfolios before repayment and of associated and affiliated companies are small. Despite a significant increase in the volume of financial investments by domestic banks during the last decade, most of them form portfolios of trading securities and securities for sale, implementing short-term speculative transactions that do not have a positive effect on the processes of stock financing of the national economy.

In the sector of non-banking institutional investment, different groups of financial institutions have different interest in investing in securities. According to the data of Tab. 2, by 2015, securities occupied a priority place in the portfolios of non-venture CIIs, NPFs and insurance companies. The share of securities in the assets of non-venture funds was the highest among all types of the investigated institutions, fluctuating in 2005-2015 within the range of 36.4-81.4%. NPFs, through investing in equity instruments, provided the formation of more than half of their assets. In 2011-2014 securities occupied the main place in the consolidated portfolio of domestic insurance companies.

The regulatory actions of the Stock Market National Regulator in 2015 ensured the reduction of low-quality securities in the stock exchange and led to the reduction in the share of equity instruments in investors' portfolios.

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For venture capital funds, as leaders of non-banking institutional investment, the orientation of investment strategies for investing in securities was typical only during 2005-2009. Starting from 2010, venture funds reoriented their investment strategies for equity instruments to other types of assets, which stipulated a decrease in the share of securities to 20.1% in 2015.

Table 2

Share of investments in securities in the assets of non-banking financial institutions in 2005-2015, %

Types of financial institutions	Years (as of the end of the year)										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Venture CIs	49.1	50.8	56.5	54.6	70.2	35.3	31.2	31.2	28.7	27.3	20.1
Non-venture CIs	36.4	60.2	73.4	66.7	81.4	70.6	60.8	58.4	50.8	55.4	34.5
Insurance companies	49.4	47.0	40.4	39.4	46.3	47.5	51.9	69.8	56.3	56.0	42.0
NPFs	18.0	55.8	51.8	36.1	45.0	48.8	59.0	58.8	56.4	53.5	50.8

Source: created by the author on the basis of [8; 9; 10]

The decrease in the share of investments in securities in the portfolios of venture capital funds shows that, these institutions do not consider stock securities as priority investment objects. Hence, venture capital investments do not remain transparent and are highly risky for investors.

In order to determine the influence of investment volumes of a group of non-banking institutional investors on the development of individual segments of the domestic stock market, the composition of a consolidated portfolio of securities by type of financial instruments was defined and its estimation was determined in dynamics.

In terms of types of securities, the most significant investments are made by the investigated group of financial institutions in stocks, bills and bonds of enterprises (Fig. 2). At the end of 2015, the volume of aggregate investments in shares among all types of securities was the largest, amounting to 38.2 billion UAH, the volume of investments in bills amounted to about 13.2 billion USD, in corporate bonds – 9.9 billion UAH. The value of aggregate investments of the investigated group of institutions in other types of securities was insignificant.

The introduction of the excise tax on transactions with securities on the off-exchange market in 2013 caused a decrease in investment volumes of the investigated institutes in bills. The volume of investments of venture funds in bills for 2013-2015 decreased by 7.9 billion UAH, or by 37.4% [10].

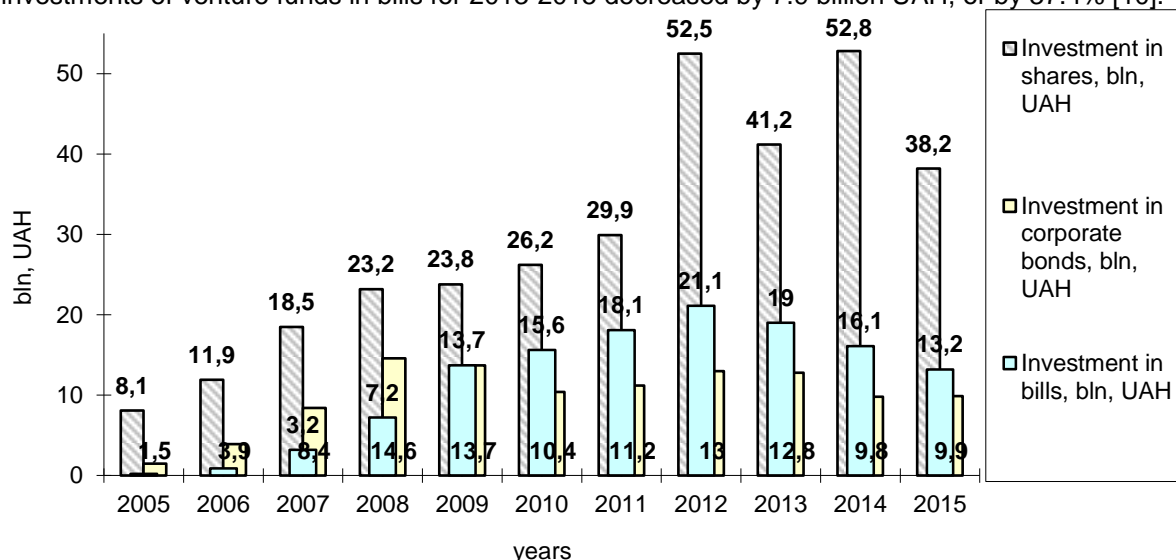


Fig. 2. Aggregate investment of institutional investors of NPFs in shares, corporate bonds and bills in Ukraine in 2005-2015, bln, UAH

Source: created by the author on the basis of [8; 9; 10]

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The aggregate stock portfolio of non-banking institutional investors in 2015 was formed mainly from the investments of venture funds and insurance companies, the portfolio of bonds was more than 80% due to the investments of venture funds, the portfolio of state and mortgage securities – mainly from insurers, the portfolio of bills – practically exclusively at the expense of investments of venture funds. The largest volumes of investments in local bonds were carried out by NPFs, in derivative financial instruments – venture funds.

The studied tendencies in general testify to the expansion of securities composition in the assets of non-banking institutional investors, the search for new financial instruments and a constant change of investment strategies.

The changes in the structure of the aggregate securities portfolio of non-banking institutional investors that occurred during the decade period cannot be estimated unambiguously. On the one hand, it is positive that the composition of this portfolio has expanded. On the other hand, the expansion of the assets in this portfolio was not due to securities, the use of which ensures the attraction of additional financial resources for the development of economic entities, but those types that make it possible to obtain speculative profits in the short run.

The study reveals significant differences in financial investment strategies implemented by banks and non-banking institutional investors in the domestic practice. The main volume of bank investments in the stock market is carried out in debt securities. Such investments are mostly short-term and are implemented for obtaining income from the resale of securities at a higher price. The share of investments in shares in the consolidated portfolio of banks is insignificant. Strategic investments of banks in stock market instruments are insignificant by volume. The increase the interest of banks in investing in securities is the result of changes in their strategies in the face of declining demand for credit products in society. Therefore, with a significant increase in the volumes of investments of banks in securities, their influence on the distribution of a stock method of financing economic activities remained insignificant.

The significant reduction of importance in the development of a stock method of financing business activities is inherent in the activities of non-banking institutional investors as well. During the research period, the share of investments in securities in the consolidated portfolios of all the groups of institutional investors decreased, with the exception of NPFs.

Conclusions. Despite the activity in one market, banks differ from non-banking institutional investors in goals, objectives and strategies for the implementation of financial investments. The increased interest of banks in investing in securities in modern conditions is situational and driven by a decrease in demand for credit products. For non-banking institutional investors, investing in securities is a continuous process that ensures the successful implementation of the main type of economic activity. Given a stable macroeconomic situation, an efficient stock market and a wide range of investment-attractive equity instruments, non-banking institutional investors' investments in securities will remain a priority in their investment portfolios.

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