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DIVERSIFICATION OF NATIONAL FINANCIAL MARKETS IN THE CONTEXT OF GLOBALIZATION

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A. Shlapak. Diversification of national financial markets in the context of globalization. The article contains analysis of factors affecting diversification of national financial markets. It determines specific characteristics of national financial markets diversification processes in the context of globalization and analyses the impact of global economic transformations on the world financial system.

Keywords: globalization imperatives, diversification processes, financial consolidation, regional economic integration

Current global economic transformations are having an unprecedented, revolutionary impact on the world financial system. It shows, first of all, in the acceleration of processes of financial globalism, which is of objective character and is a natural result of increased scale of transboundary financial assets transition; dynamization of investment and credit activities of transnational corporations and banks; increased internationalization of national financial systems; deepening of interstate financial relations; liberalization and convergence of monetary, investment, and credit markets; and diversification of mechanisms of accumulation and redistribution in the economy of investment and credit resources.

Analysis of recent researches and publications

A significant number of works by national and foreign researchers is dedicated to the analysis of diversification of national financial markets, in particular: R. Pitts, H. Hopkins, C. Buz, L. Allen, W. Hamilton, D. Lukyanenko, A. Poruchnyk, Y. Stolyarchuk, etc.

The aim of the article is analysis of globalization imperatives, which have had a substantial catalyzing impact on the scale and dynamics of national financial markets diversification.

The main part

It should be noted that the describing diversification processes of national financial markets have significantly accelerated in the context of globalization, which caused deepening of financial systems internationalization in different countries; triggered the processes of accumulation, exploitation, and appropriation of financial resources outside national borders, as well as stimulated expansion of investment and credit activities of transnational corporations and banks [1]. Therefore, we should state key globalization imperatives that have had a substantial catalyzing impact on the scale and dynamics of national financial markets diversification.

First of all, we should draw attention to acceleration of trans-nationalization processes in financial and economic activities that manifests itself in the growth of transnational structures scale of activities. The statement is supported by the following data: currently there are about 82 thousand TNC with more than 825 thousand foreign branches worldwide; 500 of the largest TNCs realize 80% of the world’s electronics and chemical products, 95% – of pharmaceuticals, 76% – of engineering products. TNCs control up to a half of the world’s manufacturing sector, two thirds of international trade, about 4/5 patents and licenses for modern equipment and technologies [2]. According to UNCTAD, during the period of 1990-2014 the added value produced by foreign branches of TNCs increased from $1.0 trln. to $7.9 trln., their total assets – from $4.6 trln. to $102.0 trln., total sales – from $5.1 trln. to $36.4 trln., the number of employees – from 21.5 to 75.1 mln. people, export activities – from $1.5 trln. to $7.8 trln. [2].

It was dynamic development of transnational business that became the material basis for diversification processes in the financial sector, first of all, on the ground of intensification of integration processes of banks joining the global financial system, increase in versatility of their activities, and deepening of their cooperation with non-banking financial institutions. In the span of previous years the share of private funds engaged by non-bank financial institutions (which is approaching a 50% mark in the USA) has been rapidly growing [3]. According to the "Fortune Global 500", out of the top 30 largest international financial groups half of the companies with the highest financial rates belong to the insurance market, and the other 50% – to the banking services market. Among those companies on the list that operate on the insurance market more than a half specialize in life insurance [4]. The total sales of the top 10 largest world companies in life and health insurance as of 2014 was $557.8 bln.; total revenue – $27.1 bln., total assets – $4.0 trln., and market capitalization – $516.2 bln. [5].

On top of that, the enormous scale of transnational business and its expansion to an ever-increasing number of countries and regions require flexible adaptation of local financial markets to its needs, and thus – their diversification. At the same time, the high level of standardization and unification of transnational activities requires that in all countries, where affiliate branches of TNCs are located, bank and non-bank institutions should function in accordance with rules and regulations established by the developed countries.

The next globalization imperative of national financial markets diversification is escalating competition between its operators (first of all, between banks, and between banks and non-bank institutions as well) for global investment and financial and credit capital, for consumers of financial services, and for market segments. This imperative reflects the main and constant, since the time of formation of capitalistic market economy, motive of operation of the corporate sector business structures – generation of the maximum revenue, its accumulation and capitalization, as well as priority of financial effectiveness of economic activities over production of natural and physical goods, in other words – supremacy of financial economy over the real one. This causes a constant increase in demand for financial resources, escalation of competition for the opportunity to produce financial services, as well as speculation of financial resources instead of their direct investment into production. Therefore, financial intermediaries are also facing new requirements regarding their strategic and operative activities; financial and economic efficiency; development of advanced, specialized, and individually-oriented financial products with the view of increasing consumers' demand for them; implementation of innovative technologies of financial activities; improvement of administrative structure; provision of the most comfortable customer service conditions, development of flexible corporate policies to provide for control over operating expenditures.

In this context it should be noted that today we are witnessing the end of the age of non-diversified specialized financial institutions. As a result of financial globalism, apart from principal activities (payment and account, loan and deposit client services) they actively engage in direct and mortgage investment, project financing, leasing and factoring transactions, develop information services and consulting business. And although most of the above does not belong to traditional types of financial services, development of financial institutions in these fields is intensifying, and they themselves are not only penetrating into the system processes of other segments of economy, but are bringing in their own "rules of the game". As a result, the subjects of the real economy are taking ever more active part in stock speculations, adopting traditional banking services, granting credits to their clients without involving bank institutions (b2c – business for consumers and b2b – business for business) [6], which ultimately leads to transformation of production capital and trade capital into financial one.

The established tendency of financial institutions outgrowing the framework of non-diversified specialization can also be noted in the banking services sector, where in the past decades diversification processes of turning commercial banks into so-called "financial supermarkets" significantly accelerated. It is a specific business model of retail banking, which provides clients with the necessary banking and non-banking package (securities transactions, insurance, etc.) in one place, excluding manipulations that engage their own financial resources. Banking outlets that employ the financial supermarket model are normally located in places convenient for the clients (mobile carrier stores, supermarkets, malls, etc.), specialize in simple investment products (that do not include transactions with investment deposits, bank accounts, metals accounts, etc.) and do not set high requirements for the clients in the event of opening credit lines.

The first financial supermarkets were established in Europe back in the 1970-1980s, and in the U.S. and Japan – in the late 1990s. Currently they are common in the Benelux countries, Southern Europe, the U.S. and Japan [7]. An example of realization of such retail banking business model is Citigroup with its banking institutions that operated as large financial supermarkets until the end of 2012.

Escalating competition on the global financial services market leads to such globalization imperative of financial markets diversification as acceleration of consolidation processes in the financial field, which have been shaping new conditions of financial intermediaries' activities in the recent decades. Therefore, strengthening of competitive positions of financial markets agents is only feasible on he basis of maximal mobilization of their inner development potential and employment of its exogenous variations, among which an important role currently belongs to mergers and acquisitions. Foreign experience shows that mergers and acquisitions are also one of the most efficient mechanisms of concentration and centralisation of financial intermediaries' capital, redistribution of market segments between them, unification of banks and independent financial companies, strategic re-orientation of their activities, significant reduction of transaction expenditures and lowering the barriers to enter new financial services markets. Thus, in the period of 2008-2013 the total worth of net sales in transnational mergers and acquisitions in the financial sector increased from \$103.6 bln. to \$134.9 bln. (in 2009 they accounted for \$17.1 bln., in 2010 – to \$58.5 bln., in 2011 – to \$64.7 bln., in 2012 – to \$49.6 bln.) [8], or from 16.8% to 33.8% of the global net sales in mergers and acquisitions.

Alongside national mergers and acquisitions, such as the unification of the French banks "Societe General" and "Paribas", the current processes of mergers and acquisitions are constantly gaining a more global character, when financial institutions of different national affiliation are getting involved in such operations. Here, in particular, the merger of the German "Deutsche Bank" and the American "Bankers Trust" should be mentioned, totaling over \$10.1 bln. (1998); of the British "Nat West" with the American "Union Bank" and the Swiss "Swiss Bank Corporation".

Especially aggressive in the context of mergers and acquisitions during the 2000s was the policy of the American "Bank of America", which, in the period of 2004-2008 alone acquired "Security Pacific", "Nations Bank", "Continental Bank" (the U.K.), "Fleet Boston Bank" and "Merrill Lynch". In 2007 the Dutch "ABN-AMRO" merged with the Italian "Antonvenuto", and the German "ING-Barings" – with the Belgian "Bank Brussel Lambert"; in 2006 the British "Fortis" acquired the Belgian "General de Bank"; in 2006-2007 the Swedish "Svenska Handelsbanken" merged with the Norwegian "Skanska Banken". Generally, in the period from 1992 to 2015 the world banking sector experienced more than 100 massive mergers and acquisitions.

Another current direction of consolidation processes in the financial sector is mergers and acquisitions of stock exchange markets caused by globalization of the stock exchange activities, which in the past decades became a powerful driver of new segments of the world financial market formation as a result of escalating competition both between stock exchange markets themselves for investors and securities issuers, and between stock exchange markets and alternative trading platforms. The latter, as confirmed by the foreign experience, have appeared as more flexible and efficient structures, capable of offering stock market traders more convenient conditions of shares and bonds placement, various models of trading with consideration of the traders specific needs, and a full-time regime of global trade in security assets.

Thus, the result of escalating competition between stock markets is their wide implementation of innovative stock exchange technologies and modernization of stock trade systems (technologically-instrumental diversification of financial market), as well as mergers of regional stock markets followed by establishment of large stock holdings and alliances (subject market diversification). An example of this is the merger of the New York Stock Exchange and the electronic stock exchange "Archipelago Holdings Inc." in 2006 (which resulted in the establishment of a new company "NYSE Group Inc."); the merger of "Chicago Mercatile Exchange" with its rival "Chicago Board of Trade" in 2007 that led to the establishment of "CME Group Inc."; the merger of several national stock exchange markets and the establishment of the European stock exchange "Euronext" in 2007, which consolidated the markets of France, the Netherlands, Belgium, and Portugal, and incorporated the London International Financial Futures and Options Exchange ("LIFFE"). The result was the establishment of the pan-European exchange "EURONEXT NV", within which trade, clearing and payment systems of stock, derivatives, and product markets of three exchanges were integrated [9]. And such examples are numerous.

As a result of financial consolidation and universalization of institutional financial market players the clients are granted a full range of services in the spheres of clearing and payment, credit and deposit, investment and insurance on the basis of complementary innovative financial technologies, with the maximum level of security. Such integration and universalization lead to emergence of institutions on the financial services market forming a branch network according to the principle of matrix organization ("Merrill Lynch", "Goldman Sachs", "Solomon Brothers", "First Boston", etc.), where the client receives a full-scope financial service [6].

Special attention should be paid to such globalization imperative of financial markets diversification as acceleration of regional economic integration processes. The mechanism of regional integration's impact on transactions performed by financial markets players shows in the convergence of national economies of States members of integration alliances, comprehensive liberalization of interstate trade, investment, and credit-financial relations, which naturally carries reduction in transaction costs of financial operations as a consequence.

Especially vividly such impact can be seen in the monetary and financial European Union with its unified European Central Bank, European budget, unified currency, and consistent monetary and financial policy. Thus, the operation of the European financial market in the past decades significantly modified financial assets trading on the global financial market, particularly, the number of euro-denominated transactions has increased by 30-40%. In addition, integration of national financial systems of 28 European countries has led to emergence of new transactions and to a more dynamic development of all the market sectors.

Similar integration processes in financial and monetary spheres have emerged in other regions of the world as well (North America, Southeast Asia, Africa, the Middle East), where projects of regional monetary and financial unions are currently being developed.

Describing globalization imperatives of financial markets diversification, we cannot leave without attention their liberalization and systemic reforms of the financial sector, which have significantly mitigated fragmentation of the global financial market, eliminated its geographical and instrumental division, and fostered consolidation of financial companies into conglomerates and syndicates by allowing them to conduct non-core activities and to execute consolidation agreements on mergers and acquisitions. The liberalization tendencies in regulation of national financial markets began when states switched to the system of floating exchange rates in 1973, which promoted emergence of new financial products, growth of the role of innovative financial technologies, increase in transparency of financial transactions, and establishment of closer ties between national financial markets.

The essence of deregulation of financial markets lies, first of all, in refusal of the state to intervene directly in the activities of financial intermediaries through changes in national legislation. In the banking sphere it means the refusal of state to require a certain level of interest rates in deposit and credit bank operations; to give directives regarding credit in certain fields and for certain entities; to require compulsory crediting of specialized financial institutions by the banks; and to ban banks from opening certain types of accounts, combining different types of activities, and to regulate the number of affiliate branches.

At the same time, financial liberalization in the sphere of stock market transactions expects refusal to claim compulsory financing by the banks of state budget deficits through buying state securities for an established price; transition to auction form of state securities emission; abolition of limitations for national emitents and investors to access national equity markets; cancellation of fixed stock commission fees, etc.. Therefore, as a consequence of liberalization of banking and stock segments of national financial markets, already in 1980s developed countries saw the operation of both primary and secondary security markets [10], which confirms the subject, product and class, technological and instrumental, and institutional and regulatory diversification of their financial markets.

If we analyse a more long-term foreign experience of financial markets' liberalization, we will find that the most liberalized, deregulative regimes of financial markets operation were mostly implemented in periods of economic growth, when, for the purpose of monetary offering financial intermediaries' expansion were allowed to conduct operations unusual to them. The best example of that is the Financial Services Modernization Act (so-called Gram – Leach – Bliley Act) adopted by the U.S. Congress in 2000. This Act, having replaced the Glass – Steagall Act of 1933, abolished the functional principle of the U.S. financial market regulation, mandatory separation of deposit and investment functions of the banks, and the strict limitations regarding bank interest rates in fixed period and savings deposits (the so-called "Regulation Q"); allowed banking holding companies to merge with financial sector companies (investment banks, assets managing companies, insurance companies, and non-bank institutions); and also allowed financial institutions to perform operations naturally extrinsic to them, from the point of maintaining circulation of a certain financial asset in the economy.

Following the adoption of this Act investment banks, insurance and pension funds obtained the right to engage in commercial crediting; and commercial banks – to engage in stock operations, insurance, trade in futures, options, swaps, etc. Furthermore, universal banks became underwrighters, organizators, and traders on the stock market; and project financing, which about 20 years before that was mainly the specialization of the largest universal and commercial banks, became a platform for activities of investment banks, which began introducing these projects to the stock markets. In other words, a complete "intertwinement" of functions belonging to financial institutions took place with their transition to performance of so-called transformed functions, which, on the one hand, provides convergence of the global credit (first of all, in the segment of syndicated loans) and stock markets, but on the other hand, significantly masks the nationality of financial capital.

Deregulation and liberalization of financial operations also involve reduction of taxes and commission fees for financial transactions; removal of barriers for foreign investors on their way to national financial markets; mitigation of competition legislation where it concerns establishment of financial holdings; and creation of a network of offshore credit- and financial institutions operating in preferential tax regime. Although such measures cause a significant diversification of operations performed by the players of the world financial market in terms of countries and regions, and also financial products through implementation of complex derivatives (securitized assets and credits, "squared" non-recourse debt, banks' holding of corporate sector shares, consumer loans and credit cards of savings institutions, etc.), they also became the major cause of the 2007-2009 global financial crisis. The latter originated in the U.S. mortgage market and then spread out to almost every country in the world and to all segments of the global financial market with unprecedented dynamics.

The next globalization imperative of national financial markets diversification is, in the author's opinion, the global tendency towards unification of accounting standards and establishment of the financial management's global system. Regarding standardization of technological ways of conducting financial operations and their accounting and analytical assistance, the main role in the process belongs to the International Association of Insurance Supervisors (IAIS) (founded in 1994). During the time of its existence it has adopted a number of instruments unifying principles, standards, and guidelines of the state control over activities of insurance companies and groups. In particular, these instruments are "Principles on the supervision of international insurers and insurace groups and their cross-border business operations" (1997) and "Guidance paper on the use of supervisory colleges in group-wide supervision" (2009).

Furthermore, in cooperation with the Basel Committee and the International Organization of Securities Commissions (IOSCO) IAIS has also developed so-called "Uniform principles of assesment of performance of financial conglomerates", which not only allow to adequatly assess risks of activities of these institutions, but also to provide an integral system of the financial sector supervision. It is about the fact that the operation of any financial conglomerate or a transnational financial group on the market of banking services involves development and implementation of complex financial products (meaning that it leads to product and class diversification of the financial market), when they develop a number of internal connections, and losses on certain markets are covered with profits on others. The result is mitigation of differences between risks of banking activities, trade in securities, and investment and insurance operations.

Therefore, in accordance with the above-mentioned Uniform principles, to any company group under joint control that acts exclusively or mainly providing significant services in at least two different financial sectors (banking, stock, or insurance), such principles of capital adequacy assessment should be applied, which, on the one hand, will mitigate the differences in their clearance in various sectors of the financial market, and, on the other hand, will consider the risks of each sector at the highest level. This approach objectively causes product and class, technological and instrumental diversification of financial markets, is capable of providing efficient regulation of operation of financial conglomerates and transnational financial groups, and of significantly mitigating their potentially risky impact on the stability of national and global financial markets.

The next globalization imperative of financial markets diversification is the progress in development of information and stock exchange technologies, which currently allows to notably speed up the system of interbank payments (SWIFT), trade in securities through such systems as Clearstream Banking, Euroclea, NASDAQ, etc., and also to receive timely information on the state of the global financial market through Bloomberg, DataStream, ValueLine and other channels. It results in correction of information asymmetry on the global financial market and in a significant increase in efficiency of the conducted transactions.

The opposite side of development of information and stock exchange technologies is a process called disintermediation, where financial market subjects refuse the services of financial intermediaries (brokers, banks, specialized credit and financial institutions). It allows both parties in a financial operation to reduce their transaction expenditures on conduction of financial operations by means of commission payments and other fees of financial intermediaries. The processes of refusal of intermediaries include active intrusion of non-bank institutions into the sphere of financial and banking operations. Disintermediation increases when the state attempts to implement direct control over the activities of the banking system [10], because in answer to such measures the market experiences a strong subject diversification, aiming at generating new institutions, which would not fall under the direct control and regulation of the state.

Describing globalization imperatives of financial markets diversification we can not omit the global demographic tendencies and increase in income of the world's population as a material basis of capital saving in the national economies. By the year 2100 all groups of countries will have experienced the consequences of the ageing of population: by the end of this period the total number of people over 60 years old in the world will surpass 3 bln., from that 500 mln. – in developed countries, 2 bln. – in developing countries, 520 mln. – in the least developed countries [11].

Therefore, the ageing of population in industrially developed countries and in a number of developing countries directly affects profitability of financial assets and causes substantial changes in the structure of financial markets of whole regions. The case is that in an ageing society the key objective of the state policy becomes mitigation of pressure on the joint savings and securing an adequate level of profitability of financial capital by means of financial assets' diversification and development of advanced financial instruments, which will foster an efficient process of transformation of the joint savings into investments. One of the most efficient diversification mechanisms of financial markets is such case is development of pension funds and of other financial intermediaries that will mediate the processes of accumulation, distribution and consumption of financial capital in the economy.

At the same time, the increase in percentage of population of working age and improvement of its well-being also stimulates diversification of financial markets, considering the increase of the capital savings volume in the economy, and, therefore – of objective need of their effective investment through financial instruments of the banking, insurance, foreign exchange, and stock markets, consequently stimulating diversification of financial markets. Thus, according to the economists of "Credit Suisse", in the period of 2000-2014 alone the world population doubled its wealth, which increased from \$117 trln. to \$263 trln. That, considering the population growth, amounts to 77%. Currently the middle class (with financial assets from \$10 thousand to \$100 thousand) worldwide can be said to include about 1 bln. people (the Chinese making one third of this number). During the indicated period the total number of dollar millionaires in the world has grown by 164% and as of today amounts to 34.8 mln. people (41% of whom are the U.S. residents), including 128 thousand people in ownership of capital in the amount of more than \$50 mln. (with 45 thousand of them owning more than \$100 mln. of capital, and 4,3 thousand – more than \$500 mln.). In the period until 2019 the total amount of capital worldwide will have increased by 40% and reached \$369 trln., and the total number of dollar millionaires will reach a 53 mln. mark (2.3 mln. of them will be Chinese residents, 20 mln. – American, 19 mln. – European) [12].

Surprisingly, even a great percentage of poor population of the country may also become a catalyst of its financial market's diversification through the development of the so-called socially-oriented financial instruments (microbanking, social banking, directed consumer lending, unsecured general short-term loans, local bank loans, etc.), that not only provide opportunities to satisfy the current needs of individuals in credit resources, but also foster resolutions of social problems and significant mitigation of wealth inequality.

This phenomenon has received a very suitable name in the western scientific literature – "financial inclusion", which reflects the access level of individuals of different social backgrounds and that of legal entities to financial services. The highest level of financial inclusion as of today belongs to countries with high income, where 92% of households have access to the banking sector and not more than 60 mln. of adult population do not use the services of the official financial sector. The same rates for the countries of Central Asia and Eastern Europe are 50% and 193 mln. accordingly; for those of Latin America and the Caribbean – 40% and 250 mln.; of Africa south from Sahara – 12% and 326 mln.; of the Middle East and North Africa – 42% and 136 mln.; of South Asia – 22% and 612 bln.; of East Asia and Asia Pacific – 42% and 876 mln. accordingly [13].

Conclusions

To summarize the above-mentioned it is necessary to indicate that the processes of diversification of national financial markets in the context of globalization have gained systematic and universal character. This naturally results in institution-wise change of role and functional purpose of financial capital in the global reproducing process, increase in its flexibility, development of autonomy from the real sector of economy, and deepening of its integration and interrelation with other forms of capital. Under such conditions the center of geoeconomical and geopolitical power is gradually shifting to the sphere of financial resources circulation, transforming financial capital into a powerful instrument of global economic development and institutionalization of the world economic system.

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