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*DOI:https://doi.org/10.30525/978-9934-26-068-1-30*

# WAYS TO IMPROVE THE FINANCIAL AND ECONOMIC SITUATION AND PROSPECTS FOR ITS INTEGRATION OF BANKS AND INSURANCE COMPANIES

The activity of banks in market conditions is subject to its general laws, and, therefore, it requires the development of a viable mechanism for financial activities management aimed at the banks competitiveness increase. The ability of bank managers to determine the degree of financial stability of their own bank, of competing banks and counterparties plays a key role in financial management. Consequently, the search for ways to optimize the financial condition of banks is considered to be one of the principles of further rapid development of the banking system of Ukraine [1; 2]. Many Ukrainian and foreign scholars identify the concept of «financial condition» with that of «financial stability» in their papers as can be found in the «Economic analysis of commercial banks» textbook by Vasyurenko O.V. and Volokhata N.O. The following components make up the concept financial stability:

1) capital stability;
2) resource stability;
3) organizational and functional stability [10].

Ensuring the optimal level and stability of these indicators is the key requirement to ensuring the financial stability of banks. Given the priority of equity, the main ways to improve methods of its management need identifying since their identification can contribute to increase in the level of the bank capitalization.

Capital management is an activity that deals with attracting funds from depositors and other creditors, as well as with determining the size and appropriate structure of funds sources in close relation to their location. There are two levels of commercial bank resource management:

– state level (management is carried out through the NBU using various financial instruments);

– a commercial bank level (the bank compliance with the NBU standards).

The mechanism of banks capital management can be defined as a set of methods, management tools and regulatory rules used by institutions in the management process and aimed at ensuring the bank capitalization as a whole.

The components of the bank's capital management mechanism include:

1) subjects of the bank's capital management mechanism;
2) the object of the control mechanism;
3) management methods and tools.

Management stuff are responsible for the efficiency and continuity of the banks capital management mechanism. Therefore, the level of bank capitalization will depend on the competence of the managers and the management quality. The second component of the mechanism covers the management object, i.e. the capital of the bank. Its sufficiency is determined by the following factors:

– assets quality;
– management quality;
– receipt of funds and their storage;
– risk diversification;
– property;
– organization and control of operations;
– the level of sensitivity of the bank to risks and the quality of their management;
– strategic planning [8].

The third component of the mechanism is represented by the process of current management of banks capital, and specific features at both macroeconomic and microeconomic levels. At the macro level, solving the problem of bank capital management implies setting up certain tasks and regulations performed by commercial banks in accordance with the requirements of the NBU. At the micro level bank capital management is carried out by individual banks which have to develop these mechanisms and find the necessary funds. To improve the situation regarding bank capital management, solutions at both levels can be proposed. In particular, at the macro level, bank management can improve banking legislation, intensify the role of banking associations, intensify the regulatory policy of the NBU, create a rating system and increase the competitiveness of domestic banks compared to foreign ones. At the micro level it can introduce efficient tools for capital increase through the improvement of the financial management system in commercial banks [7]. Despite the recurrence tendency, the world economy is constantly growing dynamically which fundamentally facilitates scientific and technological progress: the latest technologies are constantly appearing in the world and make modern life easier, they save time and resources and develop new approaches to the provision of services, including financial.

Fierce competition in both the banking and insurance sectors was one of the reasons for the emergence of banking and insurance interaction. As a result, financial institutions have added additional financial services for customers to their business core. In general, both banking and insurance are characterized by higher risk compared to other activities. This feature is predetermined by the specifics of functions performed by a commercial bank. Banks have many partners, clients, borrowers, whose financial condition directly affects their position. Since a bank carries out both active and passive operations, there arise additional risks, such as the risk of unbalanced liquidity, the risk of a gap in the funds obtaining and placing, currency risks [1].

The activities of operational units, the mandatory use of high-tech information and telecommunications systems, the need for constant monitoring, the implementation of the marketing service functions are accompanied by a number of functional banking risks that other businesses can avoid. Finally, it is the banking system in most countries of the world that is subject to strict regulation by the state and special supervision institutions. Thus, the bank activity is exposed to external risks, and some of them, such as the risk of non-compliance with the conditions of state regulation, are of paramount importance in banking. Risk management is considered as one of the important areas of financial management in the bank. Risks can be divided into internal and external, but the typology of risks differs significantly. Figure 1 shows our classification of possible risks in banking [9].

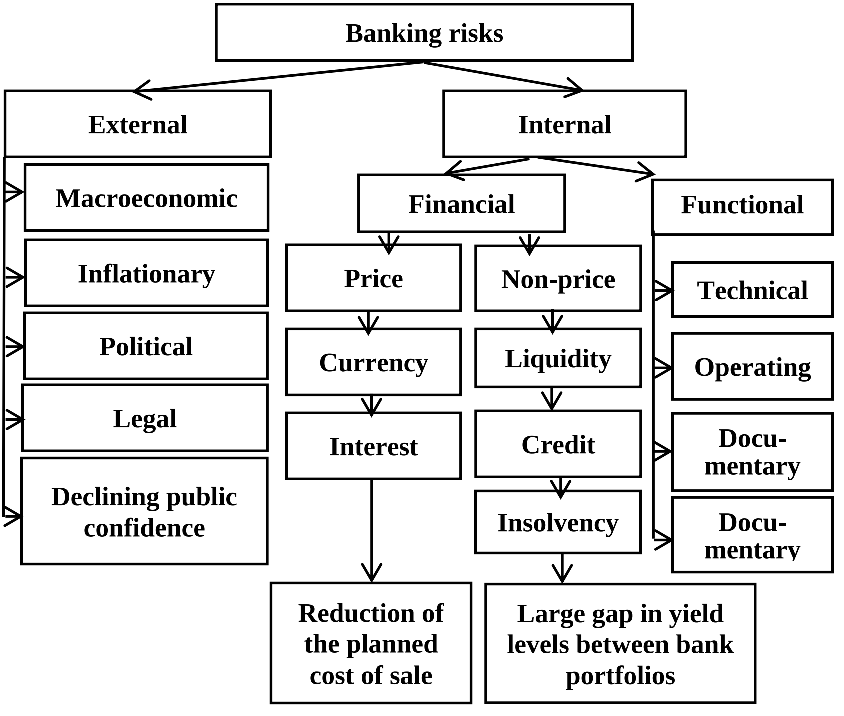


**Figure 1. Classification of banking risks**

The main purpose of the bank's financial security is to ensure the competitiveness of the banking services market of both an individual bank and the banking system as a whole as well as to prevent losses of the banking sector under the influence of internal and external threats [3].

Internal threats to banking security include:

– imperfection of the bank's management system organization;

– banks non-compliance with regulatory indicators of liquidity and financial stability reduction;

– loss of banking institutions solvency;

– loss of public confidence in the banking sector [7, p. 120–123].

External threats include the following:

– unstable state of the economy;

– difficult military and political situation;

– imperfection of the regulatory framework for banking activities regulation;

– inflationary process;

– exchange rate fluctuations, etc. [6].

The modern concept of operational management in an insurance company is based on the methodology of its operating business processes. It involves making and maintaining insurance contracts, underwriting, reinsurance and loss settlement. The operating business processes of the insurance company can be characterized by layers of business architectonics as follows:

1. Operational business processes of the insurance company of the front office (front office – the general name of the insurance company the units engaged in the insurance products sale, including branches, representative offices, and agencies):

– insurance products sales;

– making insurance contracts with the insurer;

– insurance contracts support;

– making additional agreements, change of insurance conditions, prolongation, etc.

2. Operating business:

– processes of the middle office of the insurance company (middle office – the general name of the divisions of the insurance company that provide support for operational insurance activities) [9].

Insurance company risks classification:

1. Risk of accidental danger (accidental and dangerous events):

– valuation risk – the probability of error in estimating the basic mathematical quantities that characterize the insurance portfolio;

– forecast risk – the probability of changes in forecasted values (significant deviation from the accepted error or a certain standard deviation);

– underwriting risk – the probability of losses due to increased liability of the insurer due to anti-risk selection.

2. Financial risk:

– credit risk – the probability of losses due to adverse changes in the financial situation associated with changes in interest rates on securities of the insurer, the financial condition of counterparties and other debtors;

– market risk – the probability of losses due to adverse changes in the financial situation, directly or indirectly related to fluctuations in the value and volatility of assets, liabilities and financial instruments;

– liquidity risk – the probability of temporary inability to convert assets from investment to bond due to a sharp drop in their value.

3. Operational risk – the probability of losses due to improper operation of personnel, internal systems or under the influence of external factors.

4. Strategic risk:

– concentration risk – the probability of potential losses due to an increase in the number of threats or a combination of activities of the insurer and reinsurer;

– reduction risk – the probability of not being able to transfer excess risk;

– diversification risk – the probability of losses due to the inertia of the portfolio and the lack of opportunity to take operational measures to balance it [4, art. 82].

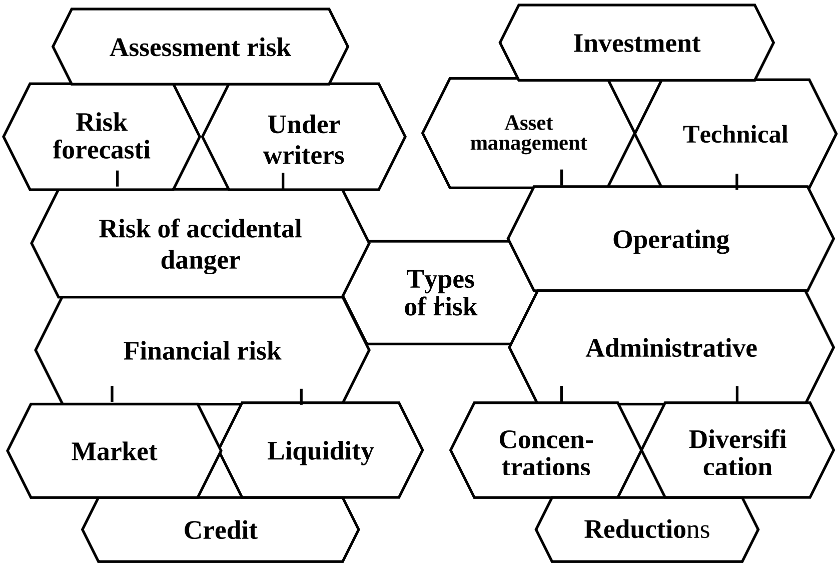


**Figure 2. Shows our idea of the risks an insurance companies may face**

Today, insurance companies mainly use Value at Risk (VaR) to calculate the amount of their risks – a system of financial risk assessment that reflects losses over a period of time that will not be exceeded with a given probability. It should be noted that this method of risk assessment is quite difficult to apply to insurance companies. To assess the direct impact on the insurer's portfolio of changes in a certain risk factor helps sensitivity analysis, the results of which are mainly short-term. Due to the relative simplicity and clarity of the model is more acceptable for regular monitoring, because it does not consider the impact of crisis conditions or when affected by several factors [8]. Credit risk remains the main one for banks in 2021. Despite a significant improvement in the economic situation in the second half of the year, some bank borrowers are still experiencing financial difficulties. This may negatively affect the quality of loan servicing and, consequently, will necessitate additional formation of reserves by banks. To make sure that the quality of the loan portfolio declared by banks is true, the NBU will assess the quality of assets of the banking sector, and 30 banks will undergo additional stress testing [4, p. 2].

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