

ISSUES OF TRANSPARENCY AND DIGITALIZATION
OF FINANCIAL SECTOR ENTITIES UNDER MARTIAL LAWПРОБЛЕМАТИКА ПРОЗОРОСТІ ТА ДІДЖИТАЛІЗАЦІЇ
СУБ'ЄКТІВ ФІНАНСОВОГО СЕКТОРУ В УМОВАХ ВОЄННОГО СТАНУ

The article deals with the issues of digitalisation and transparency in the functioning of the financial sector of Ukraine's economy under martial law. The concepts of «transparency», «digitalisation» and «digitisation» of the financial sector are studied. The main tools for ensuring transparency, in particular, the Credit Register of Individual Borrowers, are considered, its concept is revealed and the latest resolutions of the National Bank of Ukraine are presented. The author analyses the strategies for the development of the financial sector of Ukraine, which directly play an important role in creating the basis for improving the transparency of the financial sector. Identifying the issues of digitalisation will become an effective tool for improving efficiency, reducing risks and increasing confidence in financial service providers, maintaining openness and stimulating further development of the financial sector of Ukraine.

Key words: digitalisation, digitisation, financial sector, financial services, transparency, martial law.

У статті розглянуто проблематику процесів розвитку діджиталізації та забезпечення прозорості у функціонуванні фінансового сектору економіки України в умовах воєнного стану. У сучасній українській економіці цифровізація стає важливим елементом у багатьох областях і найбільш популярна в банківському секторі, тому розкриття цієї тематики є неабияк важливим. Досліджено поняття «прозорість», «діджиталізація» та «цифровізація» фінансового сектору як нових важелів для розвитку економіки. Розглянуті основні інструменти забезпечення прозорості, зокрема, Кредитний реєстр фізичних осіб позичальників, розкрито його поняття та представлено основні положення щодо оновлення діяльності Кредитного реєстру Національного банку України. Проаналізовано стратегії розвитку фінансового сектору України, які безпосередньо відіграють важливу роль у створенні підґрунтя для вдосконалення прозорості фінансового сектору. Визначення проблематики цифровізації стане дієвим інструментом для підвищення ефективності, зменшення ризиків та підвищення довіри до одержувачів фінансових послуг, підтримки відкритості та стимулювання подальшого розвитку фінансового сектору України. У контексті післявоєнної реконструкції проблеми цифровізації та прозорості стали дуже серйозними. У критичний для країни момент, коли важливі всі дії і всі рішення, концепції «прозорості емітентів» і «цифровізації фінансових інститутів» займають одне з центральних місць у формуванні стратегії розвитку фінансового сектора. Фінансовий ринок значно змінився завдяки впровадженню сучасних технологій, які відкривають нові можливості для прийняття фінансових рішень як для підприємств, так і для споживачів, що в свою чергу впливає на всю економічну систему. Така ініціатива, як Кредитний реєстр фізичних осіб позичальників, які надають інформацію про кредитну історію та борг, є кроком до того, щоб зробити інформацію більш прозорою та доступною для споживачів фінансових послуг у фінансовому сегменті фінансового ринку, яка є необхідною для інвесторів у тяжкий воєнний час. Це важливий крок у розвитку фінансової системи, який сприяє подальшому розвитку оцифрування фінансових послуг і забезпечує адекватний захист споживачів.

Ключові слова: діджиталізація, цифровізація, фінансовий сектор, фінансові послуги, прозорість, воєнний стан.

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Statement of the problem. The realities of martial law have exacerbated a wide range of risks inherent in the functioning of the financial sector of the national economy. Financial sector entities and institutions are faced with the need to address new challenges and overcome the consequences of economic crises. The current stage of society's development, especially in the context of a full-scale invasion, requires significant changes in the activities of economic entities and in the everyday life of the population, with a focus on the introduction of new information technologies. This is a key factor for reforming economic processes and their further transformation under the innovative scenario of development. In a changing economic, social and political environment, digital development and support for the digital transformation of the economy are becoming critical. The United

Nations 2030 Agenda for Sustainable Development envisages the transformation of political relations and the formation of new governance models based on digitalisation, which is particularly relevant for Ukraine in the current challenges. The Ukrainian economy needs large-scale transformations of the financial sector to optimise the process of attracting investment resources in the context of a full-scale war. The rapid development of non-cash payments has demonstrated the demand of the Ukrainian population for a wider range of financial services remotely, so the introduction of new digitalised transparency systems by financial sector providers is coming to the fore. The issue of updating the transparency requirements for financial services providers remains relevant. Given the dynamic trend of digitalisation and digitisation of the financial sector, transparency requirements need to be revised.

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Analysis of recent research and publications.

The problems of digitalisation digitization of the financial sector of Ukraine are the subject of research by a number of domestic scholars, in particular: Demchyshak N., Glutkovsky M.O., Danylyshyn V.I., Synytsia S.M., Lapin A.V., Grinchuk I.O., Oleniuk D.O. However, it is necessary to study the update of the vectors of development of this issue in the key strategic documents that determine the direction of movement of the financial sector of Ukraine in the current conditions of martial law.

Unsolved aspects of the problem. The main objective of the article is to study the processes of digitalisation and ensure transparency in the functioning of the financial sector of Ukraine under martial law.

The main part. In the context of post-war reconstruction, the issue of digitalisation and transparency is becoming particularly acute. At a critical time for the country, when every action and every decision matters, the concepts of 'issuer transparency' and 'digitalisation of financial institutions' are central to the formation of the financial sector development strategy. Strategic goals that involve the development of transparency and digitalisation tools are financial stability and the development of financial markets, according to [6–7].

Fig. 1 shows a comparison of the strategic goals of the financial sector development in Ukraine before and during the martial law in Ukraine. A comparison of the Strategies for the Development of the Financial Sector of Ukraine presented by the regulators revealed their interdependence. The idea of the importance of digital

transformation processes is a cross-cutting theme in both versions of the documents, which determines the qualifying importance of these processes for the development of the financial sector.

One of the areas of assessing the openness and development of the financial sector is the transparency of information provided by providers to enable consumers of financial services to make informed decisions. Transparency in the financial sector is defined as the level of accessibility and openness of information about financial institutions, financial products and issuers' activities [1]. This has a significant impact on the functioning of the financial market and such quantitative aspects of its measurement as stock exchange turnover, dynamics of banking operations, number of insurance contracts concluded, and other quantitative indicators.

In connection with the term transparency, there is a category of «digitalisation of the financial sector». According to the work of Lapin A.V., Grinchuk I.O., Olenyuk D.O., digitalisation is defined as the process of transferring economic activity to a new format, which involves the use of digital technologies and helps to optimise business processes, increase income from business activities and improve the system of communication with consumers [14].

It should be noted that in the economic literature, the terms «digitalisation» and « digitisation» are often used interchangeably, but they have different meanings. Digitisation is the process of transforming a traditional business model into a digital form, i.e. converting analogue processes and data into a digital format. This process involves the use of technology

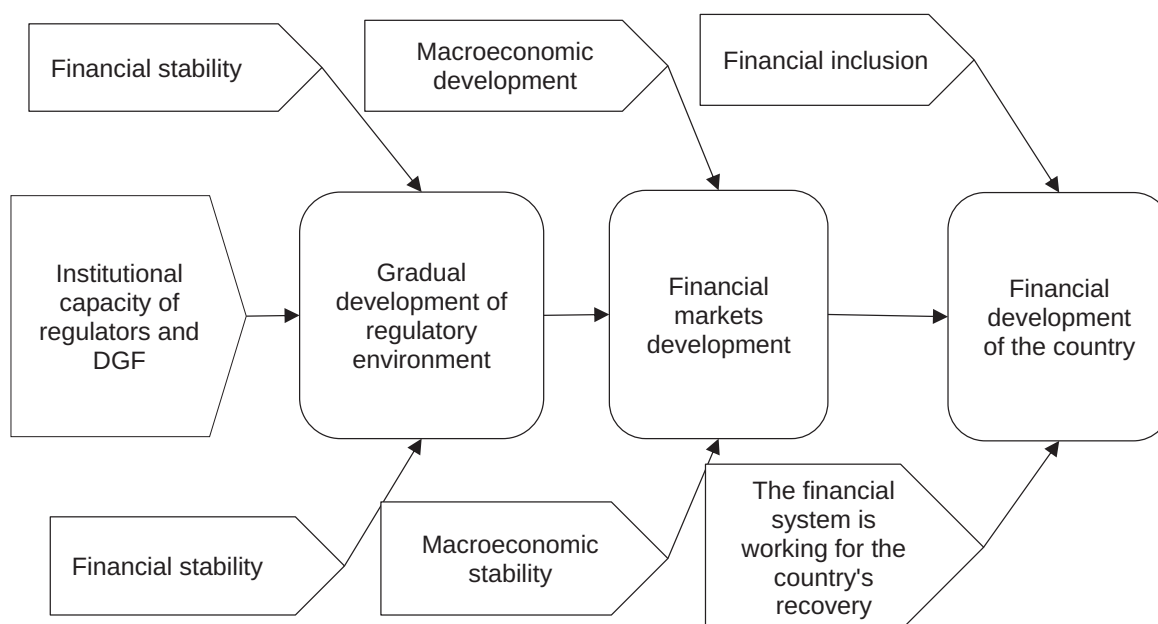


Figure 1. Comparison of strategic goals of financial sector development by programme documents

Source: compiled by authors on materials [5–6]

to convert manual or paper-based processes into electronic form [13–14].

Digitalisation, on the other hand, encompasses the use of digital technologies to improve business processes and create new ways of delivering services. It includes not only the digital transformation of the business model, but also a change in culture, philosophy and approaches to doing business. Thus, digitalisation refers to the conversion of analogue to digital, while digitalisation describes processes and technologies that improve the quality and efficiency of business management and service delivery through digital technologies. Both of these concepts are interrelated but have different aspects of application in business: digitisation focuses on the conversion of data into digital format, while digitalisation focuses on the use of this data to transform business processes and strategies [12].

It is digitisation that provides new forms of interaction between financial intermediaries and consumers of financial services in the course of financial transactions. The introduction of digital financial technologies in the financial sector is a

sign of an effective combination of the interests of consumers and information technology producers. At the same time, the digital economy is able to create new needs and products for its consumers that are of a much higher quality and of a fundamentally new nature. The integration of modern digital technologies opens up new opportunities for all sectors of the economy, including the financial market [11].

In the modern Ukrainian economy, digitalisation is becoming a key aspect in many areas, with the banking segment being the most widespread. The proliferation of blockchain technology, which is actively used to make bank payments and manage banking products, is a digitalisation tool that helps to minimise fraud risks. The digitalisation of financial markets also contributes to the adaptation of consumers to the digital society by transferring capital to social networks and websites. This stimulates the demand for highly qualified IT specialists whose focus is on optimising business processes and increasing the efficiency of financial operations of providers [14].

The paper proposes a framework that can clearly outline the advantages and disadvantages

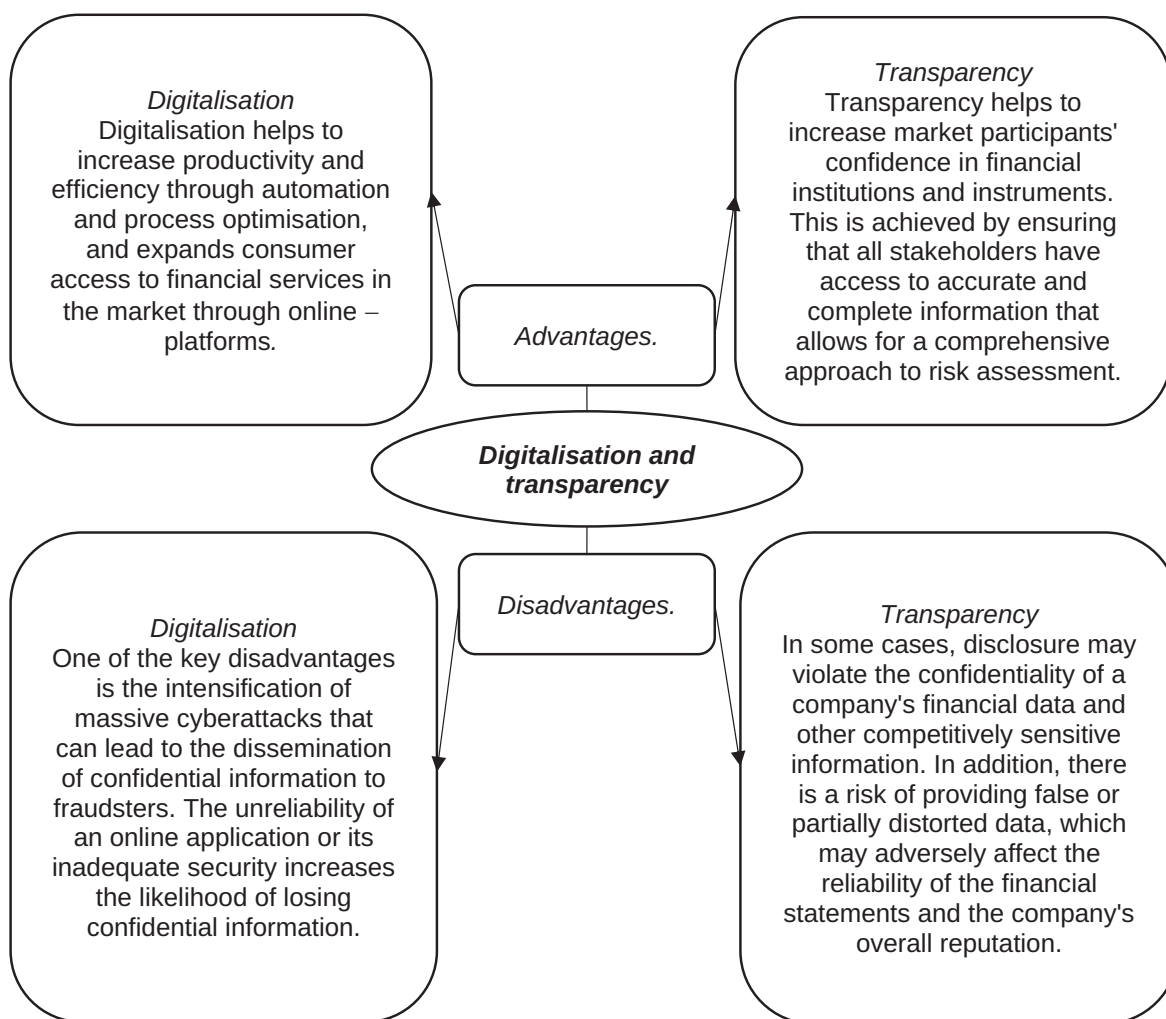


Figure 2. Advantages and disadvantages of digitalisation and transparency in the financial sector

Source: compiled by authors on materials [1–12]

of transparency and digitalisation for financial sector entities.

The digitalisation of the financial sector has a number of advantages, including the convenience of using resources for customers in assessing the attractiveness of financial services and products. The digitisation and digitalisation of the Ukrainian banking system and a wide range of financial institutions will undoubtedly have a significant impact on reducing the time and cost of providing financial services, stimulate quality improvement in line with consumer requirements and international standards, and create preconditions for the development of information interaction between regulators, state law enforcement agencies and consumers of financial services.

The digitalisation of the financial sector in the post-war reconstruction context involves the widespread use of digital and IT technologies to improve the accessibility of financial services, optimise workflows, and ensure efficient resource management. This includes the development of mobile applications for the proper management of personal finances, the use of electronic payment systems, and the application of artificial intelligence for data analysis and reporting.

One of the instruments of the monetary segment of the financial market that can provide transparent information on loans is the Credit Register for Individuals – borrowers.

The credit register is an information system that allows banks to collect, accumulate, store, adjust, use and disseminate (provide) information on credit transactions and fulfilment of obligations under these transactions, as well as to analyse and classify loans [5].

In 2022, the regulator announced the launch of an online service that provides information from its own credit register. Through this online service, individuals receive information on bank loans for a minimum amount of USD 100 (currently USD 670,000), including the amount of debt, the status of fulfilment of obligations, the name of the lending bank and the date of entry into the register. In accordance with the current legislation of Ukraine, this service is provided to individuals free of charge. The service is available 24/7.

In response to an online request, the user receives information from the NBU credit register current at the time of the request, namely

- the amount of debt and the status of fulfilment of obligations;
- the name of the creditor bank and the date of entry into the NBU credit register.

The report from the NBU Credit Register is not an official document, but this electronic resource allows financial institutions to assess the credit risk of potential borrowers based on their payment history, the number and amount of loans granted to them, as well as other financial indicators, and, if necessary, to contact the lending banks for clarification of the data. Participants of the NBU Credit Register update their information on the first day of each month. The date of the last update appears directly in user reports [4].

In 2018, NBU created a centralised credit register and collected information on credit transactions of borrowers who owe the bank more than 100 minimum payments. Banks enter information on individual borrowers into the register in accordance with the requirements of the applicable law, in particular the Law of Ukraine No. 2297-VI dated 1 June 2010 «On Personal Data Protection». Borrowers

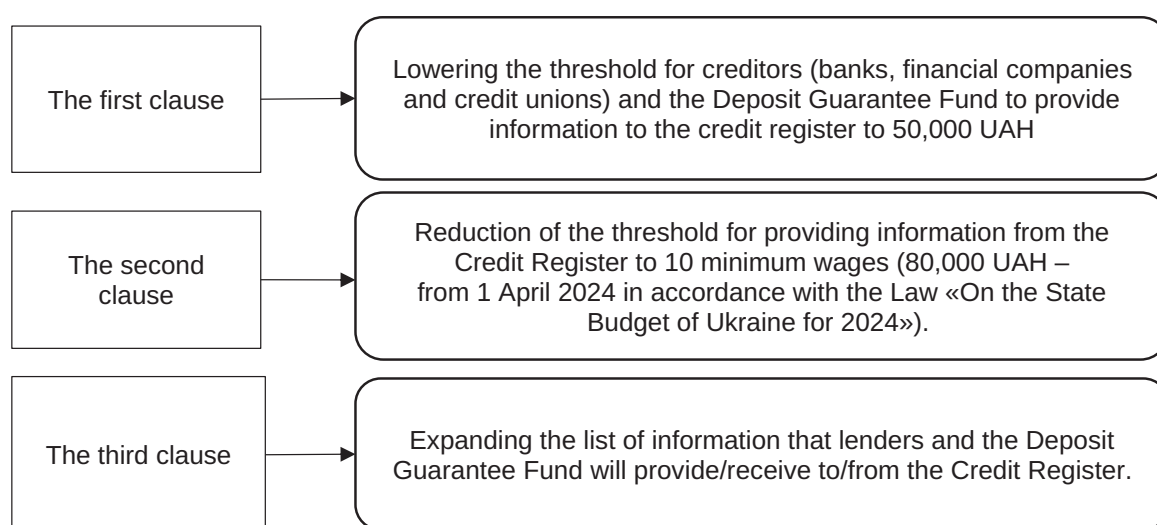


Figure 3. Key provisions for updating the Credit Register of National Bank of Ukraine

Source: compiled by authors on materials [6]

whose information is included in the register receive information about themselves from the register and have the right to request its correction if they disagree with its content.

The number of participants that can provide information to and receive information from the Credit Register of National Bank of Ukraine is constantly growing [6]. In addition to commercial banks and the Deposit Guarantee Fund, the register also includes certain non-bank financial intermediaries, namely financial companies and credit unions.

The relevant changes were established by the updated Regulation on the Credit Register of National Bank of Ukraine in accordance with the Law of Ukraine «On Financial Services and Financial Companies» [8].

The main points of the Regulation are shown in Figure 3.

NBU also approved the Regulation on the interaction of financial companies and credit unions with the National Bank on the Credit Register of National Bank of Ukraine [9], which, in particular, spells out the main points, such as:

- procedure for financial companies and credit unions to provide up-to-date information to the Credit Register of the National Bank of Ukraine
- the procedure for providing the financial company/credit union with information from the Credit Register and a detailed list of such information.

Conclusion. The rapid development of the digital economy has become a global trend that covers the entire structure of economic relations. The financial market has undergone significant changes due to the introduction of modern technologies that provide enterprises and consumers with new opportunities for making financial decisions, affecting the functioning of the entire economic system. The spread of new digital financial technologies has led to the emergence of new directions for the development of the financial sector on the market.

Consequently, information transparency is one of the key indicators of openness and development of the financial sector and all economic objects and entities. Transparency is usually defined as the level of availability and openness of information about financial institutions, products and activities that has a significant impact on the functioning and effectiveness of financial institutions. Transparency increases the confidence of market participants and promotes effective regulation of the financial sector. Such an initiative as the Credit Register of Individuals – Borrowers, which provides information on credit history and debt, is a step towards making information more transparent and accessible to consumers of financial services of the monetary segment of the financial market. This is an important step in the development of the financial system, which contributes to the further development of digitalization

of financial services and ensuring proper protection of consumer rights.

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