

STRATEGY OF UKRAINIAN FINANCIAL SECTOR DEVELOPMENT UNTIL 2025

Implementation Report 2020



MINISTRY OF
FINANCE OF
UKRAINE



National Bank
of Ukraine



SUMMARY

Despite the economic crisis caused by COVID-19, financial sector regulators are successfully implementing the Strategy of Ukrainian Financial Sector Development until 2025 (Strategy).


Main achievements of 2020 are:

- financial stability maintained despite the COVID-19 pandemic
- implementation of the SPLIT law and taking over NBFIs supervision functions
- launch of the extended version of NBU BankID system
- development and registration of the payment systems law (PSD2)
- implementation of using the digital passport in Diia mobile app for cash transactions
- the NBU joining the Sustainable Banking Network (SBN) in order to raise environmental, social, and corporate governance standards in banking
- development of the NBU's function to protect the rights of financial services consumers
- development of the action plan for Oschadbank to become a DGF participant and preparation of respective amendments to laws of Ukraine
- presentation of the conceptual guarantee system model for credit unions and life insurance companies created based on the DGF; preparation of an action plan to create the guarantee system
- implementation of the mechanism of remote general meetings of shareholders and corporate investment fund participants in order to take restrictive measures aimed at preventing the spread of COVID-19
- approval of the Corporate Governance Code: Key Requirements and Recommendations
- adoption of the Law of Ukraine On Amendments to Certain Laws of Ukraine on Streamlining Investment and Implementing New Financial Instruments, which provides legal framework for the organized market infrastructure, in particular for the functioning of commodity markets and markets of derivative financial instruments
- setting financial requirements and prudential indicators for trustees of real estate transaction funds and construction financing funds and for administrators of private pension funds
- implementation of the new reporting format for private pension fund administrators, namely the submission of daily administrative data of private pension funds
- development of draft regulations on licensing commodities exchanges
- launch of the financial reporting collection center Financial Reporting System aimed at submitting financial reporting in the unified electronic format iXBRL

Fulfillment of Main KPIs under the Strategy (1/5): Financial Stability


	01 January 2020	01 January 2021	2025
Reduction of the shadow economy, % GDP	28%	↑ 31%*	20%
Reduction of the banking system's NPL ratio	52,9%	↓ 41%	No more than 10% of the total loan portfolio
Net foreign currency loans (corporate and retail) as a percentage of the total net loan portfolio	41.4%	↓ 35%	No more than 30%
Foreign currency deposits (corporate and retail) as a percentage of the total deposit portfolio	41.7%	↑ 42.4%	No more than 30%
Share of eligible assets in total assets of insurance companies	66.7%	↑ 78%	No less than 80%

* As of 1 April 2020 according to the Ministry of the Economy.

 Indicators in the Financial Stability strategic area show positive performance dynamics, except for a slightly negative trend of foreign currency deposits increasing as a share of total deposits.

Fulfillment of Main KPIs under the Strategy (2/5): Macroeconomic Development

	01 January 2020	01 January 2021	2025
Share of state-owned banks in the banking system's assets	55%	↓ 54%	No more than 25%
Ratio of net bank loans to GDP	16.50%	↓ 15.57%	22%
Penetration of SME lending	1.4%	↑ 2.37%	3% of GDP
Penetration of nonbank lending	<1.9%	= <1.9%	No less than 3% of GDP
Penetration of financial leasing	<0.6%	↑ 0.9%	No more than 2% of GDP
Effective lending using trade finance and structured finance instruments	<3%	= <3%	No less than 10% of the banking system's assets
Penetration of pension assets with private pension funds	0.08%	= 0.08%	No less than 1% of GDP
Proportion of life insurance in total net earned insurance premiums	11.7%	↑ 12.19%	No less than 20%

 The share of state-owned banks, penetration of financial leasing services, and the proportion of life insurance in total net earned insurance premiums show positive dynamics, whereas the rest of indicators require to be worked on more thoroughly.

Fulfillment of Main KPIs under the Strategy (3/5): Financial Inclusion

	01 January 2020	01 January 2021	2025
Number of open basic accounts/adult population	63%	= 63%*	80%
Cash (M0) to GDP	12.01%	↑ 12.9%	No more than 7.5%
Ratio of cashless card transactions (including P2P) to the total number of transactions	82.4%	↑ 86.9%	No less than 85%
Ratio of cashless card transactions (including P2P) to the total volume of transactions	50.3%	↑ 55.9%	65%
Public trust in the financial system	≈10%	= ≈10%*	60%
Financial literacy index	11.6%	= 11.6%**	12.5

* Previous year's data due to unavailability of up-to-date data.

** The World Bank's consumer protection survey, which is done every three years.



Ratios of cashless card transactions to total number and volume of transactions demonstrate positive dynamics, but cash (M0) to GDP and public trust in the financial system show unsatisfactory performance.

Fulfillment of Main KPIs under the Strategy (4/5): Financial Markets Development

	01 January 2020	01 January 2021	2025
Assets of public collective investment vehicles	0.1%	= 0.1%*	No less than 5% of GDP
Penetration of insurance	1.40%	↑ 1.48%	No less than 2% of GDP
Assets of contribution pension provisioning	<0.1%	= <0.1%*	No less than 2% of GDP
Making depository, clearing, and settlement infrastructure financially self-sufficient	Not implemented	= Not implemented	Depository, clearing, and settlement infrastructure is financially self-sufficient
Launching the market of infrastructure bonds in Ukraine, including green bonds	Not implemented	↑ The law has been signed on introducing new tools, in particular green bonds	Issue of infrastructure bonds in Ukraine, including green bonds
Holding IPO of shares and public offering of corporate bonds	Not implemented	= Not implemented	Held IPO of shares in Ukraine and public offering of corporate bonds
Launching circulation of documents of title	Not implemented	= Not implemented	The legal framework created for the circulation of documents of title
Establishing the securitisation procedure in line with the new legislation	The legislation covers only securitisation of mortgage loans	= The legislation covers only securitisation of mortgage loans	The legal framework created for securitisation

* Data as of 30.09.2020.



The indicators of financial market development have not been met yet, except the positive change in insurance penetration.

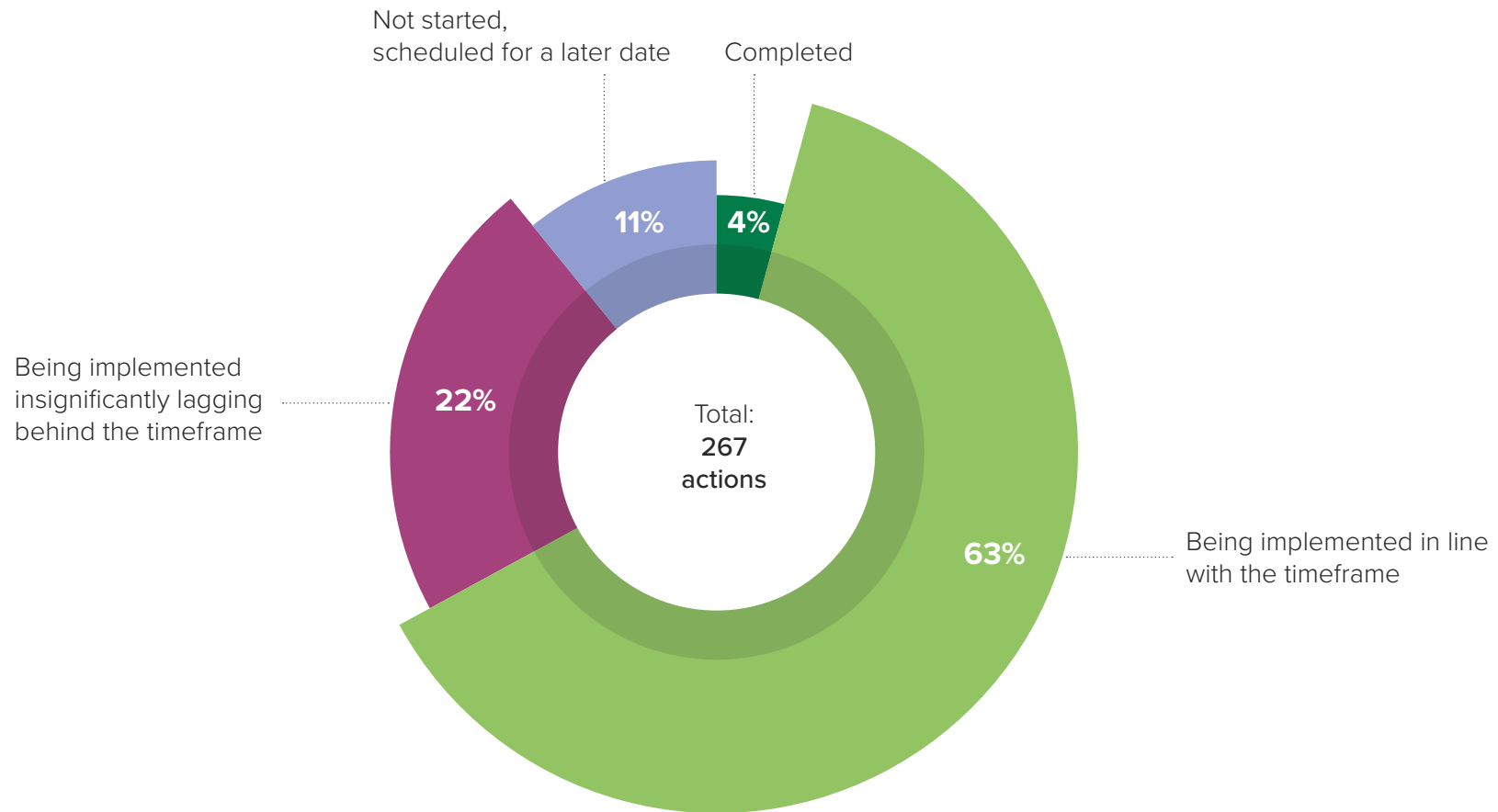
Fulfillment of Main KPIs under the Strategy (5/5): Innovative Development

	01 January 2020	01 January 2021	2025
Share of PROSTIR payment system issuing banks	21%	= 21%	More than 70%
Acceptance of PROSTIR cards in Ukraine	POS – 98%; ATM – 87%; e-com >85%; p2p <50%	= POS – 98%; ATM – 87%; e-com >85%; p2p <50%	More than 99%
Increase in the number of banks participating in the NBU's BankID system	22.5%	↑ 63.0%	No less than 70% (by total assets)
Proportion of car accidents settled by using the European Accident Statement	34.1%	↑ 34.2%	No less than 50%
Proportion of agreements on compulsory third party liability insurance of motor vehicle owners concluded online	15.08%	↑ 37.00%	100%



Innovative development indicators show the best performance in meeting the targets set for 2025.

Strategy 2025 Roadmap Implementation Status as of the End of 2020



For reference. Proposals to the Strategy sent in 2020 approved by stakeholders at two meetings of the Communication Platform and a number of subsequent meetings were included to the first Strategy update approved by signatory institutions in Q1 2021. Implementation dates were changed for 28 actions of the Strategy roadmap (implementation period was reduced for 2 actions and extended for 26 actions). The main reason for the extension were the adoption of the SPLIT law and the related widening of the list of financial sectors reporting to the NBU and the National Securities and Stock Market Commission, delays in the adoption of laws by the parliament, etc.

Progress of Strategy 2025 Roadmap Implementation by Strategic Directions

Strategic direction: I. Financial stability

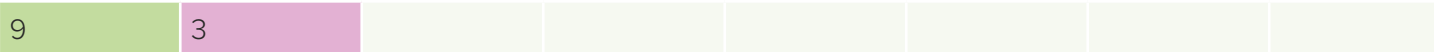
Strategic objective: 1. Effective regulation of the financial sector and improvement of supervisory approaches



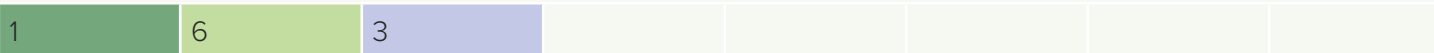
Strategic goal 2. Transparent financial sector



Strategic goal 3. Financial sector's resilience to challenges (shoks)



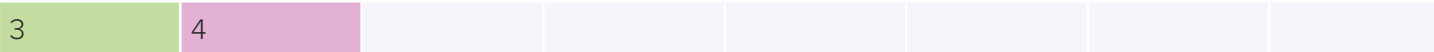
Strategic goal 4. Increasing the quality of corporate governance and risk management in the financial sector



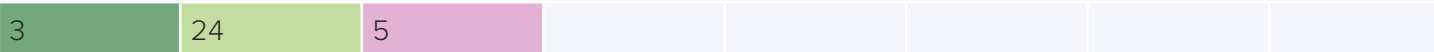
- Completed
- Being implemented in line with the timeframe
- Being implemented insignificantly lagging behind the timeframe
- Not started, scheduled for a later date

Strategic direction: II. Macroeconomic development

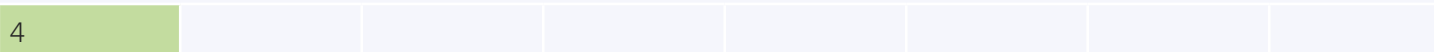
Strategic goal 1: Ensuring the sustainability of public finances



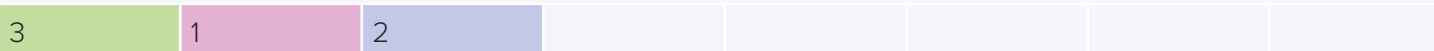
Strategic goal 2: Support of lending to the economy



Strategic goal 3: Protection of the rights of creditors and investors



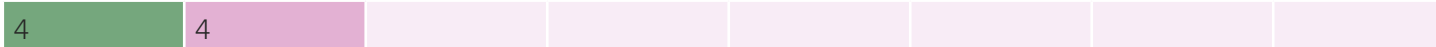
Strategic goal 4: Creating conditions for raising long-term funding for the economy



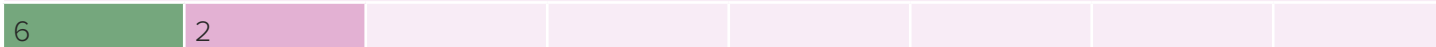
Progress of Strategy 2025 Roadmap Implementation by Strategic Directions

Strategic direction: III. Financial inclusion

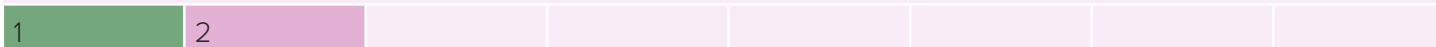
Strategic goal 1: Enhancing the accessibility and level of financial services usage



Strategic goal 2: Enhancing the protection of consumer rights in financial services



Strategic goal 3: Improving the financial literacy of the general public



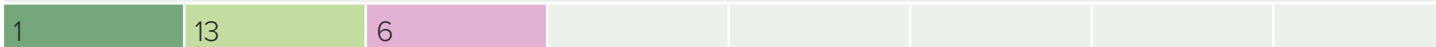
- Completed
- Being implemented in line with the timeframe
- Being implemented insignificantly lagging behind the timeframe
- Not started, scheduled for a later date

Strategic direction: IV. Financial market development

Strategic goal 1: Promoting nonbank financial services markets



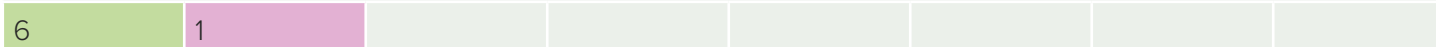
Strategic goal 2: Effective infrastructure of capital markets



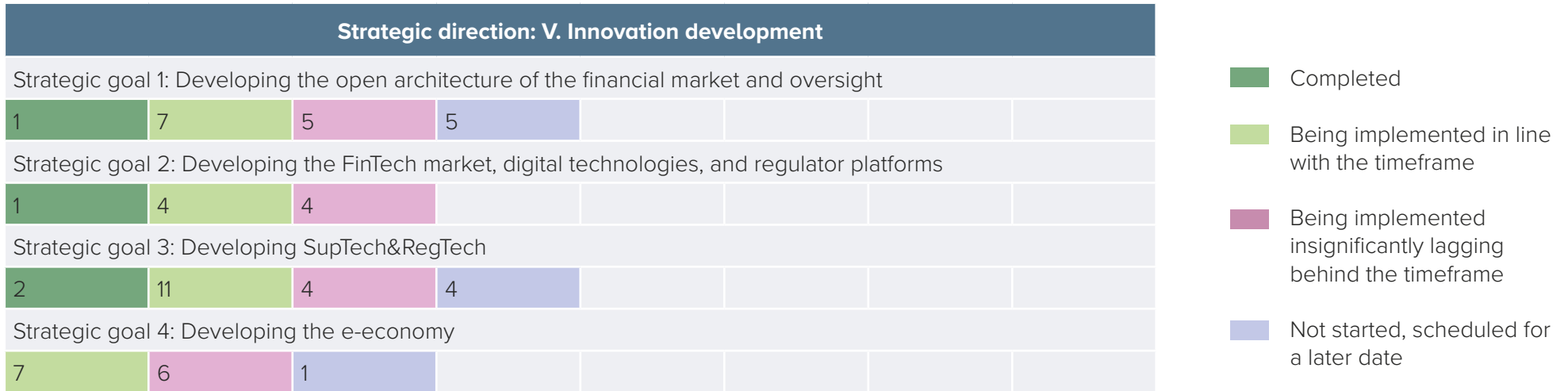
Strategic goal 3: Introducing liquid markets for financial instruments and mechanisms/instruments of mitigating the risks of financial transactions



Strategic goal 4: Integrating Ukraine's financial market into global finance



Progress of Strategy 2025 Roadmap Implementation by Strategic Directions

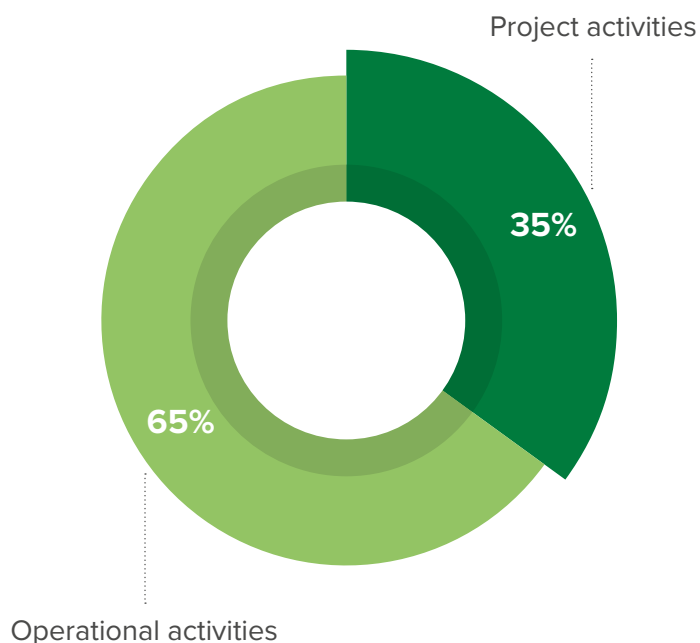


A detailed report on the implementation of the Strategy roadmap can be downloaded at the [link](#).

NBU's Portfolio of Projects Run under the Strategy

Project portfolio structure

Strategy implementation format at the NBU



More than 10 new projects were launched as of the end of 2020:

- NBU Credit Register 2.0 (1Q 2020)
- Development of Paperless Technologies (Paperless 2.0) (2Q 2020)
- Control of Cash Circulation (Cash Management) (2Q 2020)
- Top Manager Testing (Suptech) (3Q 2020)
- Regulatory Technologies (Regtech) (2Q 2020)
- State Data (2Q 2020)
- Logistics and Automation of Cash Handling (3Q 2020)
- Process and Product Model of Cash Circulation Management (1Q 2020)
- Creating Functional Strategy of Cash Circulation and Payment Systems Regulation (1Q 2020)
- Cash Control System (a system to control cash circulation in Ukraine) (2Q 2020)
- Interinstitutional project program Lending Resumption in Ukraine, which includes five projects (4Q 2020)
- Establishing Central Cash Center (4Q 2020)

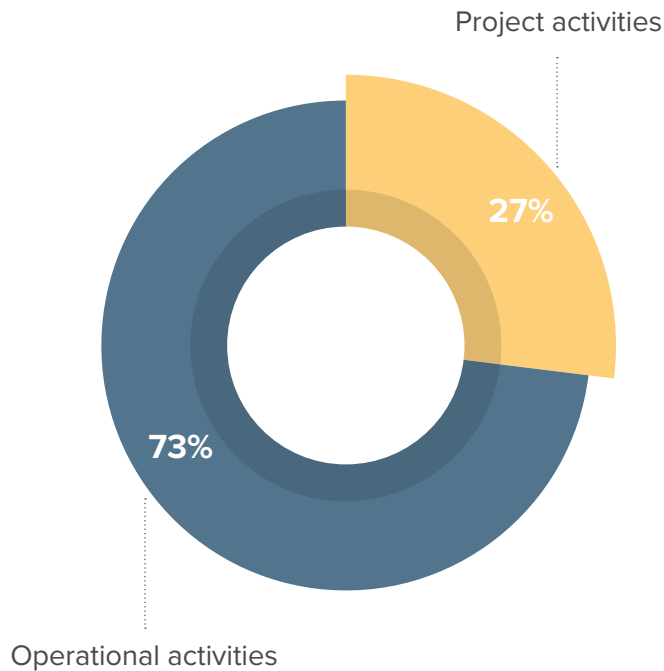


As of 31 December 2020, 35% of measures were being taken as part of project activities inside the NBU and 65% as operational activities (the proportion across all institutions is 23% and 77%).

NSSMC's Portfolio of Projects Run under the Strategy

Project portfolio structure

Strategy implementation format at the NSSMC



The following new projects were launched as of the end of 2020:

- Harmonization of tax legislation with the laws regulating financial services and capital markets
- Introducing European approaches to regulation of investment funds
- Introducing licensing for commodity exchanges and regulation of trading at commodity exchanges
- Settling mechanisms for asset securitization
- Analysis of conformity of the legislation on public offering and prospectus to EU regulations
- Elaborating regulations on trade repository authorization and business
- Improvement of regulations covering clearing activities
- Introducing software for financial reporting in iXBRL format
- Quality improvement of the attestation system for stock market experts

! As of 31 December 2020, 35% of measures were being taken as part of project activities inside the NBU and 65% as operational activities (the proportion across all institutions is 23% and 77%).

DGF's Portfolio of Projects Run under the Strategy

Dedicated working groups have been created to:

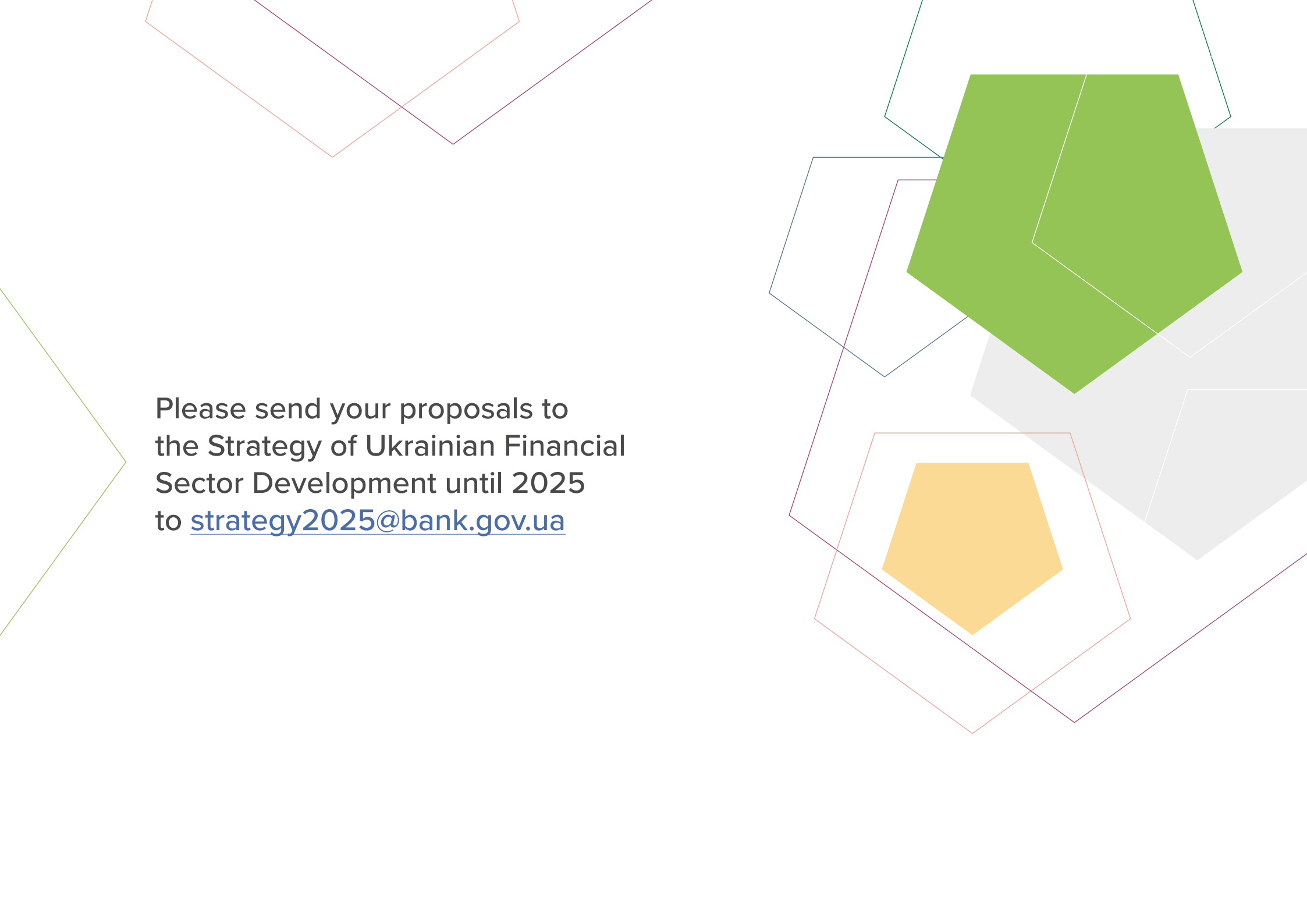
- arrange that the DGF takes the measures envisaged in the Strategy of Ukrainian Financial Sector Development until 2025
- implement the EBRD's technical assistance project Assistance in Debt Restructuring and Compliance with EU Secondary Law
- implement directives 2014/49/EU and 2014/59/EU of the European Parliament and the European Council
- make arrangements for Oschadbank JSC to become a participant of the Deposit Guarantee Fund
- make arrangements for nonbank financial institutions to participate in the retail deposit guarantee system.

In order to implement the Strategy, the DGF has:

- prepared the draft action plan for creating a deposit guarantee system for members of credit unions and guaranteeing payouts under universal life insurance agreements
- presented the conceptual guarantee system model for credit unions and life insurance companies created based on the DGF
- developed an action plan under the project to make Oschadbank a DGF participant; the DGF has made the following preparations for taking measures approved by the updated version of the Strategy:
- prepared proposals of legislative amendments regarding settling the DGF's debt, ensuring participation of Oschadbank in the DGF, and raising the maximum amount of compensation for deposits
- prepared proposals of legislative amendments regarding the mechanisms of working with bank related parties and regarding compensation of damages (losses) to creditors.



As of 31 December 2020, 50% of the work was carried out by working groups to take the measures set in the Strategy according to the DGF decision No. 67 dated 13 January 2020, and another 50% to prepare for implementing the tasks set in the updated Strategy according to the DGF decision No. 193 dated 25 February 2021.



Please send your proposals to
the Strategy of Ukrainian Financial
Sector Development until 2025
to strategy2025@bank.gov.ua