

PECULIARITIES OF MODERN BANKING MARKET REGULATION

ОСОБЛИВОСТІ РЕГУЛЮВАННЯ СУЧАСНОГО РИНКУ БАНКІВСЬКИХ ПОСЛУГ

Modern banking is subject to an ever-growing set of regulations that put enormous pressure on staff to meet every requirement. Regulatory requirements have become a daily focus of attention the practical observance of them is exposed to both traditional banking risks and cyber risks caused by the technological revolution. In this regard, regulatory requirements have gone beyond the realm of credit or liquidity risk monitoring, capitalization of banking institutions, shifting the focus to increasing risks of real-time transactions, client risks, and risks caused compliance with reporting standards and managing data arrays. The IT component of risk factors has changed the priorities of prudential policy with a focus on protecting banks from cyber and digital banking risks. One such measure is the voluntary and anonymous exchange of information on cyber incidents between market participants. For this regulatory requirements may be introduced for mandatory testing and modeling of cyber incident response.

Key words: market regulator, National Bank of Ukraine, banking sector, banking risks, fintech companies, cyber risks.

Современная банковская деятельность подчиняется растущему количеству нормативных требований. Вводя дополнитель-

ные требования, пруденциальная политика стремится снизить рост традиционных банковских рисков, включая кредитные риски, и защитить от рисков, связанных с технологической революцией. В связи с этим нормативные требования вышли за рамки мониторинга кредитного риска, риска ликвидности или капитализации банковских учреждений, сместив акцент на растущие риски транзакций в реальном времени, клиентские риски, риски соответствия стандартам отчетности и управление массивами данных. ИТ-компонент факторов риска изменил приоритеты пруденциальной политики с акцентом на защиту банков от киберрисков и рисков цифрового банкинга. Одним из таких мероприятий является добровольный и анонимный обмен информацией о киберинцидентах между участниками рынка. С этой целью могут быть введены нормативные требования обязательного тестирования и моделирования возможностей реагирования на киберинциденты.

Ключевые слова: регулятор рынка, Национальный банк Украины, банковский сектор, банковские риски, финтех-компании, киберриски.

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Сучасний банківський бізнес підпорядковується зростаючій кількості нормативних вимог. Накладаючи додаткові вимоги, пруденційна політика намагається стримувати зростання традиційних банківських ризиків, зокрема ризиків кредитування, та забезпечувати захист від новітніх ризиків, спричинених технологічною революцією. Кінцевою метою регуляторних вимог є захист інтересів вкладників та інвесторів банківської установи. Ці проблемні питання неодноразово ставали предметом уваги нормативно-інструктивних актів регуляторів ринку та висвітлювалися в аналітичних оглядах банківського сектору національної та світової економіки. У минулому прибуткова та стабільна діяльність банківських установ визначалася ефективністю управління ними кредитно-депозитним портфелем та розробленням зваженої відсоткової політики. Однак умови функціонування сучасного банківського бізнесу істотно змінилися. Зростання конкуренції, спричинене не лише діями банків, а й фінтех-компаній, змушує банківські установи вдаватися до заходів, що підвищують мобільність, зручність та доступність банківських послуг, однак спричиняють при цьому виникнення нових технологічних та інформаційних ризиків. У зв'язку із цим регуляторні вимоги вийшли з площини нагляду за рівнем кредитного ризику, ризику ліквідності чи забезпечення капіталізації банківських установ, змінюючи фокус уваги на зростаючі ризики операцій у режимі реального часу, клієнтські ризики, ризики, пов'язані зі дотриманням стандартів звітності та управлінням масивами даних. Інформаційно-технологічний складник ризик-факторів змінив пріоритети пруденційної політики з акцентом уваги на захисті банків від кібернебезпеки та ризиків цифрового банкінгу. Одним із таких заходів розглядається добровільний та анонімний обмін інформацією про кіберінциденти між учасниками ринку. Регулятори можуть розробити модель оцінювання ризиків та вимагати обов'язкову звітність щодо визначення фактичного чи потенційного їх впливу, а також забезпечити безперервний та спрощений обмін інформацією. Із цією метою можуть бути запроваджені регуляторні вимоги до обов'язкового тестування та моделювання можливостей реагування на кіберінциденти.

Ключові слова: регулятор ринку, Національний банк України, банківський сектор, банківські ризики, фінтех-компанії, кіберризики.

Introduction. Modern banking is subject to an ever-growing set of regulations that put enormous pressure on staff to meet every requirement. Regulatory requirements have become a daily focus of attention the practical observance of them is exposed to both traditional banking risks and cyber risks caused by the technological revolution. The threat and impact of cyberattacks on the banking sector is increasing, and market regulators are increasingly trying to address cyber risk and cybersecurity. In addition, by imposing additional requirements, macro-prudential policies may deter lending to over-risky borrowers or create the necessary capacity to absorb losses in specific sectors or countries.

Literature review. These problematic issues have been repeatedly considered in market regulators' documents [1–4], numerous banking sector outlooks [5–7] and scientific researches [8–9]. Reg-

ulatory requirements have gone beyond the realm of credit or liquidity risk monitoring, capitalization of banking institutions, shifting the focus to increasing cyber risks of banks and their clients. The IT component of risk factors has changed the priorities of prudential policy with a focus on protecting banks from cyber and digital banking risks.

Aims. The field of modern market regulation is being expanded to protect both the bank and its customers from cyberattacks. The purpose of the article is to analyze current regulatory problems and cyber risks impact on their.

Results. The modern banking business is facing a number of regulatory problems. Summarizing their impact on the banks' activity the analytical review [5] highlights the following issues:

- Expanding the scope of regulation;
- Management risks through real-time operations;

- Client-related risks;
- Risks associated with reporting standards;
- Data management risks.

The expansion of the regulatory field on both national and global markets is driven by an increase in the number of regulatory requirements and supervisory authorities.

Management risks are associated with the real-time calculations that are needed to comply with regulations such as Basel III.

Regarding client risks then the banks must respond to increasing concerns about money laundering and terrorist financing. Even if they launder money unknowingly, they will still face huge repercussions from regulators.

Different reporting standards force banks to double calculation and consolidate data. For international banks, this means varying the recording standards used across different countries.

The legal consequences of data mismanagement can have a serious impact on the banks' activity that has inadequate data management procedures due to speeding up document processing or poor data security, including cyber-attacks.

The main sign of modern banking is a necessity to act under the circumstances of technological revolution [9].

In the past, the profitable and stable banking activity has been determined by the effectiveness of managing their credit and deposit portfolios and developing a balanced interest rate policy. However, the conditions of today's banking business have changed significantly. Increased competition, caused not only by the actions of banks but also by fintech-companies, is forcing banking institutions to take measures that increase the mobility, convenience and accessibility of banking services, but at the same time create new technological and information risks.

Current regulatory problems are related to the issue of effective cyber risks management. There are two points of view to this.

– One view is that the evolving nature of cyber risk is not amenable to specific regulation and that cyber issues can be handled with existing regulations relating to technology and/or operational risk.

– The other view is that regulatory structure is needed to deal with the unique nature of cyber risk, and given the growing threats resulting from an increasingly digitized financial sector [4].

The IT component of risk factors has changed the priorities of prudential policy with a focus on protecting banks from cyber and digital banking risks. One such measure is the voluntary and anonymous exchange of information on cyber incidents between market participants. For this regulatory requirements may be introduced for mandatory testing and modeling of cyber incident response.

Another challenge to regulation comes from the spread of fintech: the use of new technologies to

develop and distribute financial products and services. The evident benefits of fintech relate to the potential reduction of transaction costs and the prospect of greater financial inclusion around the world. In the view of its enthusiasts, fintech will be radically disruptive, breaking industry boundaries and upending financial intermediation by eliminating traditional banks. There is a lot of exaggeration in this view. The footprint of new fintech firms is still rather small. The new technologies – notably blockchain, artificial intelligence, machine learning and decision algorithms – are already being used by incumbent banks and asset managers who are not about to be swarmed by a host of nimble small fintech firms [6].

Problems in the banking sector also extend to the non-banking sector because of the strong links between them. From a regulatory perspective, we need to establish at least two lines of defense for evolving risks. First and foremost, the non-bank financial sector needs to have solid prudential standards. But this will not be sufficient if risks evolve more broadly and across institutions. We will also need an extension of the macro prudential toolkit to the non-bank financial sector, in order to provide the authorities with the means to address risks at system level. While the macro prudential framework for banks is relatively well developed and provides authorities with tools to address cyclical and structural systemic risks, the framework for non-banks is still in its infancy and needs to be further developed [10].

Conclusions. Fintech companies are much less regulated than traditional banking institutions, although banks and fintech companies competing in many areas. As it has been established, new technologies create new risks and do not eliminate the old ones, which justify the need for additional market regulation. Asymmetry of information does not disappear with the introduction new ways of providing financial services. Asymmetry of information does not disappear with the introduction of new ways of providing financial services. Considering that fintech companies offer only part of the services provided by traditional banks regulator's inclination to preferences in favor of new market entrants is unjustified because competition in the financial sector is sufficient.

Since on the banking market banks begin to compete with non-banking institutions, the market regulation should be carried out in two ways: firstly, to create favorable market environment, and, secondly, to protect consumers from the risks of both banks and fintech companies.

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The purpose of the article. The conditions of modern banking have changed significantly. Along with credit risks, banks are affected by digital and cyber risks. Therefore, the field of market regulation is being expanded to protect both the bank and its customers from cyberattacks. The purpose of the article is to analyze current regulatory problems and cyber risks impact on their.

Methodology. These problematic issues have been repeatedly considered in market regulators' documents, numerous banking sector outlooks and scientific researches. Analysis peculiarities of modern banking market regulation is based on taking into account the risks spectrum of modern banking and the competition intensification in the banking market.

Results. Modern banking is subject to an ever-growing set of regulations that put enormous pressure on staff to meet every requirement. Regulatory requirements have become a daily focus of attention the practical observance of them is exposed to both traditional banking risks and cyber risks caused by the technological revolution. In this regard, regulatory requirements have gone beyond the realm of credit or liquidity risk monitoring, capitalization of banking institutions, shifting the focus to increasing risks of real-time transactions, client risks, and risks caused compliance with reporting standards and managing data arrays. The IT component of risk factors has changed the priorities of prudential policy with a focus on protecting banks from cyber and digital banking risks.

One such measure is the voluntary and anonymous exchange of information on cyber incidents between market participants. For this regulatory requirements may be introduced for mandatory testing and modeling of cyber incident response.

In addition, traditional banks are much more regulated than fintech companies, although banks and fintech companies competing in many areas. As it has been established, new technologies create new risks and do not eliminate the old ones, which justify the need for additional market regulation. Asymmetry of information does not disappear with the introduction new ways of providing financial services. Asymmetry of information does not disappear with the introduction of new ways of providing financial services. Considering that fintech companies offer only part of the services provided by traditional banks regulator's inclination to preferences in favor of new market entrants is unjustified because competition in the financial sector is sufficient.

Since on the banking market banks begin to compete with non-banking institutions, the market regulation should be carried out in two ways: firstly, to create favorable market environment, and, secondly, to protect consumers from the risks of both banks and fintech companies.

Practical implications. Introduction of new regulatory requirements will help create a competitive environment on the banking market and enable banks to more effectively manage emerging risks.

Value/originality. We have considered the features of current regulatory policy. These problematic issues are important for both banks and fintech companies. New financial technologies and their implementation in banking practice determine the prospects for further research in this area.