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**on the topic:**

### **Interaction security between parties of non-banking credit services**

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## INTRODUCTION

In recent years, interest in exploring the role and importance of financial intermediation has grown steadily. This process is due to a fundamental change in the structure of the financial services market and the emergence of relatively new financial intermediaries - non-bank financial and credit institutions.

They are part of the financial market in which they operate through the provision of financial services. In addition, apart from the main function of redistributing financial resources between different sectors of the economy and ensuring the flow of funds from those who have them to those who need them, they perform a number of other important functions. In particular, through the provision of financial services, financial intermediaries help increase investment potential and raise social standards of living.

The financial services market in Ukraine is dynamically developing - the number of consumers is growing, financial products are getting bigger diverse and complex, deepening integration into world markets. At the same time, financial services consumers usually do not have sufficient information and knowledge and, when choosing a service, cannot always assess the level of risk and / or their future financial obligations and compare the conditions offered by different companies in the market.

Issues of legal regulation of consumer rights protection are widely discussed in foreign scientific literature. In particular, in the writings of K. Zweigert, J. Gold, F. Wood, F. Cann, G. Berman, J. Friedland, R. Zimmermann, I. Shikhat and others. Unfortunately, the issues of protecting the rights of consumers of financial services have not been properly addressed in the writings of domestic lawyers. However, the aftermath of the financial crisis has raised the attention of domestic researchers to the issue of protecting the rights of consumers of financial services.

**The purpose of the work** is to disclose theoretical backgrounds, to develop approaches and practical recommendations for security to ensure the interaction of subjects of credit non-banking services.

**The object of the study** is the process of ensuring the interaction of credit non-banking entities.

The subject of the study is the balance of protection of the rights and interests of credit non-banking entities.

**Hypothesis of the study** is the formation of demand for credit non-banking services in Ukraine depends on the unification of the process of ensuring the interaction of the subjects of such services.

**The following methods of research are used in the course work:** generalization and systematization of scientific developments of domestic and foreign scientists-economists and normative-legal base.

**The information base of the study** is legislative and regulatory acts on regulation of non-banks' activities; official data of the National Comesse financial services; monographic research and scientific publications on the problem under study.

**Master's personal contribution.** Graduation is a self-completed study by the author.

**Scope and structure of work.** The work includes 3 sections, introduction, conclusions, references and appendices. The volume of work is 61 pages. The work presents 6 tables, 10 figures, 1 additional material and 52 scientific sources.

## **PART 1. THEORETICAL BASIS OF THE BALANCE OF PROTECTION OF RIGHT AND INTERESTS OF SUBJECTS OF NON-BANK CREDIT SERVICES**

Financial intermediation is the connection between savers and borrowers where funds are transferred from savers to borrowers through an intermediary institutions. In other words, it is the process by which financial intermediaries such as banks, finance house, microfinance bank and other similar licenced institutions harness fund from savers and give to borrowers on request for investments or other needs. The savers and borrowers constitutes two main roles in financial intermediation process. Financial intermediation in the banking system is a catalyst for growth of the economy [1]. The non-bank financial institutions promote growth of the economy through the process of financial intermediation by effectively and efficiently mobilizing resources from surplus sector of the economy and allocating same to the deficit units. The financial intermediation functions of non-bank financial institutions serves as catalyst for growth and development of the economy [2]. Providing enabling environment and regulatory framework that could facilitate the smooth operation of non-bank financial institutions will in same measure deepen the proper functioning of the financial system. Financial intermediation is the root institution in the saving-investment process. Ignoring it would seem to be done at the risk of irrelevance. Financial intermediation is very critical as most of the financing that takes place in the economy is consequent to intermediary functions of both bank and non-bank financial institutions [3].

Therefore, a number of specific functions of financial intermediaries in the non-banking financial services market can be identified:

- mobilization of savings of economic entities with their further transformation into loan and investment capital
- providing the economic system with financial resources;
- development of a system of non-cash payments
- promotion of capital movements
- attracting additional money to the economy by creating a variety of secondary obligations

- insurance and risk hedging
- redistribution of risks between different participants in the economic system
- creation of new financial instruments and development of the existing range of financial services
- creating new businesses and more [4].

In implementing these functions, financial intermediaries generate a number of positive effects for the non-banking financial services market and the economy as a whole, namely:

- reduction of expenses of economic subjects for formation and allocation of financial resources
- reduction of financial risks
- increase in return on capital
- diversification of financial relations between market participants in non-banking financial services [5].

According to the Organization for Economic Cooperation and Development, increasing attention to the protection of consumers of financial services worldwide is explained by the peculiarities state-of-the-art financial products and services that provide a significant transfer of emerging risks to consumers [8,9]. The inability of consumers to properly understand and assess the risks of under-regulation and aggressive methods of promoting financial services, which may also be accompanied by abuse, fraud and other misconduct on the part of the service providers pose a threat to the economic security of the population and undermine its confidence in the financial markets, which has a negative impact on the well-being of citizens and impedes economic development [6].

State regulation in the markets of financial services is carried out in accordance with the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets", which aims at creating the legal bases for the protection of interests of consumers of financial services, legal support for the activity and development of a competitive financial services market in Ukraine, legal support single state policy in the financial sector of Ukraine [7].

However, it should be noted that the system of legislative support for the functioning of financial services markets in Ukraine was created without taking into account the need to protect the rights of consumers of financial services. The basic legislation on consumer protection at an adequate level does not take into account the peculiarities of providing financial services [8, p.161], and the legal acts of bodies regulating the markets for financial services contain only certain elements of consumer protection, and their application is ineffective.

I agree with A.P. Pinchuk that the existing system of consumer protection in the financial services markets does not fully comply with the general principles of the Organization for Economic Cooperation and Development. The following issues are problematic in this respect: lack of domestic regulatory framework for regulating the financial services markets with provisions to protect the rights of consumers of financial services, imperfection of the state regulation and supervision of the financial sector, low level of information transparency, financial literacy and public awareness, lack of effective risk protection mechanisms and an inadequate system for resolving disputes related to obtaining financial services, lack of proper of the choice of financial services [9].

At the same time, it is much more difficult for the educated and financially competent consumer to make ill-advised actions, which indirectly contributes to financial and macroeconomic stability. In doing so, proper protection of the rights of consumers of financial services should promote awareness of such conditions for the provision of financial services to such consumers, as well as reduce the risks of financial services activities institutions whose behavior on the market is reasonable and economically sound. Improving the system of protection of consumer rights in the financial services markets will have a positive impact on the general economic situation in the country, since restoring confidence in financial institutions will help to attract the financial sector of public savings, and the proper use of its capacity to meet the social needs of citizens (primarily through the use of mechanisms of insurance medicine and private pension) - to reduce the burden on public finances, which will allow to allocate the released resources to fulfill the tasks of economic development [10,11,12].

However, the most important aspect of financial intermediaries is their interaction with consumers of such services. Balancing the protection of the rights and interests of credit non-banking entities are risks that may arise for both consumers of financial services and providers as a result of their interaction [13,14].

The risks to financial service providers are primarily reflected in the non-return of funds to consumers by financial institutions. In order to reduce the risk of bankruptcy, it is necessary, first of all, to meet the standards of high professionalism of employees of financial institutions [15].

The problem of consumer protection has become particularly acute and relevant in the context of development and expansion of the range of non-banking financial services. In the process of choosing a service, consumers, as a rule, do not have sufficient information and the necessary knowledge about the features and consumer characteristics of financial services, cannot always objectively assess the level of risk and compare the terms of financial services offered by non-bank financial institutions.

The main problems in the field of consumer protection in the financial services market of Ukraine are [16,17]:

- lack of timely, accessible and reliable information;
- low level of knowledge of consumers of financial services and their awareness of financial products;
- unfair advertising;
- unfair settlement of claims;
- abuse of market power by financial service providers;
- lack of effective mechanisms for pre-trial settlement of conflict situations;
- lack of sufficient institutional powers from the supervisory authorities to protect the rights of consumers of financial services.

At the same time, the distrust of the population in the financial services markets does not make it possible to actively use its free funds as investment resources aimed at economic development [18, 19].

The consumer protection system should be based on the following principles:

- efficiency of state regulation;



- observance of consumer protection rights guaranteed by law;
- transparency of the activities of non-banking financial institutions and other economic entities, which by their legal status are not financial institutions, but which have the possibility provided by law to provide certain types of financial services;
- balance of interests of economic entities providing non-banking financial services and consumers [20].

The practice of illegally providing entities with services such as the administration of financial assets for the purchase of goods in groups, without financial institution status and a license from the National Financial Services Commission, is widespread today. Such dishonest business entities often create schemes to attract citizens' funds, known as "loans (loans) through the administration of group members' funds." As a rule, such schemes are aimed at defrauding citizens who, because of life circumstances, urgently need cash (for example, treatment) but cannot obtain a loan from a bank or other financial institution [21].

## **PART 2. PRACTISE OF THE PROCESS OF ENSURING THE INTERACTION BETWEEN NON-BANK CREDIT SUBJECTS IN UKRAINE FOR 2014-2018**

### **2.1 Evaluation of normative legal acts of interaction between subjects of non-bank credit services.**

In 1991, Ukraine was the first among the republics of the former USSR to take a vow of Ukraine on Consumer Protection, which regulated relations between consumers of goods, works and services and producers and sellers of goods, contractors and service providers of various forms of ownership, established a consumer pact, and defined the mechanism their protection and the basis for the implementation of state policy in the field of consumer rights protection. In 1996, the constitution of Ukraine was enacted by the Bois, section 2 of which defined the rights, freedoms, responsibilities of the individual and citizen. Article 42 of the Constitution, in particular, provides: "The state shall protect the rights of consumers, exercise control over the quality and safety of products and all types of services and works, and promote the activities of public consumer organizations." Acts of special legislation play a lasting role in this process. Yes, special legislation, including the Laws of Ukraine, has been developed and implemented to ensure the functioning of the financial services markets in Ukraine "About financial services[22], securities and the stock market"[23], "About investment activity"[24], "About banks and banking activities"[25], "About insurance[26]", "About systems of guarantee of deposits of individuals[27]", "About non-state pension insurance"[28], "About credit unions"[29], "About obligatory insurance of civil liability of owners of land transport funds"[30], About mutual investment institutions[31] and others".

The financial market is a mechanism of correlation of supply and demand for cash resources, the functioning of which directly related to the allocation of these resources in the economy. According to the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets" [32] (hereinafter - the Law), these markets include the markets of banking, insurance, investment services, securities transactions

and other types of markets providing circulation of financial assets ( 6 of Part 1 of the Law).

The purpose of state regulation of financial services markets is to: conduct a unified and effective state policy in this field; protection of interests of consumers of financial services; creation of favorable conditions for the development and functioning of financial services markets; creation of conditions for effective mobilization and allocation of financial resources by participants of financial services markets taking into account the interests of the society; ensuring equal opportunities for access to financial services markets and protection of the rights of their participants; compliance with financial market participants by legislative requirements; prevention of monopolization and creation of conditions for good faith development competition in financial services markets; control over the transparency and openness of financial services markets; promoting integration into the European and global financial services markets (Article 19 of the Law).

State regulation of financial services activities is carried out by: keeping state registers of financial institutions and registers of persons, which are not financial institutions but are entitled to provide separate financial services, and licensing of financial services activities; regulatory activity of financial institutions; overseeing financial market participants' activities (except consumers of financial services); application of measures of influence by authorized state bodies; carrying out other measures on state regulation of financial services markets (Article 20 of the Law).

The state collegial body that carries out state regulation in the field of financial services is the National Commission (NatcomfinServices), whose task is, in particular, to: formulate and ensure the implementation of state regulation in the field of financial services (except for the banking and securities markets and derivatives). This body maintains: State Register of Financial Institutions; in certain cases, registers of persons other than financial institutions but entitled to provide separate financial services; Unified Register of Credit Bureau; Unified State Register of Insurers (Reinsurers); The State Register of Insurance and Reinsurance Brokers issues certificates for listing such brokers in such register; Register of self-regulatory organizations participating in

financial services markets; A register of auditors who can conduct audits financial institutions, and determines the order of its conduct [33].

## 2.2 Characteristics of the target segment of credit non-banking services

The non-banking financial services market is an integral part of Ukraine's financial sector.

To the participants of the market that can provide financial services to the population, the following [21]:

- financial companies (including managers);
- trust companies;
- pawnshops;
- legal entities - entities, which by their legal status are not financial institutions, but have the right to provide financial leasing services (lessors) determined by the laws and regulations of the National Financial Services Commission.

These financial institutions have the right to provide the following services:

- trust management of financial assets;
- attraction of financial assets with their subsequent return;
- financial leasing;
- lending, in particular on the terms of a financial loan;
- providing guarantees and guarantees; currency exchange and funds transfer (the National Bank of Ukraine exercises control over compliance with the law when providing these financial services);
- factoring;
- administration of financial assets for the purchase of goods in groups [35].

Assets of non-banking financial institutions amounted to UAH 197.5 billion as of December 31, 2018, which is 14.5% in relation to bank assets; equity - UAH 53.8 billion, or 35% relative to banks' equity. The development of non-banking financial services markets depends both on the ability of financial institutions to ensure an adequate level of solvency, maintain high standards of business reputation, and comply with regulatory discipline on compliance with the laws and requirements of the National Financial Services Commission, and on the state of the economy as a whole. As of the end of 2018, the number of non-banking financial institutions was 2,024, of which: 940

financial companies (accounting for the largest share - 46.4%), 359 pawnshops (17.7% respectively), 358 credit unions (17.7%), 281 insurance companies (13.9%), 62 non-state pension funds (3.1%), 22 non-state pension fund administrators (1.1%) and 2 trust companies (about 0.1%). Also registered are 168 legal entities that are not financial institutions but are entitled to provide some financial services (legal entities - lessors). Compared to 2017, the total number of financial institutions as of the end of 2018 increased by 31 institutions (or + 1.6%), mainly due to the increase in the number of financial companies (+122). The number of other financial institutions continued to decline. Thus, the number of pawnshops decreased to -13.5% (-56 institutions), credit unions - to -5.3% (-20 institutions) and insurance companies - to -4.4% (-13 institutions). As a rule, the reasons for exclusion of financial institutions from the State Register of Financial Institutions were insufficient solvency and failure to comply with the established standards, violations were detected, financial institution's decision to terminate its activities, etc. [36]

*Table 2.1*

**Number of non-bank financial institutions and lessors in Ukraine for 2016-2018**

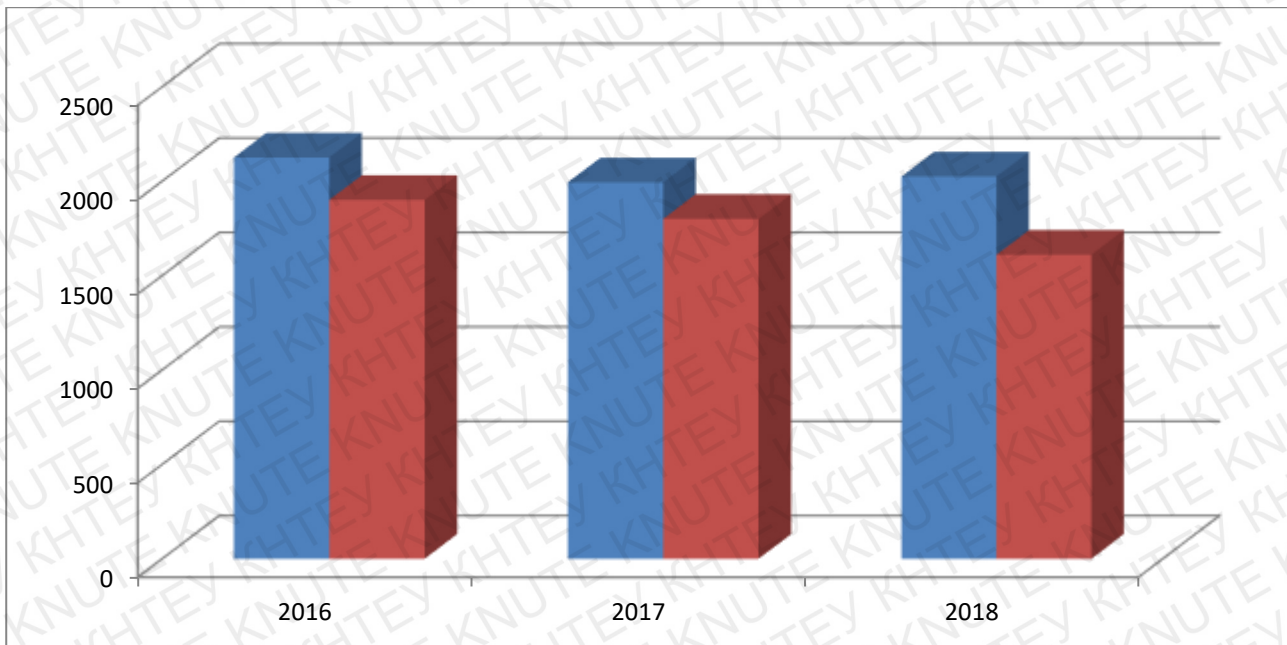
Financial institutions	Number of financial institutions			Increase	
	2016	2017	2018	18\16	18\17
Insurance companies	310	294	281	-29	-13
IC "non-life"	271	261	251	-20	-10
IC "life"	39	33	30	-9	-3
credit unions	462	378	358	-104	-20
financial companies	456	818	940	+131	+122
Pawnshops	809	415	359	-97	-56
unrestricted pension funds	64	64	62	-2	-2
administrators UPF	22	22	22	0	0

*Continued Table 2.1*

Trusts	2	2	2	0	0
Total financial institutions	2125	1993	2024	-101	+31
Legal entities that are not financial institutions but are entitled to provide separate financial services	202	183	167	-35	-16

*By the author based on the source [36]*

As of December 31, 2018, the total number of separate units of financial institutions amounted to 11 449 (+560 by the beginning of the year); 1 163 were included in the year and 553 were excluded). In other financial institutions, the reduction (closure) of units prevailed over the opening of new ones. Thus, as of December 31, 2018, the number of separate divisions: insurance companies amounted to 1,216 (for the year included 33 / excluded 65); credit unions - 434 (included 36/45 excluded); pawnshops - 6,171 (included 472/481 excluded); for NPF administrators - 3 (there were no inclusions and exclusions during the year). Total assets of non-banking financial institutions amounted to UAH 197.5 billion as of December 31, 2018, of which the largest share is held by assets of financial companies 63.4% (or UAH 125.3 billion) and insurance companies - 32% (or 63.5 billion UAH).



*Fig.2.1. Share of non-bank lending institutions in Ukraine for 2016-2018 (By the author based on the source [36])*

The volume of financial services as a result of 2018 generally had an upward trend. The main factors behind the growth of indicators are related to the growing demand for financial services such as financial loans (UAH 66.6 billion), factoring (UAH 48.1 billion), financial leasing (UAH 22.2 billion), insurance (34.4 billion) UAH of net insurance premiums under concluded insurance contracts), of which 44.6% (or UAH 15.3 billion) are voluntary types of property insurance, and 17.8% (or UAH 6.1 billion) are voluntary personal insurance and 16, 7% (or UAH 5.7 billion) is compulsory civil liability insurance for vehicle owners.

*Table 2.2*

**Assets of non-bank financial institutions in Ukraine for 2016-2018**

Financial institutions	Assets			Increase	
	2016	2017	2018	18\16	18\17
Insurance companies	56076	57381	63494	13,2	10,7



*Continued to Table 2.2*

IC “non-life”	45129	46159	51400	13,9	11,4
IC “life”	10947	11222	12093	10,5	7,8
credit unions	2033	2170	2218	9,1	2,2
unrestricted pension funds	2139	2466	2745	28,3	11,3
financial companies	97332	107534	125322	28,8	16,5
pawnshops	3318	3764	3721	12,1	-1,1

*By the author based on the source [36]*

One of example non-bank lending is the pawnshop. This financial institution proposes to the borrower to obtain money on the security of a valuable item, and later, with interest, to buy it. [37].

Pawnshops contributes to the financial support of an individual with its temporary insolvency and the development of small and medium-sized businesses. Due to the activities of pawnshops, the role of shadow credit institutions is reduced, part of the profits of entrepreneurs is recorded, and accordingly, the flow of funds to the state and local budgets is increased [38].

The analysis of the pawnbrokers' market offers shows that they are starting to compete not only on the basis of loan prices and rates. Many market participants are actively introducing technologies that have previously been widely used in the banking market. Nowadays, when getting a loan, clients are often offered discount cards that allow them to reduce their rates when re-pawning, as well as, for example, receive a larger deposit of 1g gold. Even more complicated are the pawnshops' tariff plans, which begin to take into account the size of the loan, its repayment period, the client's borrowing history, and many other factors. Pawnshops seek to stimulate customer borrowing.

To stimulate demand for their services, pawnshops need to maximize their strengths and minimize disadvantages.

To assess the strengths and weaknesses of pawnshops, SWOT analysis was used. The method used for the analysis is a widely recognized approach that allows a joint study of the external and internal environment. By applying the SWOT method, the links between strength and weakness inherent in the Lombard industry and external threats and opportunities can be established [39].

*Table 2.3*

**SWOT analysis of pawnshops credit in Ukraine**

<b>Strengths</b>	<b>Weakness</b>
1. The speed of the loan. 2. Presence of the client's right to repay the debt ahead of schedule - for the period of actual use of the loan. 3. Ability to reduce the amount of debt by partially repaying it. 4. Ability to extend the loan agreement.	1. High interest rate on the loan (0.3 - 1.5% per day). 2. The importance of verifying the legality of the origin of the collateral. 3. Limitation of the borrower's obligations to the lender. There are no requirements to confirm the solvency of the client.
<b>Opportunities</b>	<b>Threats</b>
1. Increasing demand for pawnshops by reducing the availability of loans to banks and credit unions. 2. Individuals microcrediting	1. The threat of not redeeming the collateral by the owner. 2. 2. Absence of special normative (legislative) regulation of pawnshop activities.

*Compiled by author based on source [40]*

Therefore, from the SWOT analysis matrix presented in Table 3.1, it can be seen that the main advantages of Lombard lending to the customer are that Lombard loans can be obtained quickly [40]. A major advantage of a pawn shop is that you do not need to confirm the customer's solvency. In order to receive a loan, it is enough to provide a liquid collateral and an identity document: Ukrainian national passport, driver's license,

foreign passport, military ticket or any other document, where the name is indicated, is a photograph and signature with the stamp of the issuing official this document [41].

In the case of pawnshop lending, the customer has the right to pay the debt, not giving interest for the entire term of the loan, but only for the period of actual use of the loan. It is also possible to reduce the debt by partially repaying it. By warning the pawnbroker of the difficulty of repaying the loan and not wanting to lose the collateral, you can extend the contract and pay either part of the debt or interest on its use.

A significant drawback (weakness) of a Lombard loan for a client is a rather high interest rate [42], [40]. The cost of Lombard funds is quite high - from 0.3% to 1.5% per day, ie 109.5-547.5% per annum. The most expensive bank loans are much cheaper. Meanwhile, getting a loan at a pawnshop is short-term. The average loan term in these financial institutions is about one month. The maximum term of crediting is about 3 months, but it is offered only by large pawn shops [41].

The fact that the borrower has no obligations to the lender, it is both a strengths and weaknesses of the pawnshop lending - it is certainly an advantage for the borrower, and a significant negative aspect for the pawnshop, because the purchased items are not accumulated in property and create additional costs for the storage, insurance and sale of such things pawnshop. A high interest rate affects the term of the loan, because the higher the percentage, the shorter the loan is taken.

The impossibility of verifying the origin of the collateral is also a significant weakness in the pawnshop's financial activities, because if it is found by the law enforcement authorities to be illegitimate, it is subject to confiscation without compensation to the pawnshop, resulting in additional losses.

Data on key indicators of pawnshops show an increase in total lending in the pawnshop market in 2018 compared to last year.

Indicators such as the amount of financial security loans secured and the amount of repaid financial loans increased by 34.2% and 35.0%, respectively, and the number of financial loans granted as security increased by 12.7%. The number of contracts repaid by the pledged property increased by 8.6%

The average weighted annual interest rate on pawnbrokers' financial loans for 2018 is 197.7% (2017 –184.3%) (Addition A).

The structure of pawnshops loans by type of collateral is presented in Table 2.4

Table 2.4

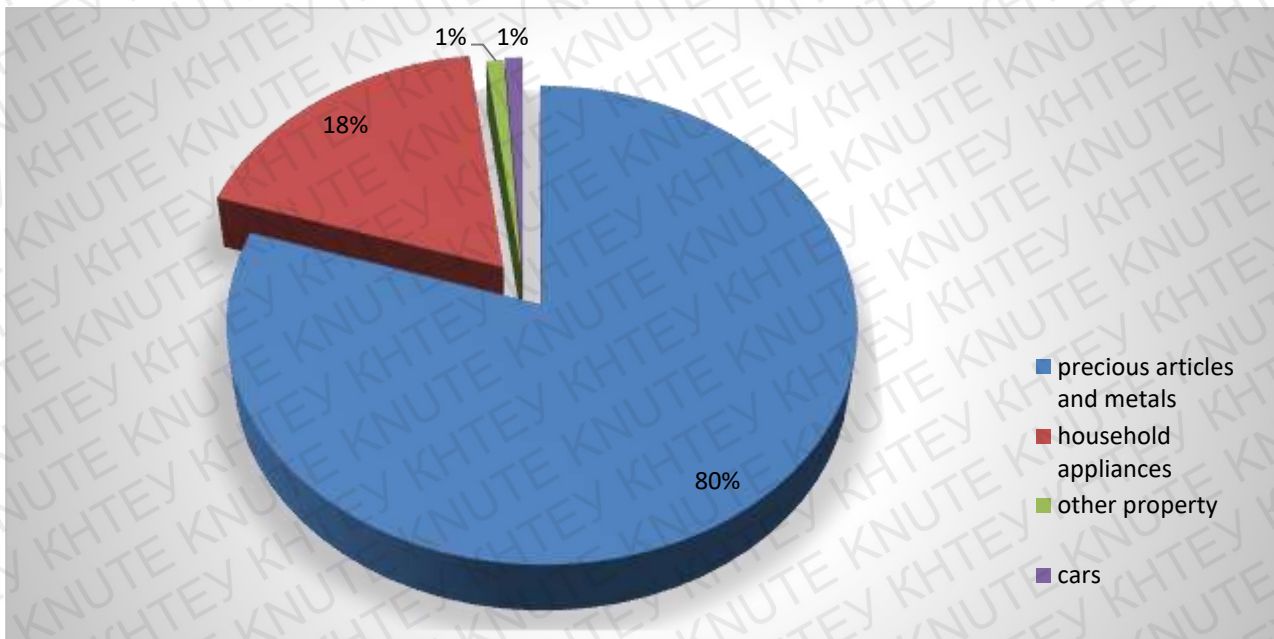
**The volume of financial loans granted by type of collateral in Ukraine**

Types of collateral	Amount of financial loans granted, mln grn			Structure of granted financial loans,%			Growth rate			
							31.12.2017/ 31.12.2016		31.12.2018/ 31.12.2017	
	2016	2017	2018	2016	2017	2018	mln grn	%	mln grn	%
articles of precious metals and precious stones	7101	10558	13626	84,4	84,7	81,5	3457	48,7	3067	29,1
home appliances	1269	1860	3034	15,1	14,9	18,2	590,9	46,5	1174	63,1
cars	19,6	23,6	11,0	0,2	0,2	0,1	4,0	20,4	-12,6	-53,4
real estate	8,0	3,2	10,5	0,1	0,03	0,06	-4,8	-60	7,3	228,1
other property	12,3	13,7	35,2	0,1	0,1	0,2	1,4	11,4	21,5	156,9
Total	8410	12459	16718	100	100	100	4048	48,1	4258	34,2

Compiled by author based on source [43]

In 2018, the structure of financial loans granted remained unchanged. At the same time, with the general increase in lending volumes (34.2%), the share of financial loans granted for precious metals and precious stones (from 84.7% to 81.5%), household appliances (from 14.9 to 18.2%) and cars (from 0.2% to 0.1%).

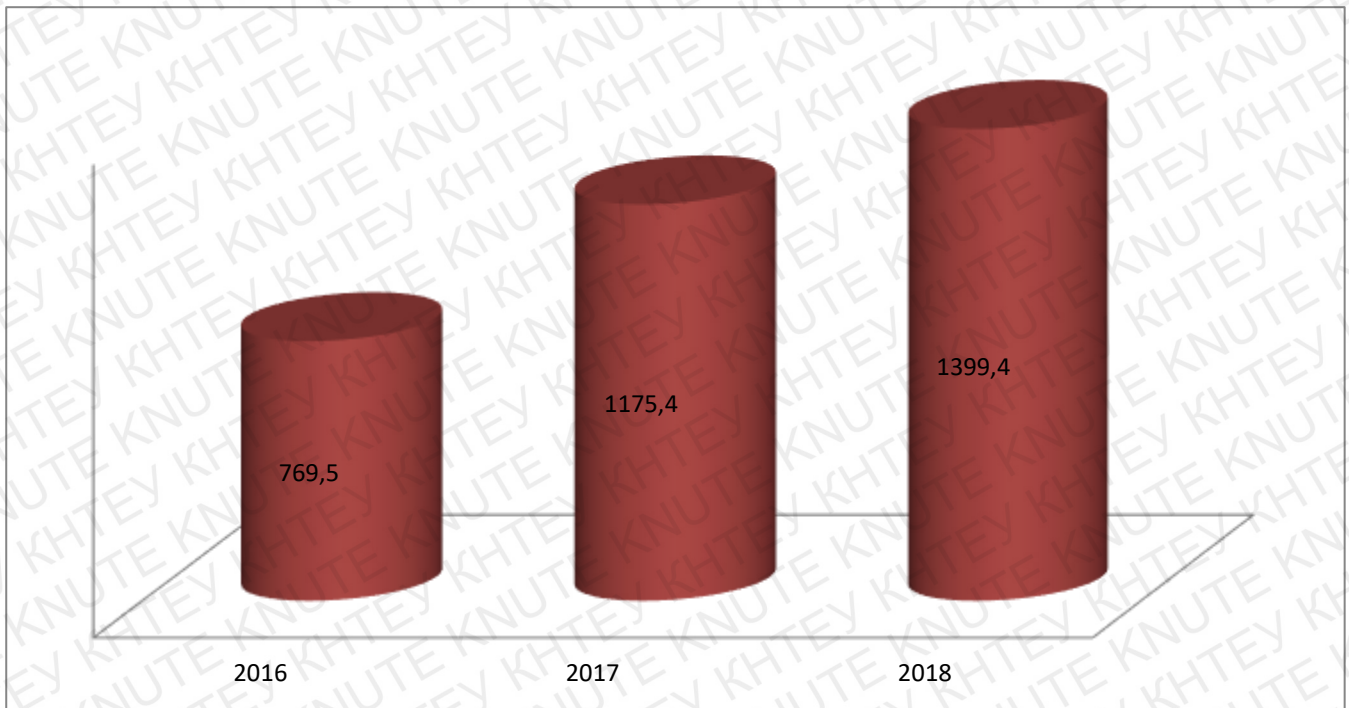
The structure of loans granted by type of collateral is shown in Fig. 2.2



*Fig. 2.2 Structure of financial loans secured as of December 31, 2018 in Ukraine  
Compiled by author based on source [43]*

Pawnshops choose the most liquid asset for the pledge. The largest share in the volume of granted financial loans by types of collateral is taken by financial loans secured by precious metals and precious stones - 80% (UAH 13 626,4 million). Compared to December 31, 2017, this indicator decreased by 3.2% of the total volume of issued loans.

Financial loans granted as collateral for household appliances in 2018 increased by 63.1% (UAH 1,174.2 million) compared to the corresponding period of 2015. The volume of financial loans secured by cars decreased by 53.4% (UAH 12.6 million), while the volume of financial loans secured by real estate showed an increase of 228.1% (UAH 7.3 million). Amounts of the average loan size for 2016 - 2018 are shown in fig. 2.3



*Fig. 2.3 Amounts of the average loan size for 2016-2018 in Ukraine, UAH. Compiled by author based on source [43]*

Pawnshops remain one of the most conservative and stable financial institutions for individuals - they are focused on issuing small and short-term loans. Pawnshops provide financial loans as collateral, the average amount of which for 2018 is UAH 1,399.7.

Against the background of an increase in the volume of issued loans for 2018 by 34.2%, the average size of the loan shows an increase of 19.1% [43].

The credit union is another type of non-bank lending. It is a non-profit organization founded by individuals, trade unions and their associations on a cooperative basis to meet the needs of its members for mutual lending and financial services at the expense of the combined monetary contributions of members of the credit union [44]. Therefore, a credit union is a voluntary organization created on a voluntary basis for the financial and social protection of its members through the attraction of their personal savings for mutual lending. Issues loans at minimum interest rates. The credit union unites only individuals, and its activities are mainly related to small borrowers [45].

As of 31.12.18, the State Register of Financial Institutions recorded 621 credit institutions (Table 2.5), in particular: 462 credit unions, 130 other credit institutions, 29 public law entities.

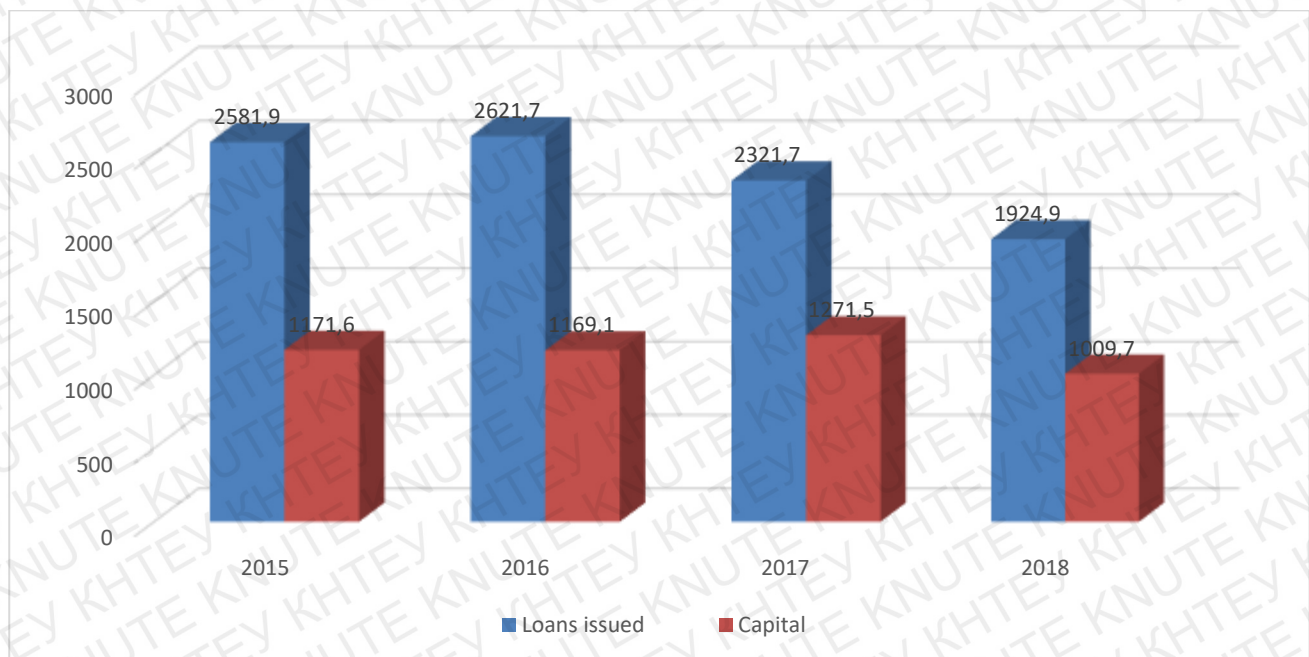
*Table 2.5*

**Number of credit unions, other credit institutions and public entities in the State Register of Financial Institutions**

Registration of credit institutions	2016	2017	2018
Number of credit institutions at the end of the period, including:	711	728	621
Credit unions	589	588	462
Other credit institutions	92	110	130
Legal entities under public law	30	30	29

*Compiled by author based on source [43]*

According to the analysis, the number of credit institutions in 2018 began to decline. Compared to 2017, the number of credit institutions decreased by 107 units.

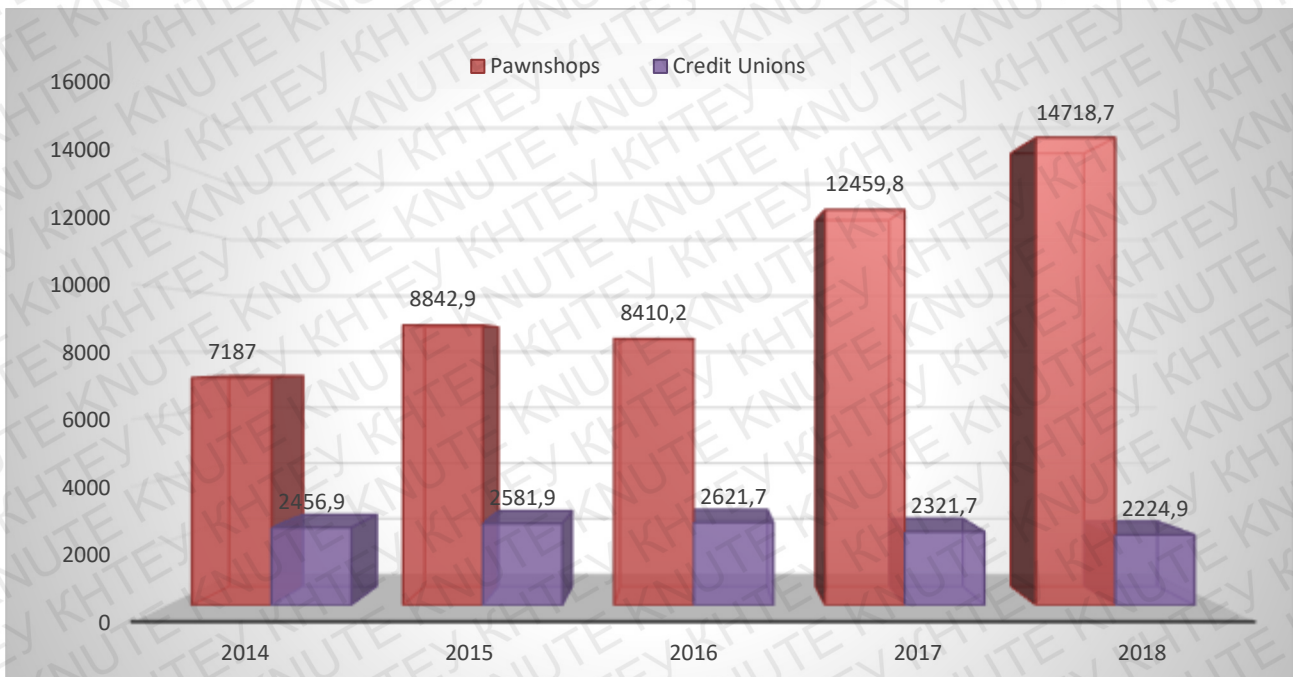


*Fig. 2.4 Dynamics of performance of credit unions of Ukraine, million UAH.*

*Compiled by author based on source [43]*

According to fig. 2.4 it can be concluded that the performance of the analyzed credit unions has deteriorated. Since 2016, the dynamics of this indicator have been characterized by a negative trend. Loans extended to credit union members declined in 2018 and 2017 relative to previous years. The volume of credit unions' capital is also characterized by negative dynamics (UAH 1009.7 million in 2018 against UAH 1271.5 million in 2017).

Analyzing the activities of pawnshops and credit unions, we can conclude that the volume of lending to individuals by pawnshops significantly exceeds the volume of loans granted to credit unions. In recent years, micro-lending by pawnshops has gained widespread popularity, while lending to credit unions tends to decline (Fig. 2.5).



*Fig. 2.5. Volume of loans issued to pawnshops and credit unions in Ukraine for 2014-2018, mln. Compiled by author based on source [44]*

A credit company is a credit institution, which is also a financial institution.

When considering the legal status of credit companies, it is advisable to note that credit companies as legal entities are created in any organizational and legal form. They obtain the right to pursue financial market activities with the acquisition of financial institution status. Financial institutions provide solely financial services, namely transactions with



financial assets carried out in the interests of third parties at their own expense or at the expense of those persons, and in the cases provided for by law, and at the expense of financial assets attracted by other persons for the purpose of obtaining profit or retention of the true value of the financial assets. The lending company provides this type of financial services: lending, including on the terms of a financial loan.

The loans of the credit companies are mainly short-term and small in size. Therefore, their assets are sufficiently diversified, which absorbs the mitigation of credit risks and the protection of interests of their depositors. Paying loans to these companies helps accelerate sales of goods and services, which has a positive impact on economic growth [46, 47].

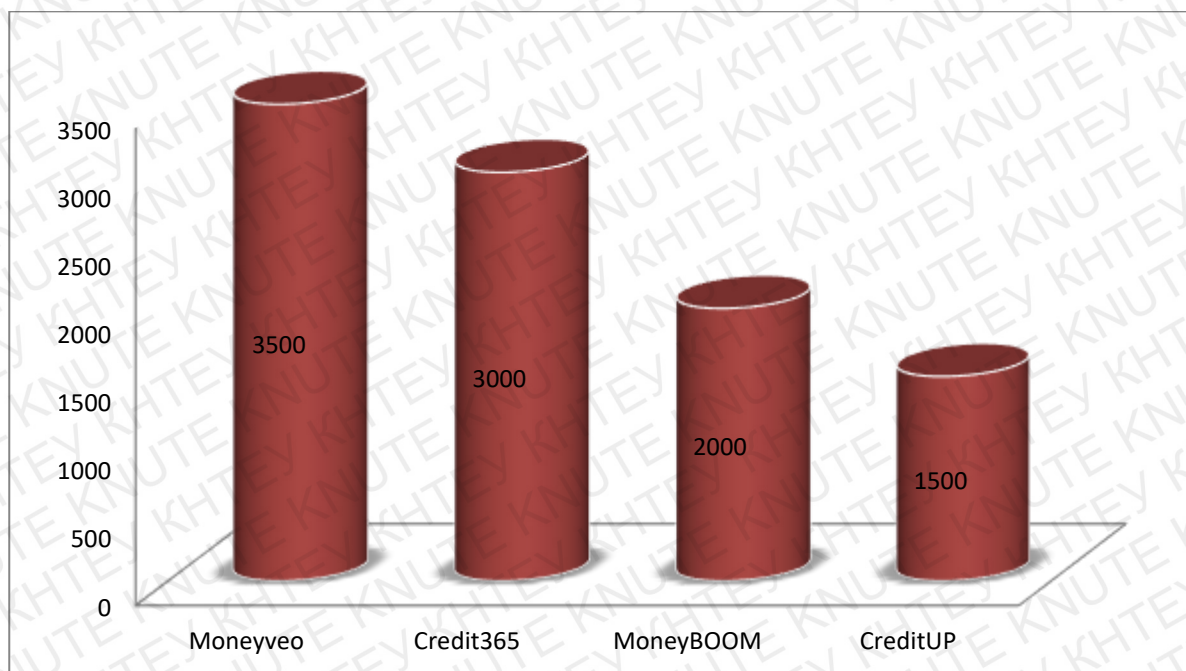
Credit companies are in the early stages of their development, making their first attempts to find their own niche and gain a foothold in the credit market. Given the number of banks and credit unions, it can be argued that competition in the credit market is high enough, so credit companies need to clearly identify the market segment in which they will clearly provide lending services.

In the last year in Ukraine, the popularity of non-bank lending online is increasing. This type of lending allows you to make an online loan without leaving your home or even your smartphone connected to the network, spending 5 to 10 minutes. The procedure for obtaining a loan is very simple. The borrower goes to the site of the lending company, selects the loan amount (usually not more than 10 000 UAH), its term of service and repayment (usually from 1 to 30 days), fills in the application form, and receives money on his payment card. This is a convenient and fast type of lending, where you do not need any proof of solvency of the borrower, and the risk of refusal to obtain a loan, even in the case of a negative credit history in the bank, is much lower than bank. At the first loan application in such companies, it is usually possible to borrow no more than 1000-2000 hryvnia. With the timely repayment of the loan, the client increases confidence in himself and can increase this amount with each appeal.

In Ukraine, there are only four verified websites where you can apply for a loan and get the card completely through the Internet.

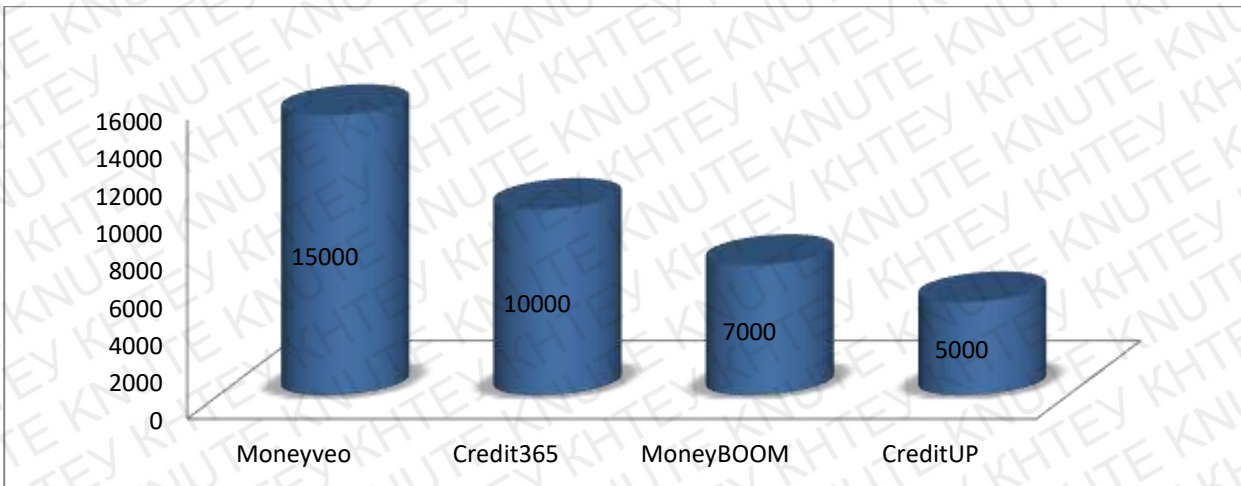
1. Moneyveo is a service that provides online loans. Within a few years of Moneyveo's marketplace, competition in online lending has increased. However, the company has been and remains one of the leaders in the quality of service delivery. In her service new clients can receive a credit in just a few minutes (taking into account the time for filling in the questionnaire), and already registered ones will spend no more than 2-3 minutes. The speed and convenience of borrowing at the company allows you to solve financial difficulties very quickly.
2. Credit365 - a unique online 100% online lending service.
3. Moneyboom is an online lending service without visiting a company office.
4. CreditUp (CreditAP, Credit AP) - a financial company that provides fast loans online on the card.

Moneyveo, Credit365, MoneyBOOM and CreditUP are the most popular and secure online lending services. To determine the most priority and advantageous conditions in granting microcredit to consumers, we compare the basic terms of service between competitors.



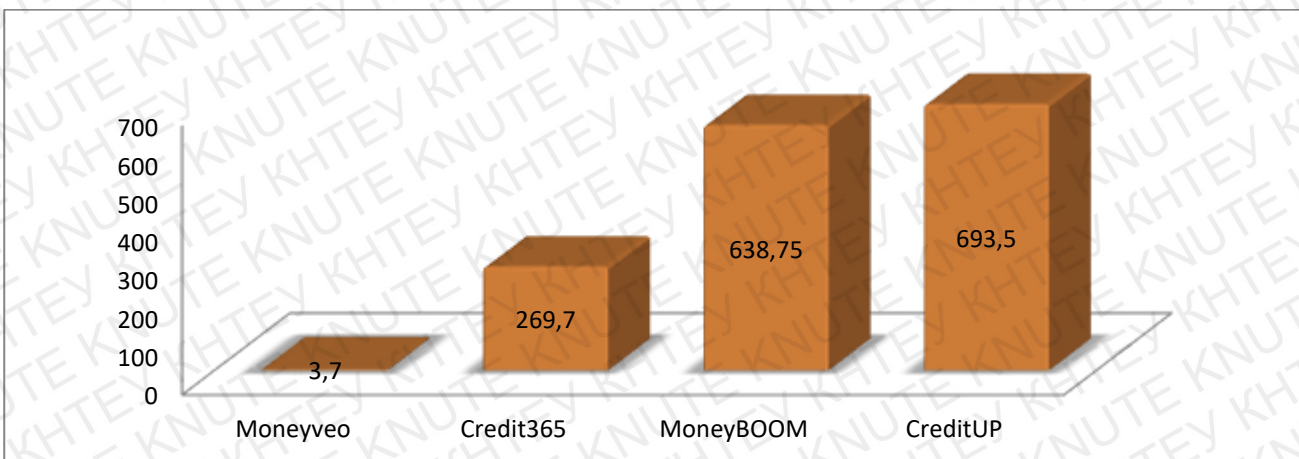
*Fig. 2.6 Maximum loan amount for new borrowers in Ukraine in 2018, UAH. Compiled by author based on source [48]*

Analyzing the maximum lending amounts for new borrowers, we can say that CreditUP has the lowest maximum amount - only 1500 UAH. The leader is Moneyveo with an offer of 3500 UAH (Fig. 2.6).



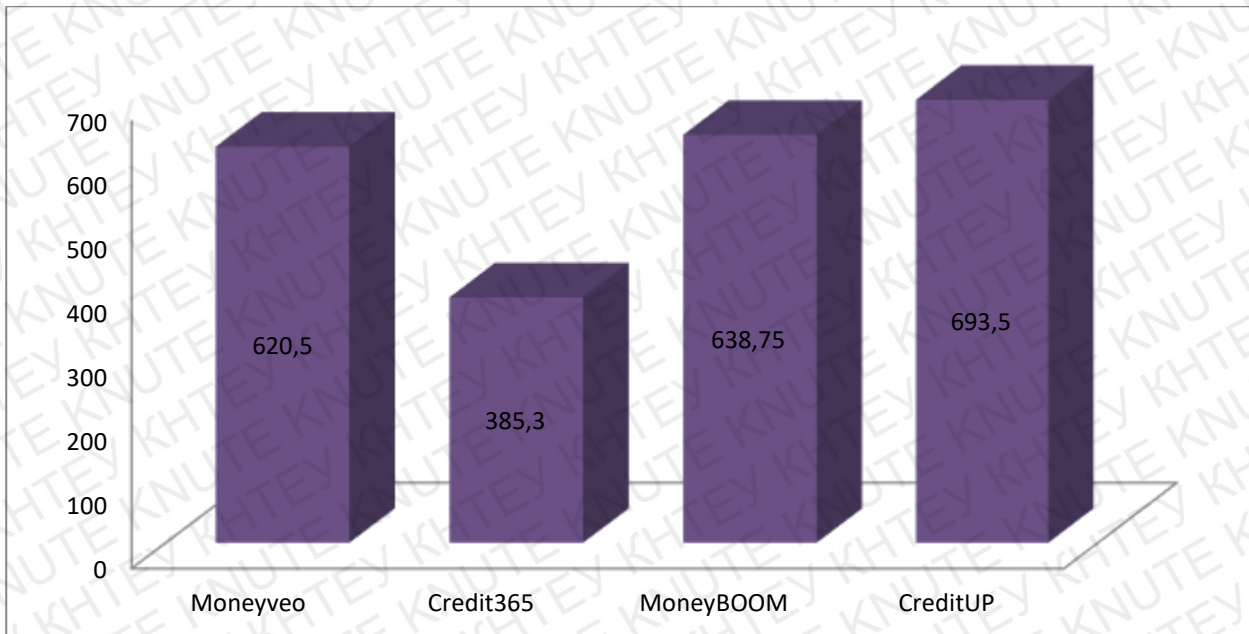
*Fig. 2.7 Maximum amount for repeated loans in Ukraine in 2018, UAH. Compiled by author based on source [48]*

Moneyveo is the leader in providing maximum loan repayment rate, providing regular clients with loans up to UAH 15,000. (Fig. 2.7).



*Fig. 2.8 Interest rate on loans for new borrowers in Ukraine in 2018. Compiled by the author based on the source [48].*

Moneyboom and CreditUp do not offer discounts to new customers, offering loans at 638.75% and 693.50% pa respectively. annual. And the leader is Moneyveo, which accounts for 3.7% per annum on the loan at the first call (Fig.2.8).



*Fig.2.9 Interest rate for repeated loans in Ukraine in 2018. Compiled by the author based on the source [48].*

Credit365 offers the lowest percentages among its main competitors - 385.3% per annum. Moneyveo ranks second with 620.5% pa. MoneyBOOM and CreditUp provide loans to regular customers with the highest interest rates - 638.7% and 693.5% per annum respectively (Fig.2.9).

It can be concluded that the terms of Creditup are worse than the main competitors. Moneyveo offers better conditions than most major competitors. Particularly attractive are the high amounts of both first and subsequent loans, as well as the low interest rate on first call.

### **2.3 Problems of the process of ensuring the interaction between non-bank credit services subjects and ways of it solution.**

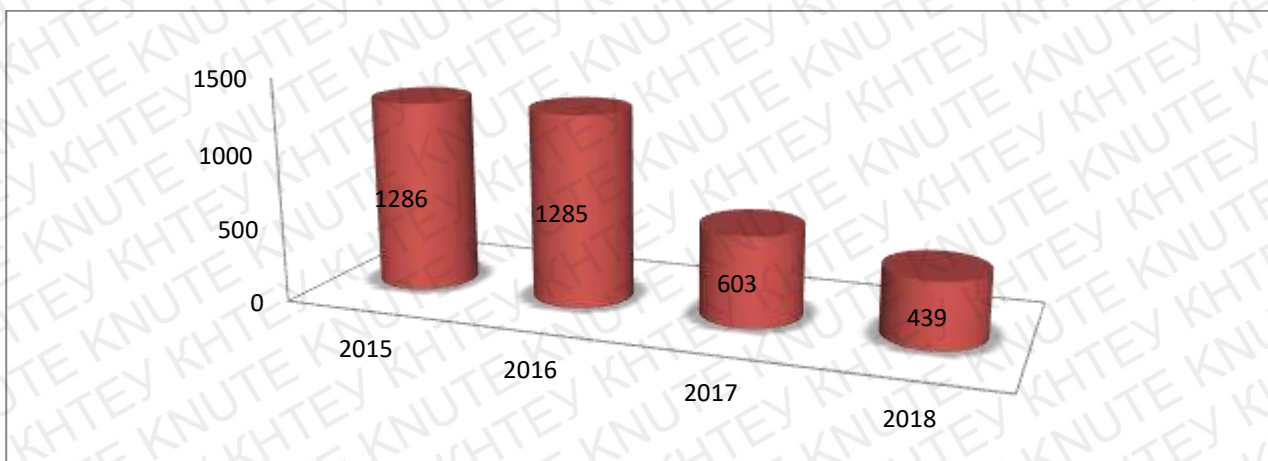
A significant indicator of problems of concern for consumers of financial services is the dynamics of appeals of citizens on violation of the rules of providing financial services to the National Commission, which carries out state regulation in the field of financial services (NatcomfinServices) as a state regulator, capable of protecting their legal financial rights in the non-banking market. .

According to the National Financial Services Commission, the typical issues raised in the appeals of citizens to the commission in recent years related to: - payment of insurance compensation due to road accidents; - regulation of contractual relations with financial institutions; - repayment of deposits and interest on deposits by non-bank financial institutions; - payments of funds to non-state pension funds; - issues of credit agreements; - Issues of conflict of interest between the members of the governing bodies of financial institutions; - absence of financial institutions by location [41].

The number of complaints to the National Financial Services Commission on conflicts with financial institutions in 2015-2018 is presented in Table. 1. The considerable number of conflicts between financial institutions and consumers of financial services, the length of litigation in courts are the driving force behind the need to introduce an alternative dispute resolution mechanism in Ukraine that would allow consumers to address consumer complaints against financial service providers without the use of complex and lengthy litigation. . The mechanism of consumer protection, which has long proven effective in developed countries, is to create an institute of financial ombudsman, an independent entity that resolves disputes between financial institutions and their clients out of court. Given the above circumstances, the introduction of the Financial Ombudsman Institute in Ukraine is timely and necessary. The establishment and effective implementation of the Financial Ombudsman Institute will have a positive impact on all financial market stakeholders. In particular, for consumers of financial services - by ensuring prompt and fair consideration of their complaints, which eliminates the need for them to spend time and money (legal aid, etc.). Public

information on decision-making also plays a positive role in raising the level of financial literacy of the population, increasing consumer confidence in financial services and promoting the active realization of consumer rights. Financial institutions benefit by enforcing enforcement and sanctions against unfair competitors, reducing the cost of legal support for their operations, increasing the willingness of potential clients to use the services offered, and providing an independent legal evaluation in the event of a complaint being unjustified. Awareness of the existence of an organization that independently, impartially and impartially protects the financial interests of the population, will increase citizens' propensity to use financial services, which will allow financial institutions to expand their client base and obtain additional financial resources. The state benefits by increasing the level of public confidence in financial services, the availability of a mechanism for dispute resolution independent of external factors, and the reduction of budget expenditures on the judicial system and executive bodies [42, p. 254].

As the Government aims to develop an effective and affordable dispute settlement mechanism between providers and consumers of financial services, the introduction of the Financial Ombudsman Institute as a tool for regulating the financial services market is extremely relevant.



*Fig. 2.10 Number of consumer requests for credit services in Ukraine in 2018*

*(By the author based on the source [42])*

Based on the current situation in the non-banking financial services market and the priorities and tasks set by the country's strategic development documents, the National Financial Services Commission has identified the following strategic goals that will be used to solve systemic problems in the non-banking financial services markets and to create conditions for their effective functioning:

1. Creating favorable conditions for strengthening and sustainable development of non-banking services markets.
2. Approximation of regulatory environment of non-banking financial services markets to international standards and supervision.
3. Improving the activities of the regulator and improving the effectiveness of state oversight.
4. Increasing the level of financial inclusion and protecting the interests of consumers of financial services.
5. Improving the efficiency of public administration.

## **PART 3. RECOMMENDATION OF ENSURING INTERACTION BETWEEN NON-BANK CREDIT SUBJECTS IN UKRAINE**

### **3.1 Ways to improve financial monitoring and international experience contributing to the balance of protection of rights and interests of subjects of non-bank credit services.**

The activities of financial market regulators in the new EU countries play an important role in protecting consumer rights.

For example, in 2006 a single regulator of the financial services market was created in Poland - the Financial Supervision Agency, which included the Insurance and Pension Supervisors Commission and the Securities and Stock Market Commission. Today, the Agency oversees banking, stock and insurance markets, retirement benefits, and cash IT transactions. The Agency's main tasks are: to ensure the proper and regular functioning of the financial market and the development of competition; participation in the development of legislative initiatives on financial market surveillance; ensuring transparency of financial market activity; creating opportunities for resolving disputes between professional financial market participants and consumers of services, as well as other activities to ensure the functioning of the financial market and protect the interests of all its participants.

In order to protect consumer rights, the Polish Financial Supervision Agency carries out direct supervisory activities on consumer rights protection, practices meetings with financial market participants, concludes cooperation and information exchange agreements [43] .

To strengthen cooperation with financial market participants, the Agency concluded contracts with:

A) The Stock Market Foundation for the organization and implementation of educational initiatives for students, teachers and other educators involved in financial education;



- B) insurance ombudsman on the rules of cooperation and consideration of consumer complaints and claims;
- C) the President of the Competition and Consumer Protection Office to protect the interests of financial market participants, educate and inform consumers about the protection of financial services consumers;
- D) the National Bank of Poland and the Ministry of Finance on ensuring stability in the financial market, developing and implementing a contingency plan [44].

Polish Financial Supervision Agency holds regular meetings with executives of stock market companies, banks, insurance companies and pension funds to monitor problematic issues in various market segments, carry out monitoring, analytical research and supervisory activities that help protect the interests of consumers and non-professional financial market participants .

The Agency conducts direct supervisory activities to protect the rights of consumers and non-professional market participants in response to complaints and requests from consumers of services. To this end, individual complaints are reviewed, advertising, information materials and market practices are monitored, coordination councils are created, and appropriate professional measures are taken in the event of a breach by professional consumer market participants.

In Lithuania, two commissions exercise regulatory oversight: the Insurance Supervision Commission and the Securities and Stock Market Commission. The experience of the Commission shows that resolving disputes in a pre-litigation manner significantly simplifies the lives of consumers and saves them time and money [45].

The Lithuanian Insurance Supervision Commission prepares monthly surveys, publishes a quarterly statistical bulletin on the development of the insurance market, and publishes statistics on pension fund activity on a regular basis. The commission's website has a new section covering information on the introduction of new requirements for insurance companies under the Solvency II solvency enhancement project.

In Hungary, the activity of the regulator to protect consumer rights in pre-trial dispute resolution is the most active. The Hungarian Financial Supervisory Agency is directly involved in resolving conflicts and disputes between financial service providers

and consumers. This work is carried out by a specialized Customer Complaints Department. The Agency is an independent mediator in the pre-trial dispute settlement process between consumers and service providers. Based on its own competence, the Agency provides advice or assistance in dealing with complex situations between the parties to the conflict by discussing the issue with a professional market participant who is a party to the conflict. [46]

In Greece, the Bank of Greece oversees related financial institutions - leasing, financial and factoring companies, currency exchange offices, money brokers, electronic money transfer agencies and intermediaries, in accordance with the law.

Regulates the Greek capital market The Capital Markets Commission, which is responsible for monitoring compliance with legislation governing activities in this segment of the financial sector. The main functions of the Commission include: ensuring the integrity and stability of the stock market, reducing systemic risks, and protecting investors by enhancing the transparency of the market.

The Greek Capital Market Commission oversees brokerage companies, fund management companies, portfolio investment companies, mortgage investment trusts and financial intermediaries, as well as compliance with capital market legislation by listed companies in Athens. , the Exchange itself, as well as Hellenic Exchanges, which is responsible for settlement of securities and derivatives transactions. The members of the board of directors and the executive directors of these institutions are obliged to comply with the requirements stipulated by the relevant rules and regulations [47].

The insurance business in Greece is overseen by the Private Insurance Oversight Committee, which reports to the Ministry of National Economy. The main task of this commission is to oversee the activities of insurance companies, insurance brokers and intermediaries, as well as monitor compliance with legislation in this area.

The Greek pension funds function as partially independent non-profit legal entities. The Bank of Greece has not monitored their investments since 2004, and official reporting is minimal. Since 2004, the general oversight of insurance pension funds has been entrusted to the General Secretariat of Social Insurance of the Ministry of Employment and Social Protection.

State regulation of financial services markets are implemented:

- the National Bank of Ukraine - regarding the market of banking services and money transfer activities;
- the National Securities and Stock Market Commission - on securities markets and derivatives (derivatives);
- the National Commission for the State Regulation of Financial Services Markets - for other financial services markets.

The National Commission for the State Regulation of Financial Services Markets (Natcomfin Services) regulates the non-banking financial sector of Ukraine, which includes: insurance companies, credit unions and other non-bank credit institutions, public law entities providing financial services, non-state pension funds and their administrators, pawnshops, financial companies providing services such as financial leasing, factoring, sureties and guarantees, legal entities without the status of financial institution eligible to provide certain types of financial services (financial leasing) [48].

The National Financial Services Commission is constantly working with consumers of financial services to protect their interests. All community appeals.

Already, the State Financial Services Commission conducts large-scale supervisory activity on citizens' requests, which is accompanied by audits of financial institutions. However, at present, there is no specialized unit in the structure of the Financial Services Commission to deal with consumer claims and manage conflict situations.

Part of the problem of protecting the rights of consumers of financial services is solved by public organizations. For example, in 2003 the Association of Insurers of Ukraine (ACS) was created, which is a non-profit all-Ukrainian association of public organizations. its purpose is to protect the rights of insurers, counteract unfair competition, carry out educational activities in the field of insurance and protect the interests of consumers of insurance services. It is advisable to create similar consumer associations for each sector of non-banking financial services. This experience can also be used to set up an Institute of Insurance Ombudsmen in Ukraine [49].

In addition to the ACS, eight associations of financial market participants in Ukraine were established in Ukraine, including:

- Ukrainian Association of Investment Business;
- Association "Ukrainian Credit-Banking Union";
- League of Insurance Organizations;
- National Association of Credit Unions of Ukraine;
- Ukrainian Association of Pension Fund Administrators;
- National Association of Non-State Pension Funds and NPF Administrators;
- All-Ukrainian Association of Pawnshops;
- All-Ukrainian Association of Credit Unions.

In 2009, Ukrainian Financial Market Associations signed a Memorandum of Understanding on Ukrainian Financial Market Associations and coordinated efforts to establish rules for fair advertising of financial services.

The main purpose of the cooperation of these organizations within the Memorandum is:

- improvement of the legislative and regulatory frameworks on the prevention of incorrect and unfair advertising in the financial services market;
- development of collective requirements, recommendations, standards, code of professional conduct for advertising of financial products;
- condemnation of cases of misconduct that could damage the business reputation of professional financial market participants;
- Creating conditions to prevent unfair competition, etc.

Important for financial services consumers is information about the reliability of financial service providers. Art. 28 of the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets" requires the State Financial Services Commission to control the reliability of information provided by financial market participants and to establish the procedure for disclosing information and reporting to financial market participants in accordance with the legislation of Ukraine.

Unfortunately, there are very few provisions in Ukrainian insurance law regarding contract law. Basic legal concepts such as insurance company, parties to the insurance contract, sum insured, limit of liability for the policy, insurance interest, guarantee payment, co-insurance, etc., are not clear, the rules are not always set out consistently,

and the rights and obligations of the parties are insufficiently regulated. According to experts of the Financial Services Commission, the rules on insurance contracts should be carefully edited in order to make them more accessible and consistent [50].

Most information is unavailable to consumers of financial services. The problem of information disclosure by the State Securities and Stock Market Commission is being solved with the support of the project, which creates an electronic information disclosure system for investors. The State Financial Services Commission is working on developing its own Concept for informing market participants of non-banking financial services, but it has yet to be approved and put into practice.

Insurance companies that are members of the League of Insurance Organizations participate in the Open Insurance project and publish key performance indicators to inform consumers of services. Other professional associations are also working to collect and disseminate information about financial institutions. However, the work to disclose information to all participants in the non-banking financial sector needs to improve the legislative framework.

Before purchasing a financial product by a consumer, a financial institution must obtain sufficient information from the consumer to ensure that the product or service is appropriate for that client, provide him with comprehensive information about the product's terms and conditions. If a consumer purchases any product as a prerequisite for obtaining another product, he or she must be free to choose the supplier of the first product, etc.

Financial information for many consumers is confidential, so the regulator should take the necessary steps to protect the privacy of personal data. This is due to the fact that consumers and financial institutions sometimes have opposite intentions: business wants to maximize the use of personal information for commercial purposes, and consumers maintain restrictions on the use of personal information.

According to international practice, the confidentiality of personal information is protected by several international laws, such as: the OECD Regulations governing the protection of privacy and the transboundary movement of personal data, the UN Guidelines on computer files with personal data adopted by the General Assembly on

December 14, 1990. , The EU Directive on the protection of the rights of individuals with regard to the processing of personal data 1995/46 / EC, the ESRP Convention on the Protection of Individuals with regard to Automatic Processing of Personal Data and the Privacy Concept adopted by APEC.

At present, it is not yet legally clear in Ukraine exactly what information submitted to financial institutions is personal. The lack of such regulation creates potential opportunities for abuse of financial institutions. Therefore, according to experts of the Financial Services Commission, it is necessary to improve the legislative definition of the basic rules of protection, disclosure, transfer, updating of information, as well as informing consumers about the policy of financial institutions on the use of personal information [51].

Despite the fact that Ukraine has been developing in a market economy for a long time, the majority of citizens have insufficient financial education. Lack of knowledge of financial markets and the specific nature of financial services reduces the confidence in the financial system, affects the level of savings and profitability of financial services.

Therefore, there is an urgent need to develop and implement financial awareness programs for consumers to create the conditions for further strengthening and development of the financial sector. This should encourage national awareness and financial literacy campaigns and programs to help financial service consumers understand the areas of equity investment, the benefits, disadvantages and risks associated with different types of financial products, and promote international financial cooperation. education, including the use of the OECD as an international forum for information sharing [52].

Financial institutions should clearly distinguish between financial education and financial information, as well as "commercial" financial advice. Any financial advice for business purposes, if conducted under the banner of financial education, should be transparent and clearly disclose the commercial nature and purpose. Regulators and professional associations are required to help provide financial institutions with consumers the necessary financial information on private pension programs and manage

retirement savings and income, and to regularly publish independent information on the risks of financial products and services.

An important factor in the development of the financial sector is the reputation of financial institutions and their trust on the part of consumers. Due to instability of economic development, inflationary processes, imperfection of national regulatory policy and lack of experience in regulating and supervising financial services markets, some consumers have lost their savings in recent years, which has led to a decline in public confidence in financial institutions. In order to prevent such situations from occurring in the future, appropriate compensation mechanisms should be put in place to guarantee financial services consumers a refund. Such compensation mechanisms have already been established in the banking sector in accordance with the Law of Ukraine "On the Deposit Guarantee Fund".

In the non-banking sector, such funds have proven effective, operate successfully in most European countries, and guarantee compensation for losses under life insurance contracts, deposits from credit unions, trust funds, and more. Ukraine is currently discussing the creation of a Unit Fund for the contribution of credit union members.

However, the creation of such funds takes time, and already needs to be put in place effective mechanisms for timely payments to consumers in the event of insolvency of a financial institution. In the process of liquidating a financial institution, depositors should have a higher priority than other uninsured creditors. The law governing the insolvency of financial institutions should guarantee timely repayment of deposits to all depositors.

An important role in securing and protecting consumer rights is played by a prudent investment policy for financial assets. To date, Ukrainian legislation has laid down requirements for investing the financial assets of most non-banking financial sector institutions, in particular, insurance organizations and non-governmental pension funds. However, there are practically no liquid financial instruments for implementing an effective investment policy in the market. This problem is particularly acute to ensure long-term obligations under life insurance contracts. Bank deposits are the main source of investing insurance reserves, as investments in securities are low-yielding and risky.

Together with ensuring the protection of consumer rights, it is necessary to increase the level of resilience of financial institutions, increase capital, improve risk management. In connection with the need to overcome the consequences of the financial crisis, the State Financial Services Commission is developing measures to strengthen the capital requirements of non-bank financial institutions, increase the capital adequacy ratio and improve solvency. The implementation of the principle of capital adequacy of financial institutions should be considered as one way of guaranteeing consumer rights.

Presently, the protection of the rights of consumers of financial services is required mainly by regulating and supervising the compliance of financial institutions with consumer protection laws, full disclosure and compliance with voluntary Codes of Conduct for all market participants.



### **3.2 Implementation in Ukraine of elements of international experience of balance of protection protection of rights and interests of subjects of non-bank credit services.**

In the global financial system, the non-banking financial services market is one of the most effective mechanisms for attracting, distributing and redistributing financial resources, which is growing in importance. Prospects for the development of this market are determined by the effectiveness of the state regulatory policy, the functionality of regulatory acts aimed at creating an effective mechanism of state regulation and supervision, reducing the costs of financial institutions, caused by excessive and inefficient state regulation, ensuring competition in the financial market, preventing unfair activities coordination with modern processes of reforming the Ukrainian economy.

During 2016, the National Commission for the State Regulation of Financial Services Markets (hereinafter referred to as the National Financial Services Commission) formed the conditions for the stable development of the non-banking financial services market in accordance with the priority priorities and tasks defined by the Program of Activity of the Cabinet of Ministers of Ukraine for 2016 [43], Ukraine-2020 Sustainable Development Strategy [44], as well as the provisions of the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their States-h lazy, on the other hand [45].

The system of state regulation of the activities of non-banking financial institutions and other entities in the non-banking financial services markets is not always balanced and systematic. The legal framework is limited to the framework legislation on the protection of the rights of consumers, investors, creditors, which together with the absence of specific legislation on individual non-banking financial institutions restrains the intensity of development of the relevant market, reduces their investment attractiveness, deforms the role in the development of the economy of Ukraine as a whole. Insufficient efficiency of state regulation and supervision, excessive regulation of permitting procedures to financial institutions and other supervised organizations,

manifestations of misbehavior of employees in solving regulatory issues, unreasonably increase the cost of providing financial services to consumers, etc. We believe that in view of these problems, the non-banking financial services market in Ukraine needs to take immediate preventive anti-crisis measures of a reform nature, which will help to counterbalance the imbalances.

Therefore, it is necessary to define a strategy and program for reforming the national non-banking financial services market, using the entire arsenal of available state-owned funds in the shortest possible time and with the least losses to create the conditions for becoming a "civilized" non-banking financial services market and to reveal the main directions of its further modernization. levels - legal, institutional and technological. At the stage of approximation of the national market for non-banking financial services to the European model of regulation, a major step was the adoption by the National Financial Services Commission on March 19, 2015 of the Strategy for reforming the state regulation of the market for non-banking financial services for 2015-2020 # 499 (hereinafter referred to as the Strategy) [46]. The development of the Strategy was driven by the need to enhance the role of the non-banking financial sector and the emergence of signs of stagnation in the relevant services market. The Strategy defines the main directions and tasks for their realization of legal and institutional-organizational character, aimed at building effective state regulation and supervision in order to develop a competitive market. The purpose of this consolidated document, which combines the areas of reform of all segments of the non-banking financial services market in one program, is to provide favorable conditions for their further development, increase of investment attractiveness and restoration of consumer confidence. The achievement of the stated goal will be pursued in the following strategic directions:

1. Deregulation of the non-banking financial services market and simplification of the regulatory environment;
2. Improving the activities of the regulator and improving the efficiency of state oversight;
3. Protecting consumer interests and restoring market confidence;

#### 4. Regulatory impact on market development (priorities).

Below, we discuss in more detail the aspects of government regulation of non-banking financial institutions and other entities in the relevant markets in the context of identified strategic areas.

Direction 1. Deregulation in the non-banking financial services market and simplification of the regulatory environment [46]:

- comprehensive inventory of the existing regulatory framework, rules for conducting permits and registration procedures for the relevance and availability of the corruption component, with the subsequent abolition of ineffective standards, optimization of licensing conditions and processes for obtaining the necessary permits, elimination of bureaucratic obstacles arising during the initiation of financial activities and services;
- introduction of principles and goals of state regulation and supervision in accordance with the international standards of the International Association of Insurance Supervision Bodies (IAIS) and the principles of the International Organization of Pension Funds Supervisors (IORS);
- harmonization of the legislation of Ukraine governing the activities of non-banking financial institutions with the EU directives, the implementation of which is envisaged by the Association Agreement between Ukraine and the EU;
- monitoring public opinion on the quality of administrative services and unresolved issues in the non-banking financial services markets, with the aim of creating a favorable regulatory environment in these markets, introducing the practice of engaging in the development of normative-legal acts of civil society institutions to ensure a balance of interests between businesses, the state;
- mandatory assessment of costs and economic benefits when introducing state regulation to prevent unnecessary administrative burdens, monitoring the effectiveness of implementation of basic regulatory provisions;
- facilitating the formation of self-regulatory organizations (SROs) by entities overseen in non-banking financial services markets and delegating to them certain functions of state regulation;

- improvement of the system of analysis, forecasting and strategic planning of the policy in the field of providing non-banking financial services, which provides for evaluation of the implementation of strategic and operational plans, achievement of strategic goals with involvement of financial services market participants.

Direction 2. Improving the activities of the regulator and increasing the effectiveness of state oversight [47]:

- Improvement of mechanisms of interagency coordination of public authorities in the markets of financial services for timely identification of current and potential external and internal threats and risks for financial stability and minimizing their negative impact on the financial system of Ukraine;
- establishing a constructive dialogue with market participants in non-bank financial services, their associations, ensuring public participation in the formation and implementation of public policy;
- Strengthening the institutional capacity of the state regulator through the introduction of supervisory payments, providing for the allocation of funds received for the purpose of regulating and supervising the markets of non-banking financial services, ensuring open accountability of all costs, tasks and results of their implementation;
- functional analysis and improvement of the organizational structure of the National Financial Services Commission, aimed at effective performance of tasks and assigned functions, introduction of effective tools for evaluating their performance, taking into account the achievement of relevant performance indicators;
- introduction of a prudential supervision system and transition to a risk-based supervision system by measuring and limiting the liquidity risks of financial institutions, taking into account the role and market share, as well as strengthening the requirements for disclosure, risk management and increasing the responsibility of financial institutions for breach of these requirements ;
- introduction of financial statement analysis indicators that are more sensitive to changes in financial position, loss of reliability of a financial institution and risk of transactions;

- optimization of forms, order of preparation and reporting by the subjects of supervision in the markets of non-banking financial services taking into account the relevance of indicators for determining their financial stability and reliability, counteracting unreliable reporting, introduction of electronic document circulation in the National Financial Services Market for participants in the format of communications with participants;
- regular testing of financial institutions to determine their financial stability;
- analysis and generalization of typical violations, identification of the main causes that caused them, preparation of proposals to identify, eliminate and prevent them in the future;
- Regulatory consolidation of transparent and comprehensible principles of application of influence measures depending on the types of violations of the approved rules and rules, severity of their consequences and expected results;
- taking measures to attract international technical assistance funds for the purpose of developing state regulation of the non-banking financial services market and improving the quality of their provision for consumers and businesses;
- cooperation with international organizations and associations (IAIS, IOPS, etc.), as well as the conclusion of memoranda of understanding and exchange of information with foreign regulators of the non-banking financial services market in order to exchange information between the parties regarding the cross-border activity of financial institutions - objects of supervision of Natcomf
- introduction of supervision on a consolidated basis by non-banking financial groups, the predominant activity of which is supervised by the National Financial Services Commission by financial institutions;
- transfer of functions for supervision of the credit bureau from the National Financial Services Commission to the National Bank of Ukraine (NBU).

Direction 3. Protecting the interests of consumers of financial services and restoring confidence in the market for non-banking financial services [47]:

- creation of a publicly accessible information database of the National Financial Services Commission for consumers' access to information about the activities of

financial institutions, as well as control over the proper disclosure of institutions to clients with complete and reliable information, which is required by law;

- introduction of mechanisms for guaranteeing the legal rights of consumers and investors, in particular guaranteeing insurance payments under life insurance contracts, guaranteeing contributions (deposits) to deposit accounts of members of credit unions, contributions of trustees of construction financing funds;
- facilitating the introduction of a refinancing system for troubled insurance companies, credit unions and other financial institutions, taking into account state support and additional private donor sources;
- the introduction of liability of officials, governing bodies and owners of a significant proportion of financial institutions for actions and omissions that led to the insolvency of the financial institution;
- clearing the market of non-banking financial services from insolvent and fraudulent financial institutions, ensuring their prompt and efficient withdrawal from the market through improved mechanisms of liquidation, including enforcement, and bankruptcy;
- facilitating the introduction of an effective mechanism for pre-litigation settlement of disputes in non-banking financial services markets through the adoption by non-banking financial institutions and other entities of supervision in the markets of non-banking financial services and consumer associations of market standards through dispute settlement and dispute resolution;
- settlement of the problem of arrears in the financial services markets, in particular by elaborating on the feasibility of setting up a state agency to restore assets and offset deposits of non-banking financial institutions in insolvent banks;
- Strengthening of state control over distribution of advertising in the financial services market, bringing to accountability of advertisers and distributors of advertising for violation of the approved requirements;
- Establishing a requirement for SROs in financial services markets to introduce standards (codes) of behavior for use by financial institutions - their participants;

- providing conditions for informing consumers of financial services, including potential ones, about the services provided by non-bank financial institutions, the peculiarities of the functioning of different types of financial institutions, the opportunities provided for such types of services, as well as the rights, obligations and responsibilities of consumers for different types of non-banking financial services in order to increase the financial literacy of the population;
- assisting civil society institutions in non-banking financial services markets in public oversight of breaches of law by financial institutions and other entities;
- prompt response to consumer complaints about fraudulent actions by financial institutions and other entities.

Direction 4. Regulatory impact on the development of the non-banking financial services market (priorities) [47]:

- promoting the formation of life insurance companies, non-governmental pension funds (NPFs) as significant institutional investors in the Ukrainian economy by expanding the range and quality of financial services, improving tax legislation, creating conditions for insurers to participate in the non-governmental pension system for the purpose of building and investing resources in the economy of the country;
- reforming the legal support of the activity of subjects of insurance and reinsurance brokerage, insurance agents;
- stimulating the development of ancillary entities in the non-banking financial services markets;
- creating conditions for the development of e-commerce;
- improving the relationship between banks and non-banking financial institutions through the settlement of problematic issues of banking insurance, providing additional guarantees on deposits related to the calculation of the solvency level of non-banking financial institutions, improving currency regulation;
- Reform of the market of compulsory insurance of civil liability of owners of land vehicles by introducing a mechanism of linking part of the funds of insurance reserves of insurers as part of the victim protection fund, improving the tariff

policy with a focus on the transition to free pricing, creating organizational and regulatory prerequisites systems of "direct settlement" and "electronic policy", creation of an effective system of regular payments;

- providing conditions for the development of compulsory state social health insurance with the participation of insurance companies and creating incentives for voluntary health insurance;
- promoting the implementation of EU nuclear insurance norms and practices, in particular those envisaged by the Vienna and Paris Conventions on Civil Liability for Nuclear Damage, the Convention on Additional Compensation for Nuclear Damage, including the definition of a civil liability financial security system, the creation of multi-level liability, the enhancement of liability levels. and the sums insured, bringing the notion of nuclear damages to be recoverable in accordance with the said international conventions, including environmental damage, costs of preventive measures, lost profits, etc., settlement of problems of limitation period (10 years), terrorism, ordinary radioactive emissions, non-pecuniary damage, transboundary damage, sole competent court, costs of compensation , including judicial;
- increase of the level of insurance protection of citizens during travel abroad, as well as creation of conditions for introduction of financial security (bank guarantee or insurance contract) in the subject of tourist activity in case of insolvency and bankruptcy;
- development of a state-supported agricultural insurance system by improving the licensing of insurance activities, establishing additional requirements for solvency, asset quality and reporting of insurers, qualification requirements for specialists involved in the process of agricultural insurance, the introduction of uniform underwriting standards and underwriting standards improving the process of filling information databases, etc .;
- creation of conditions for development of real estate insurance by legal and natural persons against natural disasters and man-made accidents;



- formation of conditions for financial support of business entities by introducing mandatory availability of professional liability insurance lawyers, independent directors, importers' civil liability related to payment of customs duties, carrier for damage to life, health and property of passengers of road, city electric, railway, maritime and inland waterway carriers, as well as other types of insurance accountability in these areas of public life;
- creation of an export insurance system by setting up a special export insurance and financing organization;
- taking measures to extend to the credit unions of Ukraine the exceptions to Directive 2013/36 / EC of the European Parliament and of the Council of 26.06.2013 on access to credit institutions and prudential supervision of credit institutions and investment companies, Directive 2006/48 / EC of the European Parliament and the Council of 14.06.2006 regarding the initiation and implementation of credit institution activities;
- development of the market of non-bank lending by credit institutions through regulation of the issue of legal grounds and procedure for attracting assets from legal entities and individuals for the purpose of further lending at the expense of such funds;
- development of credit union activities by introducing rules on the possibility of involvement of farmers, farms, associations of homeowners, trade unions and religious organizations into members of credit unions, establishing restrictions on territorial activity, but providing for certain permits to work on adjacent / adjacent territories, realization through the credit unions of the state credit programs aimed at supporting the development of small business in Ukraine in the sphere of services, bidding Lee and the agricultural sector;
- implementation of mechanisms to support liquidity in the credit union market through inter-crediting through joint credit unions and cooperative banks formed by credit unions;
- promoting the development of the non-state pension system;

- creating conditions for the introduction of a mandatory occupational pension scheme for certain categories of workers with increased exposure to harmful factors of the production environment;
- the gradual abandonment of quantitative restrictions for the purpose of diversification of the NPF's investment portfolio and the transition to the use of "wise investor" criteria and rules;
- taking measures aimed at improving the market for problematic and formally existing NPFs and administrators;
- creation of favorable conditions for the use of financial leasing as a financial instrument for investing in the development of the Ukrainian economy (including financing of technical equipment and upgrading of production) by providing incentives for growth of the number of players in the leasing market, including representatives of international financial groups, increasing the volume of the leasing portfolio and new areas of financing - modern technologies, energy and resource saving, etc .;
- legislative regulation of pawnshops;
- analysis and improvement of requirements on capital adequacy, liquidity standards, solvency of financial assets administrators to purchase goods in groups;
- development of an effective mechanism for applying regulatory influence to economic entities operating in the provision of financial services without obtaining financial institution status and obtaining a relevant license, etc.

Specific steps have been taken in some of these areas in 2016 by the National Financial Services Commission. For example, in the direction of improving the activity of the regulator and increasing the efficiency of state supervision, the probability of acquiring or increasing significant participation in financial institutions by insolvent and unscrupulous owners was reduced, clear criteria for assessing the financial status of applicants - individuals, requirements for flawlessness of business identity, requirements for impeccability testify to the applicant's lack of goodwill, as well as to the transparency of the ownership chain of substantial involvement [48] .

### **3.3 Unification of the process of ensuring the interaction of subjects of non-bank credit services.**

The balance of rights and responsibilities of financial institutions and consumers of financial services is constantly being disrupted as a result of legislative initiatives that enhance the position of one party at the expense of the other, the practice of providing financial services, which is formed without regard to the need to respect other market participants, respect their rights and interests.

The practice of judicial decision-making in the field of financial services is inconsistent, since there are facts that courts have diametrically opposed decisions on similar claims. There is a low level of information transparency in the financial services markets in Ukraine.

The results of sociological surveys conducted in Ukraine indicate a low level of financial literacy and awareness of citizens who are forced to independently acquire knowledge about financial institutions and the services they provide. The population does not have sufficient basic knowledge of financial knowledge and general information about its rights and responsibilities as consumers of financial services. The least well-known are the socially disadvantaged categories of the population, including pensioners. The population does not have access to financial services information that contains reliable information about the content of such services, their estimated cost, their associated risks and legal consequences.

Information on financial services is currently available mainly in the form of various promotional and other similar products, which lack control over objectivity and reliability, and there is no mechanism for refuting the information contained therein. The business practices of financial services institutions are not always based on high standards for such services. In Ukraine, mechanisms for regulating financial services standards, such as voluntary codes (codes of ethics), are underused, which causes a decline in confidence in the financial sector.

Table 3.1

**Methods for avoiding risks for financial service providers and consumers**

<b>Non-bank credit institutions</b>	<b>Clients</b>
Identification of clients	Approach the choice of non-bank financial institution in details
Complete information of clients	Understandable information about non-bank credit services
Varification of clients	Understanding risks of non-refunding costs to non-bank credit institution
Purpose of credit	Carefully read the credit agreement
Evaluate client's creditability	Be able to evaluate real creditable status

Ancillary activities in the financial services markets related to the interests of individuals also need improvement, as the legal status and enforcement of debt collection agencies / institutions for the restructuring of debt and the assignment (alienation) of banks to non-bank institutions remain unresolved at the legislative level today. requirements for loans to individuals.

They also need to improve the issue of financial intermediaries as a necessary element of the financial services markets infrastructure.

In Ukraine, the facts of the provision of financial services were recorded by persons who did not have legal rights, and the existing mechanism for revealing the facts of such activity and its termination is ineffective. Legislation on the protection of personal data, which also extends to the provision of financial services, ensures the protection of consumer personal information.

At the same time, the issue of transferring personal data of consumers of financial services to institutions providing ancillary activities in the financial services markets, collecting companies, as well as compliance with such privacy requirements by the companies is unresolved. The solution to this problem is possible within the framework of regulatory regulation of such activity.

In order to avoid risks for both consumers and figagers, certain actions should be taken when providing or receiving such services.

## CONCLUSIONS AND RECCOMENDATIONS

The main tasks of building an effective system protection of the rights of consumers of financial services are: legislative provision of the powers of the state regulator to protect the rights of consumers, as well as strengthening the norms for disclosure of information to financial institutions, improving the level of information transparency, financial literacy and awareness of consumers of financial services and fulfillment of requirements for disclosure of information in the markets of financial services, empowerment of consumers of financial services to obtain such services in order to ensure the possibility of their free and proper choice. The state should impose a ban at the legislative level on the practice of imposing services or their providers and supervise compliance with such a rule by the relevant supervisory authorities.

Therefore, in order to ensure the balance of rights and protection of consumers and financial service providers, it is very important to unify the process of ensuring the interaction of the subjects of such services.

Improvement of the institutional structure of consumer protection financial services will be implemented through the introduction of effective mechanisms of state regulation of the processes of ensuring and coordinating control over compliance with legislation in the field of protection of rights consumers in the financial services markets, as well as coordinating the activities of government regulators in this area.

In order to increase the level of information transparency, financial literacy and awareness of consumers of financial services and fulfillment of requirements for disclosure of information in the markets of financial services, it is necessary to take measures to: amend the legislative acts in terms of establishing an unconditional requirement to ensure the observance of consumer rights to the full and reliable information about the service, its full price and the components of such cost associated with such service risks and responsibilities, as well as the right of the consumer to refuse further receipt thereof; improving the mechanism of control by state regulatory bodies for advertising and the provision of other public information disseminated by financial institutions in order to prevent misleading consumers and the intrusive offering

of financial services, as well as the immediate refutation of inaccurate information and information that may harm consumers financial services; study of the best practices in the world of mandatory involvement of representatives of financial services or mediators in attempts to resolve conflicts, especially in cases of significant importance for the individual; ensuring the level of financial literacy of all age groups and social groups, taking into account their peculiarities regarding the perception of information and psychological readiness for learning; determining the range of people by profession or occupation that will contribute raising the level of financial literacy of the population, preparation and carrying out of special educational actions and programs; creation of a comprehensive system of providing access to financial education for the population throughout life,

that will facilitate the formation of appropriate financial behavior skills and ensure that financial services are received at an appropriate level; study of world best practices on mechanisms to ensure the development, continuous updating and dissemination of information materials for physical persons with a concise and simple presentation of information about the content of financial services, the main risks, rights and obligations of the consumer arising from the receipt of such services, indicative / indicative prices on them in the market, the list of financial institutions entitled to provide such services; inventory of existing curricula at primary and elementary school level in terms of developing financial knowledge and skills and bringing them into line with a single standard of education based on modern information technology and educational methods.

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**Performance indicators of pawnshops**

Indexes	31.12. 2014	31.12. 2015	31.12. 2016	Growth rate			
				31.12.2015/ 31.12.2014		31.12.2016/ 31.12.2015	
				Absolut e	%	Absol ute	%
Number of pawnshops (end of period)	477	482	456	5	1,0	-26	-5,4
Amount of financial loans provided as collateral (UAH million)	8410,8	12459	14718	4048	48,1	2258,3	34,2
Number of financial loans granted as collateral, thousand	10930	10600	11943	-330,1	-3,0	1343,6	12,7
Amount of repaid financial loans (UAH million), including:	8202,3	12155	16414	3953	48,2	4259,4	35,0
repaid on the property pledged	660	842	1837	182	27,6	995,4	118,2
Number of contracts repaid by the pledged property (thousand pieces)	1191,5	1164,8	1264,7	-26,7	-2,2	99,9	8,6

*Compiled by the author based on the source [21]*