POTENTIAL OF INSTITUTIONAL INVESTORS AND STOCK MARKET DEVELOPMENT AS AN ALTERNATIVE TO HOUSEHOLDS’ SAVINGS ALLOCATION IN BANKS

Abstract. In the article, the main alternatives to allocation of savings of households outside the banking system of Ukraine have been investigated. The main emphasis is made on the institutional investors and the potential growth of their assets, subject to the overflow of household savings from the banking system, as well as contributions of the individuals’ income. Evidence shows multiple assets growths of mutual funds, private pension funds, and life insurance companies.

The authors have formulated a list of factors that will contribute to such an overflow of funds. Among them are the following: the overall level of economic stability in the country, the level of individuals’ income, their willingness to make long-term investments, dissemination of public information about the scope and methods of savings allocation. Given the fact that a substantial portion of institutional investors’ assets is traditionally invested in capital market instruments, the importance of further development of such financial intermediaries is emphasized in this paper. The authors have proposed a linear multiple regression model which shows a direct dependence of the Ukrainian stock market trading volume from changes in GDP and gross public debt, as well as an inverse dependence from changes in the consumer price index, gross savings, and deposit rates.

Keywords: bank; deposit; stock market; institutional investors; mutual funds; private pension funds; life insurance companies; GDP.

JEL Classification: C25, G10, G20

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Introduction. Ukraine as a state requires a significant amount of financial resources, but much of it has to be attract-
ed from foreign donors (IMF, EBRD, Eurobonds, Government bonds with the funds of non-residents, etc.). At the same time, the state has its own potential investor – the population, which instead regularly removes money from the financial system of Ukraine.

Due to the absence of a law on transfer pricing, big business declares either losses or minimal profits. All indications are that the government is an inefficient owner. In the financial system, only banks offer an alternative to funds deprecation, but recently they also have had some problems, because the system continues to stagnate against the background of increasing nonpayment of borrowers’ debts. The situation is aggravated by significant outflows of funds from deposit accounts of individuals. Financial resources, derived from the banking system, although partially go to current consumption, in the mass are not included in the economic circulation.

The problems of some financial market players could be used by other financial institutions to raise funds for their own free circulation. Individuals should think about alternative areas of funds investment to cover the negative effects of inflation and devaluation of the national currency against foreign currencies (which was at list 100% in 2014).

Brief Literature Review. Institutional development of the financial sector was considered by many scholars. In particular, we should note the research of E. Davis (2001) [1], who revealed the role of institutional investors in the financial market.

Domestic scholars Z. Vatamanyuk, T. Kushnir [2], S. Naumenko, S. Mishchenko [3] paid much attention to these financial intermediaries, based on their specific activities in Ukrainian realities.

Individual attention should be paid to foreign researchers who have examined the relationship between the development of financial institutions and the stock market, namely to the works of M. Papaioannou (2013) [4], N. Naghavi (2014) [5], R. Ayadi (2013) [6] and others. The possibility of earning profits in Ukrainian stock market was justified by G. M. Corporel and others (2014) [7].

Despite considerable scientific interest in the problems of institutional development of financial sector, usually the subjects only indirectly deal with the dependence of these processes from the activity of households as major suppliers of financial resources. It is their decisions that affect the amounts of money which ultimately appear in financial intermediaries. Under modern conditions of financial instability in Ukraine, these solutions are particularly relevant and require a separate investigation.

Purpose of this paper is to study the potential of household deposits outside the banking system, considering the factors that hinder this process and the importance of other stock market development for the revitalization of institutional investors.

Results. Nowadays, banking system of Ukraine is struggling with a significant outflow of deposits. According to the National Bank of Ukraine, the main group of deposits for 1-2 years suffered the greatest losses (Figure).

Thus, the search for allocation alternatives of individual financial resources has become an increasingly important problem. Let us consider the options. They can be divided into those requiring active individuals’ participation in cash management, and those in which management will be provided by a specialized financial institution. Bank deposits belong to the latter group.

We believe that it is possible to save and diversify the areas of financial resources investment by using stock market instruments. It is clear that operations in this market belong to risky activities, as there is a probability of errors relative to the direction of price changes of securities. But an individual can act both independently buying financial instruments through an authorized broker or online trading, and can transfer the funds to the management, investing in the securities of one of the institutions of collective investment. The latter offer for sale their own instruments whose value is linked to a certain portfolio of assets. This portfolio may include various types of securities (stocks, corporate and government bonds, bills, municipal bonds, savings certificates), precious metals, real estate, bank deposits and other assets.

Unfortunately, collective investment institutions (CII), as well as other institutional investors – insurance companies and private pension funds, are not so well developed and well-known to attract the attention of a large number of individuals. Sheer ignorance about alternative directions of investment funds is the most important reason of the limited citizens’ participation in the institutional investment assets. If only a small proportion of financial resources available to the households could be directed to the sphere of institutional investors, the overall effect of this would be enormous. This hypothesis can be confirmed by relevant statistical data.

If we reallocate the funds share of households located on the bank accounts in the form of term deposits, and compare it with the amount of CII assets (except venture capital), as the part of an individual in venture capital must not be less than the equivalent of 1500 minimum monthly wages) in different years, we can see that the potential for growth is significant (Table 1). Even 3% of the deposits completely cover the amount of CII assets in 2005-2008, and 5% – in 2009-2013.

If we take into account the fact that the average share of individuals in the CII assets (other than venture capital) does not exceed 25% (at the end of 2013), even 1% of term deposits increases this proportion in two times. It means that adequate measures which would increase the interest of individuals in collective investment institutions could significantly change the situation in this segment of financial market. About 60% of all CII assets (except venture capital) are placed in securities, so the stock market will get most of them.

Significant effect can be achieved if the subject to distribution is not the savings of population but the share of income from wages. In this case, the resource base increases several times. The savings are accumulated over a long period, while...
The potential resource base of CII with reallocation of the share of term deposits of households, million UAH

<table>
<thead>
<tr>
<th>Year</th>
<th>The amount of term deposits of households</th>
<th>CII assets of various types (except venture capital)</th>
<th>The share of term deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>open</td>
<td>interval</td>
<td>closed</td>
</tr>
<tr>
<td>2005</td>
<td>56118</td>
<td>28</td>
<td>33</td>
</tr>
<tr>
<td>2006</td>
<td>82920</td>
<td>62</td>
<td>38</td>
</tr>
<tr>
<td>2007</td>
<td>127119</td>
<td>572</td>
<td>295</td>
</tr>
<tr>
<td>2008</td>
<td>127282</td>
<td>593</td>
<td>185</td>
</tr>
<tr>
<td>2009</td>
<td>156833</td>
<td>241</td>
<td>256</td>
</tr>
<tr>
<td>2010</td>
<td>208929</td>
<td>286</td>
<td>253</td>
</tr>
<tr>
<td>2011</td>
<td>239470</td>
<td>231</td>
<td>186</td>
</tr>
<tr>
<td>2012</td>
<td>270137</td>
<td>163</td>
<td>164</td>
</tr>
<tr>
<td>2013</td>
<td>354231</td>
<td>104</td>
<td>127</td>
</tr>
</tbody>
</table>

Source: Own calculations based at [8, 9, 10]

Tab. 1:

The potential resource base of PPF and life insurers, with reallocation of the share of households’ wages income, million UAH

<table>
<thead>
<tr>
<th>Year</th>
<th>The amount of wages of households</th>
<th>The amount of PPF assets</th>
<th>Gross premiums for life insurance</th>
<th>The share of household wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>160621</td>
<td>46</td>
<td>321</td>
<td>16066</td>
</tr>
<tr>
<td>2006</td>
<td>205120</td>
<td>137</td>
<td>451</td>
<td>2051</td>
</tr>
<tr>
<td>2007</td>
<td>278958</td>
<td>281</td>
<td>784</td>
<td>27930</td>
</tr>
<tr>
<td>2008</td>
<td>366387</td>
<td>612</td>
<td>1029</td>
<td>36452</td>
</tr>
<tr>
<td>2009</td>
<td>365300</td>
<td>858</td>
<td>827</td>
<td>3653</td>
</tr>
<tr>
<td>2010</td>
<td>449553</td>
<td>1144</td>
<td>907</td>
<td>4496</td>
</tr>
<tr>
<td>2011</td>
<td>529133</td>
<td>1387</td>
<td>1346</td>
<td>5291</td>
</tr>
<tr>
<td>2012</td>
<td>593213</td>
<td>1650</td>
<td>1810</td>
<td>5933</td>
</tr>
<tr>
<td>2013</td>
<td>633773</td>
<td>2090</td>
<td>2477</td>
<td>6337</td>
</tr>
</tbody>
</table>

Source: Own calculations [9, 10, 11, 12]
Thus, on the basis of the calculations and taking into account their compliance with generally accepted criteria of significance, we can make the final regression equation which relates the change in the trading volume on the stock market 

\[ y = 11.95 x_1 - 19.92 x_2 + 2729 x_3 - 54.02 x_4 + 3139 x_5 \]

As we can see, GDP and gross public debt have positive influence on the trading volume on the stock market, while consumer price index, gross savings, and interest rates for deposits have negative influence.

Conclusions. Summing up the results of the study, it can be argued that Ukraine has the potential of increasing role of institutional investors (mutual funds, private pension funds, life insurance companies, etc.) as alternative savings institutions. The success of their activity will depend on the overall economic stability of the country, raising of individual income, spread of information on the trends and ways of money investment among the population and their willingness to make long-term investments. Another key to success, in our opinion, is an active development of the stock market, which forms the supply of financial instruments for investment.

Institutional investors still place the raised funds in stock market instruments. But the amount of assets at the disposal of these financial intermediaries is not sufficient to achieve qualitative changes in the development of the stock market. For this reason it is important to reallocate household funds in favor of such financial institutions. The degree of development of Ukrainian stock market, as it has been shown in the paper, is determined by the dynamics of selected economic indicators, among which the most important are GDP, consumer price index, gross savings, deposit interest rates, and gross public debt.

References (in language original)