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COMPLIANCE AS A FACTOR OF STRENGTHENING CONFIDENCE IN FINANCIAL INSTITUTIONS

Steady and crisis-free development of bank sector has a priority for providing of financial stability both at micro- and macroeconomic levels. In the conditions of Ukraine's integration into the world economy it is an issue of reliability of credit institutions that provides its services in the financial market. Bank establishment that intends to conduct legal and civilized business must comply with all operating norms and rules of adjusting of bank activity, work in accordance with the best international standards and create the corporate culture of intolerance to the corruption. The trust of clients, investors, and partners is based on a confidence in that all services provided by the bank with the observance of bases of professional ethics and performed according to the highest quality standards.

Therefore, compliance is understood as the conformity of the bank activity to requirements of legislation, standards and ethical norms of doing business, today it is an important factor in strengthening confidence in financial institutions, an indication of their legal maturity. Scientific works of many domestic and foreign economists are devoted to the problems of stable functioning of banking institutions, the definition, assessment and risk management. Among them are the works of O. I. Baranovskogo, T. A. Vasilyevoi, V. V. Vitlinskogo, S. O. Dmytrova, V. V. Kovalenko, L. O. Primostki, T. S., Smovzhenko and others. Scientists reveal the nature of the risk, determine the basic classification signs of different types of risks, systems multi-purpose management decisions.

However, for today the question of estimation and management the functional risks of bank remain unresolved, in particular operational, reputational and compliance risks, determining their nature, rating and research of efficient methods of management. So, the Basel Committee published material regarding the content of the implementation of the compliance function by banks in 2003. In domestic legislation, this category first appeared in the document of the National Bank of Ukraine in 2007 in the form of guidelines for improving corporate management.

From the point of view of requirements of state regulator systems compliance is not clearly defined for today. In "Methodical recommendation" on improvement of corporate management in banks of Ukraine" is only the essence of compliance risk and the functioning of the system compliance in the banks this document not clearly regulated. Attention is also accented on responsibility of the Supervisory Board and the Board of Directors for realization of supervision and management of compliance risk that in general demonstrates the low level of regulation norms and requirements and the lack of basic methodological basis for the implementation of compliance in Ukrainian banking institutions [1].

Contents compliance risks indicates their relationship to operational and reputation risk. From the point of view of origin these risks have different originally factors, however here are in permanent close intercommunication. Such communication system takes character unforeseeable influence on activity of bank establishment and is the direct catalyst of origin of compliance risk. To estimate the parameters of its impact is difficult to quantify because there are many factors of influencing these risks. However, we note that these risks have a lot in common, that is:

– a key source of manifestation of the compliance risks is the bank staff, incompetent in activities which manifest the aspects that directly or indirectly contribute to the onset of the

financial losses;

- the purpose of management compliance risks are their minimization, but not optimization, as they are characterized only negative influence on activity of bank;
- management of operational, reputational and compliance risks must be managed by one committee of the general source of their manifestation, their contents and functional inseparability.

Compliance risks have a direct link with the proper organization of internal business processes, including the laundering of funds from crime, which in turn is also one of the objects of controls in the framework of the management system of operating risk.

Thus, compliance risk management is most effective when the culture of the bank embraces high standards of ethics behavior at all levels of the organization. The Council and Board of the banks should encourage the development of corporate culture in the unity of words and deeds in relation to requirements to comply with the rules by all employees in the conduct of business.

For the purpose of effective management of the compliance risk it is necessary to develop the compliance policy. Under the compliance policy should be understood as a set of methods, techniques and procedures direct to the management of compliance risk. Compliance policy should be part of the organizational culture of a credit institution and include the following activities:

- combating fraud and corruption; combating money laundering; – compliance with international sanctions and sanctions of foreign states;
- implementation of foreign tax legislation, which concerns the activities of the bank; providing of observance of codes of corporate conduct;
- control of observance of covenants (obligations) after international loans; consideration of customer complaints;
- compliance with information security policy.

Consequently, every bank, in force of tasks that is set by a top management, shareholders and creditors can realize additional processes in this industry, creating its unique compliance policy for the effective management of compliance risk.

In 2005 The Basel Committee on banking supervision published the document "Compliance and the compliance function in banks", which has a triple value: firstly, it emphasizes the special status of service compliance control in banks; secondly, it recognizes that the management of compliance risks should be carried out in every bank taking into account his features and necessities, that is the standard approach to such management does not exist; thirdly, despite the freedom organization compliance control, there are general principles of approach to its implementation [2].

Development of the effective system of compliance control in the system of corporate management of bank is based exactly on authentications of compliance risks, correct determination of that, the further result of realization of such program determines in an action. In our opinion, leading position in this process should be the definition of the whole range of risks, both internal and external environment, form the key indicators of compliance risks. The key emphasis in the compliance-control of new type is the complexity that providing along with the organization of compliance risks management of the bank, management also by an operating risk and risk of reputation. It should be noted that first of all it is necessary to create the legislative framework regarding the implementation of such systems.

Regarding the organizational aspects of the introduction and implementation the key role in the system of compliance control along with the management of compliance risk, should be given to minimization and management an operating and reputation risk, which are closely interrelated and may lead to unpredictable in terms of quantitative assessment of consequences. Eventually, the manifestation of the risks may have a negative impact on the

image of the bank. That is, the effective management of operational and compliance risk is also partially to minimize the reputational risk of the institution, which also should be monitored by the compliance system from the control of reputational risk incidents. Regular monitoring of actions of personnel of the bank from the point of view of implementation of legislation and internal positions, non-admission of negative influence on the reputation of the bank, will give an opportunity to minimize the risk of using the bank to launder money.

Thus, to our opinion, the introduction of a system of compliance at the bank should take place in three stages: development of internal normative documents; development of the program of compliance; the creation of an independent functional subdivision of the compliance control.

We are inclined to think, that subdivision of compliance control should be engaged in the management of operational risk and reputation risk due to their substantive similarity. Functioning of the embedded systems should include the appropriate areas of control, which are the reflection of present risk areas that influence on the origin of compliance risks:

- integrity of client base;
- cooperating with personnel;
- organizational and system integrity;
- social responsibility.

It would be also appropriate in legal documents of the National Bank of Ukraine to establish an official definition of the terms "compliance in the bank", "compliance control", "compliance function in the bank", "compliance culture", "compliance ideology". Expand the concept of "system compliance", including in the structure of the compliance system not only organizational, but also process and technological elements; clearly to define the types of compliance risks; develop the organizational mechanism of providing of compliance control in credit establishments.

References

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