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NONBANK FINANCIAL INSTITUTIONS IN UKRAINE: OPPORTUNITIES AND  
BARRIERS OF REGULATORY FRAMEWORK

Bachelor thesis

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I have written this Bachelor thesis independently. Any ideas or data taken from other authors or other sources have been fully referenced.

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## Introduction

Nonbank financial institutions, hereinafter NBFIs, have become essential components in Ukraine's financial sector. The demand for NBFI services has risen significantly due to economic challenges in Ukraine during the last years. However, recent regulatory changes have significantly impacted the sector, reshaping its structure and performance. (National Bank of Ukraine, 2024b)

NBFIs offer a range of financial solutions, including loans, credit union services, insurance, currency exchange, and pawnshop operations, catering to both personal and business needs (National Bank of Ukraine, 2024a). Their flexibility and niche market focus allow them to provide alternative financial solutions for sectors that are underserved by traditional banks, meeting the growing needs of small and medium-sized enterprises (SMEs) and individuals with limited access to conventional banking (Buha et al., 2023).

The National Bank of Ukraine (NBU) is implementing significant reforms in NBFI regulation as of January 2024. These reforms, designed to align with European Union standards, mandate that NBFIs like credit unions, pawnshops, insurers, and leasing companies provide structured and detailed reporting. The NBU aims to enhance transparency and oversight by requiring reports on assets, liabilities, investment structures, and key risks, allowing for improved regulatory monitoring and reducing financial risks in the sector. Additionally, new prudential and internal control standards will be introduced, raising the bar for financial resilience and solvency. (National Bank of Ukraine, 2024a)

As of recent reports, NBFIs have demonstrated steady growth in asset contributions to Ukraine's financial sector. While traditional banks dominate the market, NBFIs are recognized for their essential role in supporting underserved market segments and promoting financial inclusion. The role of NBFIs in supporting small and medium-sized enterprises (SMEs) and individuals with limited access to traditional banking is critical. Their ability to provide alternative financial solutions, such as microloans, insurance, leasing services that foster economic growth and diversification in Ukraine's financial market, makes them indispensable. (Esh & Hnatenko, 2020)

However, the sector faces challenges, including regulatory pressures and risks to consumer protection, underscoring the need for robust oversight (Buha et al., 2023). These institutions also contribute to investment activities, further stimulating economic development, which makes them an integral part of the financial system (Orlova, 2014).

While NBFIs contribute to inclusion, they also present unique risks due to generally looser regulatory oversight compared to traditional banks. These institutions are prone to high

levels of financial risk, limited transparency, and in some cases, predatory lending practices that can harm vulnerable consumers (Buha et al., 2023). Addressing these challenges is crucial for ensuring financial stability and protecting consumer interests.

The current literature on NBFIs provides a foundational understanding of their role in financial inclusion and economic development. Global studies, such as those by Acharya et al. (2024), examine the intersection of banks and NBFIs, offering a framework to understand how regulatory shifts shape the financial ecosystem. Similarly, Carmichael and Pomerleano (2002) highlight the critical role of regulatory frameworks in supporting the development and stability of NBFIs, emphasizing their capacity to address gaps left by traditional banks. However, much of the global literature focuses on developed markets or broad macroeconomic trends, often overlooking the specific challenges and opportunities faced by NBFIs in emerging economies like Ukraine.

Existing studies in Ukraine, including those by Buha et al. (2023), Esh and Hnatenko (2020), Orlova (2014), and Vnukova (2022), were conducted prior to the regulatory reforms introduced by the National Bank of Ukraine in 2024, providing valuable insights into the local NBFI landscape. Additionally, the unique structure of Ukraine's NBFI sector, which includes entities like currency exchange operators and factoring firms, is underrepresented in the literature. Existing works do not examine how these entities adapt to new regulatory challenges or leverage emerging opportunities.

This thesis addresses a gap identified in the literature regarding the practical implications of recent regulatory reforms in Ukraine's nonbank financial institutions. Previous studies, primarily focus on theoretical frameworks or statistical analyses but lack qualitative insights into recent reforms implemented by the National Bank of Ukraine in January 2024. By integrating expert insights, and a focus on Ukraine's unique regulatory landscape, this thesis bridges the gap between theoretical perspectives and real-world applications, providing actionable recommendations for improving the NBFI framework.

The aim of this thesis is to map the barriers and opportunities in the regulation framework of nonbank financial institutions in Ukraine. The research focuses on the Ukrainian regulatory environment, providing an assessment of the challenges faced by NBFIs and identifying opportunities for improvement. By addressing gaps in the literature and incorporating empirical findings, this study contributes to a comprehensive understanding of NBFIs' roles in the financial market and the significance of effective regulation in fostering economic growth and stability.

To achieve this aim, the thesis formulates several research tasks:

- to identify the characteristics and definitions of NBFIs;
- to conduct a comprehensive review of existing literature to understand the theoretical basis (regulatory theories and practices) related to NBFIs;
- to examine how prior studies have addressed the challenges and opportunities for NBFIs, highlighting gaps in understanding their regulatory development;
- to analyze data from the National Bank of Ukraine and relevant legal acts to evaluate the current regulatory framework;
- to conduct interviews with industry experts and advocates to gain insights into the practical challenges and opportunities within the NBFI sector;
- to summarise and draw conclusions on the challenges and opportunities within Ukraine's regulatory framework for NBFIs.

This thesis is intended for policymakers to evaluate the outcomes of recent reforms and guide future initiatives, the academic community to enhance understanding of NBFI operations and alignment with international standards, NBFI representatives to assess how regulatory changes affect their activities, and investors and analysts to explore risks and opportunities in Ukraine's evolving NBFI sector.

The thesis is structured into two chapters. The theoretical chapter establishes a foundation by defining NBFIs, examining their role in financial systems, and synthesizing existing literature on regulatory frameworks. It also explores the barriers and opportunities that NBFIs' development face. The empirical chapter provides an in-depth examination of Ukraine's regulatory environment, drawing on interviews with industry experts and an analysis of legal acts. This chapter evaluates the outcomes of recent reforms, assesses their implications for the NBFI sector, and identifies both barriers that hinder development and opportunities for growth.

**Keywords:** nonbank financial institutions, regulatory framework, National Bank of Ukraine, financial stability.

## **1. Theoretical background of nonbank financial institutions**

### **1.1. Definition and characteristics of nonbank financial institutions**

Financial companies play a crucial role in the financial system, ensuring the smooth allocation of resources between savers and borrowers. This is the basic understanding of the term among the general population. However, definitions of financial companies vary significantly across academic and regulatory sources. One key issue is the classification of financial companies, which raises questions about whether they should be divided into "traditional banks" and nonbank financial institutions (NBFIs). Since the focus of this thesis

is on NBFIs, it is essential to first analyze the overall structure of financial companies. This will help define the role and specific features of nonbank institutions within the financial system.

Kidwell et al. (2016) classify the financial system broadly into deposit-taking institutions, such as banks, and non-deposit-taking institutions, such as finance companies. Accordingly, financial companies are understood as institutions that provide financial services to businesses and individuals by engaging in activities such as issuing loans and selling financial instruments like bonds or commercial paper. Their primary role is to offer financial services in areas where traditional banks may not meet demand. In this framework, financial companies and traditional banks are viewed as two subsets of financial intermediaries, with financial companies considered to be a subset of NBFIs (Kidwell et al., 2016).

In contrast, Acharya et al. (2024) adopt a broader view, treating financial companies as a term that encompasses both traditional banks and NBFIs. This classification is illustrated in Figure 1. They define the financial system as consisting of two distinct but complementary groups: deposit-taking institutions, such as traditional banks, and non-deposit-taking entities, such as NBFIs. Traditional banks are central to deposit-taking and lending, while NBFIs are involved in capital market activities and offer specialized financial services such as securitization, leasing, insurance, and asset management. Acharya et al. (2024) underline the complementary roles of these two groups, noting that banks often provide liquidity support to NBFIs, while NBFIs serve niche markets underserved by traditional banks. This structural division ensures both stability and adaptability within the financial system. (Acharya et al., 2024)

Carmichael and Pomerleano (2002) agree with this broader conceptualization, also treating financial companies as an umbrella term that includes both traditional banks and NBFIs. Regulatory frameworks such as those of the European Union and the National Bank of Ukraine similarly adopt this dual classification, reinforcing its relevance not only in academic discourse but also in practical supervisory structures.

The divergence in definitions presented by Kidwell et al. (2016) and Acharya et al. (2024) reflects more than a semantic distinction — it shapes how financial entities are classified, regulated, and integrated into the financial system. Entities identified as NBFIs rather than traditional banks are often subject to different supervisory structures, capital adequacy requirements, risk assessments, and consumer protection standards. As a result, definitional choices have direct consequences for regulatory burdens, institutional privileges,

and market access. These implications highlight the need for definitional clarity in any regulatory analysis. Accordingly, this thesis adopts the broader classification, recognizing financial companies as a heterogeneous group that includes both banks and NBFIs—two categories that, while structurally distinct, play complementary roles in the financial system.

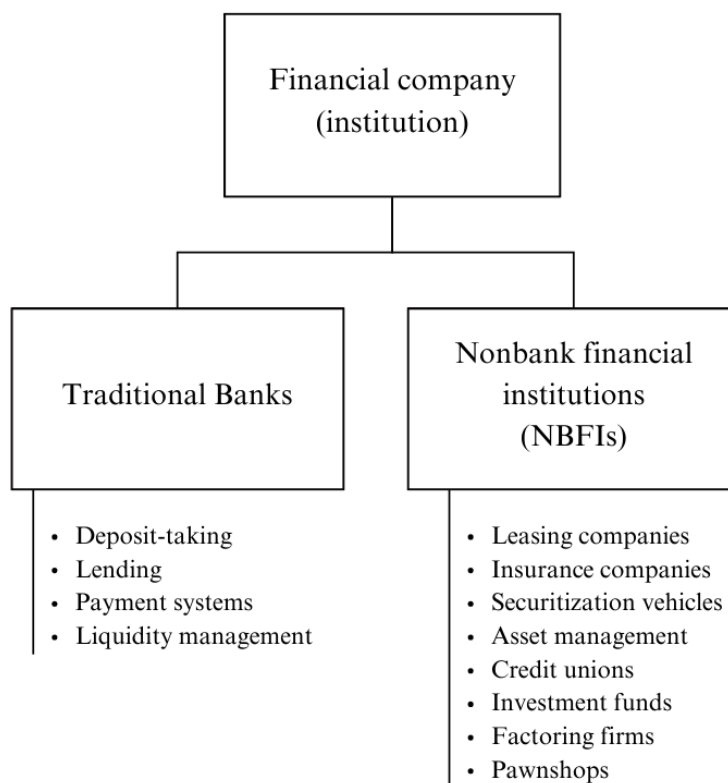


Figure 1. Classification of financial companies and their core functions

Source: Compiled by the author based on information from Acharya et al. (2024), Carmichael & Pomerleano (2002), and regulatory framework from National Bank of Ukraine (n.d.).

Traditional banks, according to Acharya et al. (2024), Carmichael and Pomerleano (2002) and Kidwell et al. (2016), are characterized by their centrality to deposit-taking, payment systems, and liquidity management. They are heavily regulated to safeguard the economy’s financial stability. NBFIs, on the other hand, provide specialized financial services outside the traditional banking framework (Acharya et al., 2024; Carmichael & Pomerleano, 2002). They innovate and adapt to market demands due to lighter regulatory constraints, making them crucial for addressing gaps in financial services.

Regulatory frameworks in the European Union (EU) and Ukraine reinforce and complement the views presented in the academic literature. These frameworks provide a structured understanding of financial companies, aligning with the classifications and

complementary roles highlighted by Acharya et al. (2024) and Carmichael and Pomerleano (2002).

The EU broadly defines financial companies under the Capital Requirements Regulation (CRR) (Regulation (EU) No 575/2013) and the Capital Requirements Directive (CRD IV). Financial companies are divided into (European Union, 2013a, 2013b):

1. **Traditional Banks:** These are deposit-taking institutions authorized to provide credit and maintain payment systems. They are heavily regulated to ensure systemic stability and economic integrity.
2. **Nonbank Financial Institutions (NBFIs):** These entities operate outside the deposit-taking framework and provide specialized financial services, such as leasing, insurance, securitization, and asset management. NBFIs rely on non-deposit funding mechanisms like bonds and equity issuance, allowing them to innovate and cater to niche markets.

The EU's recognition of the symbiotic relationship between traditional banks and NBFIs reflects Acharya et al. (2024) argument that these groups, while distinct, are interdependent. By ensuring that banks provide liquidity support to NBFIs and that NBFIs offer niche financial solutions, the EU regulatory framework underpins the complementary roles these entities play within the financial system.

The National Bank of Ukraine (NBU) adopts a similar framework, dividing financial companies into (National Bank of Ukraine, n.d.):

1. **Traditional Banks:** These institutions are central to Ukraine's financial stability, providing deposit-taking services and acting as key players in payment systems and monetary policy. This aligns with Carmichael and Pomerleano (2002) emphasis on traditional banks as critical to economic stability.
2. **NBFIs:** Ukrainian NBFIs include credit unions, leasing companies, pawnshops, and insurance providers. These entities align with Acharya et al. (2024) view of NBFIs as flexible, innovative intermediaries that cater to underserved markets by using alternative funding mechanisms such as bonds and equity.

The NBU's regulatory approach emphasizes the adaptability of NBFIs, which mirrors Carmichael and Pomerleano (2002) perspective on the specialized and innovative roles these institutions play in the financial system. Additionally, the interconnectedness of banks and NBFIs in the Ukrainian context reflects Acharya et al. (2024) argument about the interdependence of these entities in maintaining financial system stability (National Bank of Ukraine, n.d.).

The definitions of NBFIs differ between academic and regulatory sources, reflecting their diverse roles in financial systems. Acharya et al. (2024) define NBFIs as specialized institutions that operate in capital markets, engage in risk transfer, and address niche financial services. Their flexibility and focus on underserved markets make them complementary to traditional banks.

From a developmental perspective, Carmichael and Pomerleano (2002) focus on the ability of NBFIs to foster financial inclusion and innovation by catering to underserved markets, such as small and medium-sized enterprises (SMEs). The European Commission (2012) discusses entities involved in shadow banking, describing them as non-deposit-taking institutions engaged in securitization, risk transfer, and market-based financial intermediation. Similarly, the National Bank of Ukraine (NBU) provides a region-specific definition, identifying NBFIs as entities involved in credit union operations, pawnshop lending, insurance, leasing, and foreign currency transactions (Buha et al., 2023).

Despite these differences, NBFIs share key characteristics:

**Alternative funding mechanisms.** Unlike traditional banks, NBFIs rely on non-deposit funding sources, including equity, bonds, wholesale borrowing, and securitization. This enables them to operate outside the constraints of deposit-taking institutions, fostering flexibility in their financial activities (Acharya et al., 2024).

**Specialized services.** NBFIs provide tailored financial services to niche markets, such as leasing, insurance, factoring, and payment processing. These services address market segments often underserved by traditional banks (Buha et al., 2023; Carmichael & Pomerleano, 2002).

**Flexibility and innovation.** Operating under lighter regulatory constraints, NBFIs can adapt quickly to market demands, offering innovative financial products and solutions that support economic development (Acharya et al., 2024; European Commission, 2012).

**Financial inclusion.** NBFIs play a crucial role in providing financial access to sectors that are traditionally underserved, such as SMEs, low-income households, and rural populations. This inclusivity supports broader economic growth (Buha et al., 2023; Carmichael & Pomerleano, 2002).

**Systemic risk potential.** Due to their interconnectedness with traditional banks and capital markets, NBFIs can amplify vulnerabilities during times of financial stress. Activities such as securitization and reliance on wholesale funding make them susceptible to market disruptions (Acharya et al., 2024).

Different sources highlight various types of NBFIs, often using overlapping terms to describe their functions. These categories are summarized in Table 1 below:

Table 1

*Companies considered as NBFIs*

Source	Buha et al. (2023)	Acharya et al. (2024)	Carmichael and Pomerleano (2002)	European Commission (2012)	National Bank of Ukraine. (n.d.)
Credit Unions / Microfinance Institutions	✓		✓		✓
Pawnshops	✓				✓
Leasing Companies	✓	✓	✓	✓	✓
Insurance Companies	✓	✓	✓	✓	✓
Securitization Vehicles	✓	✓		✓	
Money Market Funds		✓	✓	✓	
Investment Funds	✓	✓	✓	✓	
Factoring Firms	✓				✓
Foreign Currency Transactions	✓				✓
Hedge Funds		✓	✓	✓	
Private Equity Firms		✓	✓	✓	

*Note:* Rows represent different types of companies or financial entities considered as NBFIs; columns represent the sources that identify or classify these entities as NBFIs; a checkmark (✓) indicates that the respective source considers the entity listed in the row as part of NBFIs.

Source: Compiled by the author

The data summarized in Table 1 reveals both convergence and fragmentation in how various entities are classified as NBFIs. Core financial service providers such as insurance companies, leasing firms, and investment funds are widely recognized across academic and regulatory sources. However, there is notable divergence in the classification of entities such as pawnshops, hedge funds, and currency exchange providers—these appear only in select national frameworks or context-specific discussions. This variation highlights the absence of

a unified global definition of NBFIs and underscores the contextual nature of regulatory design. From a regulatory standpoint, inconsistent categorization complicates efforts to standardize oversight, assess systemic risk, and harmonize supervisory approaches across jurisdictions. This reinforces the need for clearly defined boundaries within the scope of this thesis, particularly when comparing legal frameworks and institutional roles in Ukraine.

Table 1 illustrates the diverse entities classified as NBFIs by different sources. For instance, credit unions and microfinance institutions are emphasized by Buha et al. (2023) and Carmichael and Pomerleano (2002) for their focus on financial inclusion. Similarly, pawnshops, unique to the Ukrainian context, are identified by the NBU as key players in collateral-based lending (National Bank of Ukraine, n.d.).

Other categories, such as securitization vehicles and money market funds, are central to discussions by the European Commission (2012) due to their roles in shadow banking. Meanwhile, insurance companies, identified by National Bank of Ukraine and Acharya et al. (2024) provide critical risk management services, complementing traditional banking functions.

The NBU also includes region-specific categories, such as foreign currency transactions and trading in cash currency valuables, reflecting its regulatory focus on currency exchange operations in Ukraine. These unique classifications highlight the adaptability of NBFI definitions based on regional economic needs and regulatory frameworks.

Based on the synthesis of academic classifications and regulatory frameworks, this thesis defines nonbank financial institutions (NBFIs) as financial entities that operate outside the traditional deposit-taking functions of banks but provide essential financial services to both individuals and businesses. NBFIs rely on non-deposit funding mechanisms and typically serve market segments that are underserved by traditional banks. For the purposes of this study, the term includes insurance companies, credit unions, leasing and finance companies, investment funds, pawnshops, factoring firms, and entities engaged in foreign currency exchange. This definition will serve as the basis for evaluating their regulatory treatment, systemic role, and developmental function within the broader financial system.

## **1.2. Overview of regulatory theories and empirical studies on barriers and opportunities for nonbank financial institutions**

Understanding the regulation of NBFIs requires a foundation in both theoretical concepts and empirical insights. This section first presents theoretical frameworks that explain the objectives and implementation of financial regulation. Then these perspectives are

complemented by an overview of empirical studies on regulatory approaches across different jurisdictions. Together, these frameworks provide the basis for analyzing the regulatory structure and dynamics affecting NBFIs.

Theoretical models of regulation offer critical tools for analyzing the design and consequences of financial oversight. These frameworks not only clarify the normative objectives of regulation but also expose the structural tensions and unintended effects that may arise in implementation.

One foundational perspective is the public interest theory of regulation, which posits that regulation is introduced to correct market failures, promote economic efficiency, and protect consumers and the broader financial system (Baldwin et al., 2011). According to this theory, regulatory institutions are assumed to act in the interest of the public, prioritizing stability, transparency, and fairness. This rationale underlies many supervisory measures aimed at improving governance, preventing systemic risk, and ensuring the integrity of financial markets.

In contrast, the capture theory, introduced by Stigler (1971), challenges the assumption of regulator neutrality. It argues that regulated entities—particularly those with substantial resources—may influence regulatory design and enforcement to serve their own interests. This may result in regulatory frameworks that favor dominant players, leading to distorted competition, limited innovation, or entrenchment of incumbent advantages.

Complementing this view is the economic theory of regulation, particularly the model developed by Peltzman (1976), which emphasizes the role of political bargaining. In this framework, regulation emerges from a balance of competing pressures between interest groups, including firms, consumers, and policymakers. The outcome reflects not a strict public interest mandate, but a negotiated equilibrium influenced by lobbying power, institutional constraints, and policy trade-offs.

Beyond these conceptual theories, financial regulation has increasingly adopted risk-based supervision (RBS) as a practical model for allocating regulatory attention and resources (Basel Committee on Banking Supervision (BCBS), 2012). Codified in international frameworks such as the Basel II and III Accords, RBS emphasizes the principle of proportionality, where the intensity of supervision correlates with the risk exposure of each institution (BCBS, 2004, 2010). RBS has been widely promoted by global standard-setting bodies, including the International Association of Insurance Supervisors (IAIS), and is now central to many national regulatory systems. Its operational logic is grounded in the belief

that supervisory authorities should prioritize oversight of systemically important or risk-prone entities while applying less burdensome standards to low-risk institutions.

To further structure the analysis of regulation, the layered regulation framework distinguishes among three levels of regulatory focus: macroprudential, microprudential, and conduct regulation (Borio, 2014). Macroprudential regulation targets system-wide financial stability and aims to mitigate aggregate risks such as credit bubbles or liquidity shortages. Microprudential regulation is concerned with the soundness and solvency of individual financial institutions. Conduct regulation focuses on transparency, fairness, and consumer protection, aiming to ensure proper behavior in financial markets.

This tripartite model enables a comprehensive understanding of regulatory interventions and helps to identify when policies are targeting systemic threats, firm-level risks, or market conduct issues. It also supports a more structured evaluation of the tensions or synergies that may arise across these layers. (Borio, 2014)

Taken together, these theoretical approaches offer a multifaceted view of financial regulation. Rather than viewing regulation as a purely technical or neutral intervention, they reveal its political economy dimensions, institutional dynamics, and practical implementation challenges (Baldwin et al., 2011). This section builds on this foundation by analyzing empirical research on how regulatory strategies are applied across different contexts and financial sectors.

The reviewed studies offer diverse insights into regulatory frameworks and methods used to understand NBFI development, establishing a comparative foundation for this research. Despite using diverse methodologies, the studies share common themes that help illuminate the complexities of regulating NBFIs.

A key observation across the studies is the importance of a balanced regulatory framework. Buttigieg et al. (2020) analyze Malta's NBFI sector using a narrowing-down approach from the Financial Stability Board (FSB), as shown in Table 2. The study highlights the challenges of implementing regulations that balance growth and stability, especially in a small financial hub like Malta. While the Maltese NBFI sector is relatively small, regulatory challenges remain significant, particularly concerning the alignment of EU and national regulations. Buttigieg et al. (2020) suggest that overly restrictive regulation can stifle growth, whereas insufficient regulation may increase systemic risks. Therefore, regulators must carefully design policies that maintain financial stability while fostering innovation and growth in the sector.

In contrast, Vnukova and Bacho (2021), focusing on Ukraine, emphasize the dual narrative of progress and regression within the regulatory landscape. Their cluster analysis reveals both the potential for market segmentation and the barriers created by outdated regulatory frameworks. Unlike Malta, where regulatory harmonization is key, Ukraine's primary challenge lies in modernization and practical implementation of reforms. These contrasting cases underline a recurring dilemma in regulatory design — the trade-off between harmonizing frameworks to meet international standards and adapting rules to local institutional realities.

The World Bank's exploration of global NBFI development and regulation, as discussed in Carmichael and Pomerleano (2002), provides a broader perspective. While Buttigieg et al. (2020) and Vnukova and Bacho (2021) focus on specific national contexts, Carmichael and Pomerleano (2002) emphasize the importance of adaptive frameworks that cater to diverse market conditions and developmental stages. This contrasts with Busch and van Rijn (2018), who focus on the systemic risks posed by NBFIs in the European Union. Carmichael and Pomerleano (2002) advocate for a unified supervisory framework to address regulatory arbitrage and ensure financial stability. Together, these studies highlight a tension between localized regulatory approaches and the need for broader, harmonized frameworks to manage cross-border financial activities.

Busch and van Rijn (2018) propose an EU-wide approach to identify and monitor NBFIs, aiming to reduce regulatory arbitrage and enhance financial stability. Their analysis aligns with broader international recommendations, such as those that advocate for robust supervision proportional to systemic risks. The study underscores the necessity for a coordinated regulatory strategy that mitigates systemic risks while fostering transparency and market discipline. It identifies barriers like implementation challenges within diverse financial systems, and opportunities such as establishing a unified supervisory framework to ensure stability across member states.

Ghiță-Mitrescu et al. (2016) analyze the role of NBFIs in Romania's shadow banking sector. Their study highlights that while the sector remains relatively small, NBFIs provide essential funding to underbanked sectors such as agriculture, trade, and manufacturing. Compared to Malta and Ukraine, Romania's regulatory framework is less developed but offers significant growth potential if properly refined. This aligns with Kneiding et al. (2014) findings on microfinance institutions (MFIs) in Eastern and Western Europe. While Ghiță-Mitrescu et al. (2016) emphasize structural challenges in Romania, Kneiding et al. (2014) underscore the importance of harmonizing fragmented regulatory practices in Central and

Eastern Europe (CEE). Both studies point to the critical role of targeted regulatory improvements in unlocking the potential of NBFIs and MFIs as drivers of financial inclusion and economic development. These insights also suggest that the effectiveness of NBFIs regulation depends not only on the existence of formal rules, but on the institutional design and enforcement mechanisms that shape how those rules are interpreted and applied in practice. The research by Ghiță-Mitrescu et al. (2016) also emphasizes the importance of a well-structured regulatory framework.

A study by Kneiding et al. (2014) evaluates the development of microfinance institutions (MFIs) in Eastern and Western Europe, classifying them as NBFIs due to their provision of financial services outside the formal banking system. The study identifies significant regulatory and operational differences between Eastern and Western Europe. MFIs in Western Europe benefit from robust regulatory frameworks that foster greater transparency and accountability, while those in Eastern Europe face challenges such as fragmented oversight, limited infrastructure, and inconsistent enforcement of regulations. These challenges can lead to inefficiencies and a lack of investor confidence. Kneiding et al. (2014) argue that harmonized regulations across regions could improve operational stability, enhance cross-border cooperation, and promote equitable growth. A comparative lens is therefore essential for identifying regulatory blind spots, learning from parallel jurisdictions, and distilling actionable policy lessons across institutional contexts.

Table 2 summarizes the core findings from the empirical literature, offering a structured comparison of regulatory barriers and opportunities in different jurisdictions. These studies collectively highlight the multifaceted nature of NBFIs regulation—revealing how institutional design, legal harmonization, and supervisory implementation shape the trajectory of financial inclusion and market resilience. Despite contextual differences across countries, a shared regulatory dilemma persists: how to design frameworks that safeguard systemic stability without impeding innovation or access to finance. This dilemma is particularly pronounced in jurisdictions undergoing reform or convergence with international standards. Moreover, the reviewed studies expose structural asymmetries between advanced and emerging economies, where institutional capacity, enforcement mechanisms, and political will often diverge. By comparing regulatory approaches across Malta, Ukraine, Romania, and broader EU contexts, the table below provides a synthesized lens through which to assess the alignment between regulatory intent and market outcomes. These comparative insights are not only essential for understanding existing gaps in supervision, but

also serve as a foundation for the comparative analysis of regulatory approaches presented in subsequent chapters of this thesis.

Table 2

*Comparative analysis of NBFI's studies*

Author	Country	Methodology	Regulatory Barriers	Regulatory Opportunities
Buttigieg et al. (2020)	Malta	Descriptive statistics, comparative analysis, and trend analysis 2012-2018	High compliance costs from Eu regulations. Complex supervision.	Some areas ensure basic compliance with EU financial stability standards
Vnukova and Bacho (2021)	Ukraine	Mixture separation, cluster analysis	Outdated regulatory framework	Foundation for structured market segmentation.
Busch and van Rijn (2018)	EU (general)	Legal analysis	Fragmented supervisory frameworks across member states	EU-wide systemic risk monitoring reduces financial instability
Ghiță-Mitrescu et al. (2016)	Romania	Quantitative and qualitative analysis	Limited regulatory oversight	Prevent unchecked systemic risks
Kneiding et al. (2014)	Eastern/Western Europe	Comparative analysis	Fragmented and inconsistent regulatory practices in CEE	Support localized financial inclusion efforts.

Source: Compiled by the author

To sum up, these studies illustrate the critical role of regulatory frameworks in shaping NBFI development. While localized approaches address specific market needs, broader harmonized frameworks are essential for mitigating systemic risks and supporting cross-border cooperation. Tailored strategies that balance financial stability with innovation remain key to unlocking the full potential of NBFIs. Effective regulation should foster NBFI innovation and expansion while managing risks through proportionate oversight, rather than imposing overly broad or restrictive restrictions. Malta's experience highlights the need for alignment between national and EU-level rules to prevent conflicting policies. Ukraine's case reveals the importance of updated assessments to evaluate the actual impact of reforms. Romania's shadow banking system further demonstrates how NBFIs support underserved sectors, even amid regulatory and structural challenges.

## 2. Empirical analysis of the regulatory framework for nonbank financial institutions in Ukraine

### 2.1. Data collection and methodology

This thesis employs a qualitative research approach to examine the regulatory framework of NBFIs in Ukraine. It combines a theoretical review with an empirical investigation. The theoretical part includes a review of existing literature and analysis of previous studies on NBFI regulation, which serve as the foundation for selecting methodology and identifying key themes.

The empirical part combines an analysis of the legal framework with expert interviews. While existing studies on NBFIs, like Buttigieg et al. (2020) and Busch and van Rijn (2018), primarily rely on secondary data, trend analysis or legal reviews, they tend to overlook the sector-specific barriers that arise during implementation, particularly in emerging markets like Ukraine. By combining legal and interview data, this thesis responds to a more practice-oriented approach in regulatory research, to view how regulatory intentions align with market realities.

The methodological framework is summarized in the flowchart shown in Figure 2, which visually connects the theoretical and empirical parts of the research.

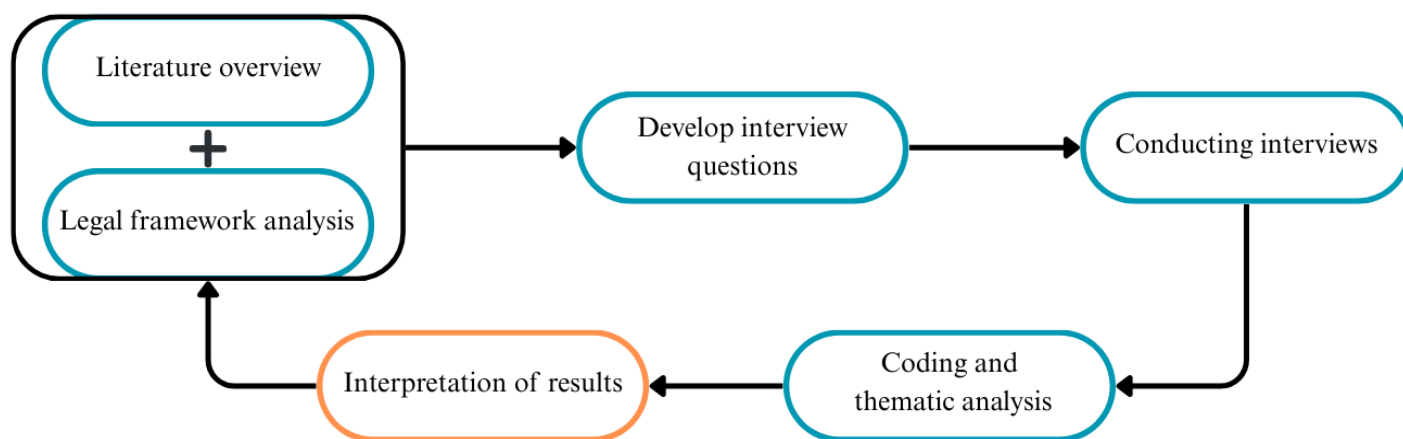


Figure 2. Methodology of the thesis

Source: Compiled by the author

As shown in Figure 2, the research design of this thesis follows a structured and interconnected approach that links theoretical exploration, legal analysis, and empirical investigation. This sequence ensures that the interview analysis is informed by both conceptual understanding and regulatory context. The layered methodology supports a

comprehensive examination of how regulatory reforms are perceived and implemented within the NBFI sector. By integrating doctrinal legal analysis with qualitative insights, the thesis achieves methodological triangulation, enhancing the reliability and analytical depth of the findings (Carter et al., 2014). This framework also enables the identification of regulatory gaps, institutional tensions, and reform priorities grounded in both normative theory and practical experience.

The legal analysis focuses on the most significant regulatory reforms affecting NBFIs, particularly in the credit union and insurance sectors, alongside broader financial legislation. This includes an evaluation of recent legislative changes, especially the 2024 reforms, and a comparative analysis with prior regulations to evaluate the regulatory developments.

Building on the insights from the legal analysis and literature review, empirical data were collected through semi-structured interviews with industry experts. Participants were strategically selected from the Ukrainian NBFI sector, including insurance, credit unions, and legal professionals specializing in NBFI regulation. A snowball sampling strategy was also used, where initial participants recommended additional experts within their professional networks (Goodman, 1961). This approach facilitated access to qualified participants who might not have been identifiable through public sources.

The semi-structured interviews combined pre-determined questions with open-ended prompts, allowing for structured yet flexible discussions (Semi-Structured Interviews, 2018). These interviews aim to identify practical challenges, identify opportunities for improving regulatory frameworks, and capture how NBFIs adapt to ongoing regulatory changes.

Prior to participation, all interviewees received a Participant Consent Form and Information Sheet (Appendix A and Appendix B, respectively), ensuring informed voluntary participation and clarifying confidentiality protocols. All interviews were conducted in Ukrainian to ensure clarity, comfort, and authenticity in communication.

Despite initial intentions for broader representation across the NBFI sector, practical limitations arose due to limited responsiveness from certain stakeholder groups. Consequently, data collection focused on insurance entities, credit unions, and legal specialists. Although this limitation restricts the generalizability of findings, the resulting dataset provides deep, sector-specific insights essential for comprehensive qualitative analysis.

Table 3 summarizes the key characteristics of the interviewees, including their professional background, experience, and details of the interview sessions.

Table 3

*Interviewees' information*

Participant	Interviewee position	Years of experience	Date of the interview	Form of interview	Length
P1	Lawyer	9	18.03.2025	Zoom	39 minutes (8 pages)
P2	CFO of the Insurance company	24	19.03.2025	Zoom	26 minutes (6 pages)
P3	Director of Sales at the Insurance company	21	19.03.2025	Zoom	41 minutes (9 pages)
P4	CFO of Credit Union	6	23.03.2025	Zoom	46 minutes (9 pages)
P5	CFO of Credit Union	10	02.04.2025	Zoom	32 minutes (7 pages)
P6	Senior Client Services Specialist (Insurance)	12	25.03.2025	Zoom	40 minutes (8 pages)
P7	Regional Sales Director (Insurance)	15	26.03.2025	Zoom	34 minutes (7 pages)

Source: Compiled by the author

The semi-structured interviews were organized around five thematic categories to ensure systematic data collection, analytical clarity, and alignment with the thesis's objectives. These themes were derived from theoretical literature, legal analysis, and a preliminary review of the Ukrainian NBFIs landscape.

Theme I evaluates how recent reforms, especially licensing and capital requirements, have shaped the competitive environment of the NBFIs sector. This is particularly relevant for understanding consolidation trends and the operational sustainability of smaller NBFIs under the new regime.

Theme II, initially separated into "consumer access" and "digital transformation," was merged to reflect their interdependence. Empirical insights showed that digitalization, driven by regulation, directly shapes how consumers access financial services. This theme explores how digital tools both enhance and constrain service delivery under evolving compliance obligations.

Theme III explores the relationship between strengthened supervision, transparency, and credibility. With the NBU's expanded supervisory role, this theme captures institutional responses to transparency obligations and whether these efforts have translated into tangible reputational or market advantages.

Theme IV addresses the practical and strategic challenges NBFIs face in adapting to evolving regulations, with particular concern for legal risks and internal governance burdens. It also explores whether a regulatory shift has inadvertently driven innovation in risk management or product development.

Theme V offers forward-looking perspectives, enabling stakeholders to assess the sector's projected trajectory and identify potential areas for regulatory refinement.

Together, these themes form an analytical framework that integrates theoretical models with realities of Ukraine's NBFI sector. Structuring interviews around these categories ensures data relevance to thesis objectives and enables nuanced interpretation across diverse professional perspectives. The full interview plan and sources used for questions design are presented in Appendix C. The coding process for these themes, along with the analysis of the interview, is presented in sub-chapter 2.3.

## **2.2. Analysis of the legal framework for nonbank financial institutions in Ukraine**

Ukraine's legal framework for NBFIs is composed of several core laws, whose jurisdiction is limited to particular financial sectors and services. Before addressing sector-specific laws governing different NBFIs, it is essential to examine the overarching legal framework that regulates financial services in Ukraine.

The foundational legislation for financial services and state supervision is the Law "On Financial Services and State Regulation of Financial Service Markets", which is now obsolete (Law № 2664-III, 2001). The law broadly defined financial services, grouping diverse entities under one framework without clearly distinguishing their functions. This ambiguity led to inconsistent supervision and regulatory inefficiencies. broadly definiti of financial institutions, encompassing banks, credit unions, pawnshops, leasing companies, insurance companies, non-state pension funds, and investment funds, along with other entities primarily involved in financial services (Law № 2664-III, 2001, Art.1). Under this framework, any transaction involving financial assets for third parties' profit was classified as a "financial service". However, this broad categorization created regulatory ambiguity by failing to distinguish among financial activities, thus resulting in inconsistencies in supervision practices. The law established the National Commission for State Regulation of Financial Services Markets as the supervisory authority for NBFIs (Law № 2664-III, 2001). Despite its foundational role, the commission lacked enforcement mechanisms and flexibility, making it ineffective in addressing market changes.

Over time, market participants, including credit unions, leasing firms, and insurers, faced increasing regulatory inefficiencies. The law imposed excessive licensing requirements,

rigid supervision, and limited consumer protection, which restricted NBFIs’ growth. These limitations led to calls for reform, culminating in a new legal framework.

A major shift occurred in 2021 with Ukraine adopting the Law “On Financial Services and Financial Companies”, officially replacing the old law from 1 January 2024 (Law № 1953-IX, 2021). The new framework modernizes regulation by addressing key gaps in licensing, risk-based supervision, consumer rights, and financial secrecy. Unlike its predecessor, the law clearly defines a “financial company”, distinguishing NBFIs from traditional banks and explicitly recognizing pawnshops as part of the NBFI sector in legal terminology for the first time (Law № 1953-IX, 2021, Art. 1,2).

The comparison between the outdated Law № 2664-III and the new Law № 1953-IX is presented in Table 4.

Table 4

*Comparative analysis of the law “On Financial Services and Financial Companies”*

Name of law	“On Financial Services and State Regulation of Financial Service Markets” (Law № 2664-III, 2001)	“On Financial Services and Financial Companies” (Law № 1953-IX, 2021)
Regulatory body	National Commission for State Regulation of Financial Services Markets	NBU (most NBFIs); NSSMC (investment and pension funds)
Definition of NBFIs	Include banks, credit unions, pawnshops, leasing companies, insurance companies, non-state pension funds, investment funds, and other entities whose exclusive activity is providing financial services	Defines “Financial company” an entity whose primary or exclusive activity is providing financial services, but which is not a bank
Licensing structure	Separate licenses per service	Unified license for multiple services
Consumer protection	Minimal	Enhanced disclosure and anti-misleading provisions
Financial secrecy	No provision	Introduced "financial services secrecy"
Supervision	Uniform regulations	Risk-based supervision
Outsourcing	No clear provisions	Allows outsourcing

Source: Compiled by the author

Previously, institutions replaced licensing with a unified license, reducing an excessive administrative burden. The new law introduced a unified licensing system for multiple services (Law № 1953-IX, 2021, Art. 38). Similarly, it implemented risk-based

supervision, transitioning from uniform regulations to a more flexible model assessing institutions by size, risk exposure, and financial condition (Law № 1953-IX, 2021, Art. 17).

Additionally, Law № 1953-IX enhances consumer protection measures by enforcing stricter disclosure requirements, prohibiting misleading advertising, and mandating greater transparency in service agreements. These changes address unfair lending practices and non-transparent financial products, particularly in the payday lending and microfinance sector. The law also introduced financial secrecy rules that align NBFI confidentiality rules with banking sector standards (Law № 1953-IX, 2021, Art. 10). While increasing consumer confidence, these regulations simultaneously raise compliance costs, particularly affecting smaller institutions. While licensing was simplified, compliance burdens rose—especially for smaller institutions.

As part of Ukraine’s regulatory modernization, NBU Resolution No. 153 (2024) introduced a unified framework for licensing and registration of financial service providers. It operationalizes provisions of the Law № 1953-IX (2021), detailing application procedures, governance requirements, and conditions for license revocation. The resolution applies a risk-based approach, assessing financial stability, ownership transparency, and compliance systems. It also grants the NBU authority to oversee market entry, revoke licenses, and enforce reporting obligations. While enhancing regulatory transparency and institutional integrity, the stricter licensing procedures raise compliance costs for smaller NBFIs, reinforcing a broader trend toward more structured and supervised market participation.

The transformation of Ukraine’s regulatory framework for NBFIs extends beyond fundamental laws and includes sector-specific legislation. While the Law № 1953-IX (2021) established unified licensing, consumer protection, and risk-based supervision broadly, credit unions require additional legislative reform.

The Law № 2908-III “On Credit Unions” (2001) was the first comprehensive regulation for credit unions in Ukraine. It laid the foundation for the sector but was highly restrictive, limiting membership to individuals with a common bond and restricting services to deposits and loans. Moreover, the licensing was fragmented, requiring separate approvals for different activities (Law № 2908-III, 2001, Art. 9-11).

These constraints limited credit unions’ competitiveness and reach, especially for small businesses and rural communities. In response to these challenges, Law № 3254-IX “On Credit Unions” (2023), effective from 1 January 2024, modernized credit union regulation. Reflecting the broader regulatory strategy of Law № 1953-IX (2021), it aligns credit union supervision with risk-based principles. Key reforms include broadened

membership eligibility, unified licensing, strengthened governance, and proportionate capital requirements (Law № 3254-IX, 2023).

Table 5 summarizes the regulatory differences between the two laws.

Table 5

*Comparative analysis of the law “On Credit Unions”*

Name of law	“On Credit Unions” (Law № 2908-III, 2001)	“On Credit Unions” (Law № 3254-IX, 2023)
Regulator	National Financial Services Regulatory Commission	NBU
Legal status	Non-profit organizations	Non-profit, expanded services
Membership eligibility	Only individuals with a common bond	Expanded to include small legal entities and cooperatives
Licensing structure	Separate licenses per activity	Single license: "standard" and "simplified"
Supervision	No fit-and-proper requirements; basic reporting	NBU approval of management, stricter governance and transparency
Capital requirements	Minimal, not risk-based	Tier I and Tier II capital requirements
Consumer protection	Limited protections	Clearer loan terms; stronger borrower rights
Risk management	Compliance-focused; no proportional risk approach	Proportional to risk profile

Source: Compiled by the author

This shift by the NBU aligns credit unions’ regulation with other financial intermediaries and is expected to increase market participation among small businesses, agricultural cooperatives, and housing associations, thereby enhancing financial inclusion. However, this expanded member base requires strengthened risk management frameworks.

However, higher compliance costs challenge smaller credit unions, demanding adaptation to new corporate governance and supervisory standards. The long-term impact of these reforms will depend on credit unions’ ability to meet evolving regulatory expectations while continuing to serve underserved communities.

In parallel with credit union reform, Ukraine undertook substantial changes in the insurance sector, reinforcing the shift toward unified financial regulation. The insurance sector is a critical component of Ukraine’s NBFIs, providing financial security and risk mitigation for individuals and businesses. Similar to reforms in credit unions, changes in

insurance legislation reflect Ukraine’s broader objective of aligning its financial sector with international standards and strengthening regulatory oversight.

Law № 85/96-BP “On Insurance” (1996) established the foundation for insurance activity in Ukraine, defining types of insurance, licensing procedures, reserve and capital requirements, and basic consumer protections. However, the framework required insurers to obtain licenses by specific insurance types, requiring separate approvals for each line of business, which created operational inefficiencies and limited market flexibility (Law № 85/96-BP, 1996).

To modernize this framework, Ukraine introduced Law № 1909-IX “On Insurance” (2021), effective from 1 January 2024. This reform enhances market transparency, financial stability, and regulatory alignment with broader NBFI regulatory reforms.

The Law № 1909-IX (2021) significantly revises insurance regulation, empowering the NBU to license insurers by broad insurance “classes” rather than rigid types. This increases operational flexibility, allowing insurers to expand services without obtaining separate licenses. Another significant reform is the increase in capital requirements, with minimum capital ranging from 32 to 48 million UAH for certain liability lines, enhancing financial stability and reducing insolvency risks. Additionally, new entrants must submit a three-year business plan, improving market discipline (Law № 1953-IX, 2021). These changes reflect a broader regulatory shift toward risk-based oversight, similar to recent developments in credit unions. They also indicate the growing role of the NBU as a unified regulator across the financial sector. The comparison of these laws can be seen in Table 6.

Table 6

*Comparative Analysis of the law “On Insurance Law”*

Name of law	On Insurance (Law № 85/96-BP, 1996)	On Insurance(Law № 1953-IX, 2021)
Regulator	National Financial Services Regulatory Commission	NBU
Licensing structure	Insurers licensed by specific insurance types	Licensed by broader insurance classes
Capital requirements	Low thresholds	Higher capital requirements
Consumer protection	Minimal protections	Transparent service agreements
Solvency and risk management	Basic solvency margin; no risk-based model	Risk-based solvency rules, aligned with Solvency II
Supervision	Minimal corporate governance rules.	Corporate governance, risk officers, and ownership disclosure required

Source: Compiled by the author

The law mandates stronger governance, transparency and consumer protection. Insurers are required to implement risk management systems, appoint risk officers, disclose ownership structures and insurance terms, including premiums and broker commissions (Law № 1953-IX, 2021). These reforms align Ukraine's insurance sector with Solvency II principles and broader EU financial legislation, improving market stability and ensuring long-term obligations are met (National Bank of Ukraine, 2023). This shift aligns with governance reforms in Ukraine's broader NBFi sector, particularly in investment funds and leasing firms, where governance requirements have been strengthened to improve market accountability and transparency.

In addition to general insurance regulation, Ukraine has updated its mandatory auto liability insurance framework, which has significant implications for both insurers and policyholders. The Law № 3720-IX "On Mandatory Civil Liability Insurance for Owners of Land Vehicles" (2024) applies to contracts signed from January 1, 2025, while existing contracts remain under the old law Law № 1961-IV (2004). Key changes include higher insurance payouts, a mandatory digital policy system, and NBU supervision, replacing the previous model of industry self-regulation. The law also introduces a centralized electronic database for insurance verification and fraud prevention. These reforms raise compliance burdens for NBFIs, particularly insurers, due to stricter financial reporting, capital requirements, and digitalization. While eliminating paper-based policies streamlines administrative processes, the required technical upgrades pose challenges for smaller insurers.

The reform of Ukraine's capital markets legislation represents a critical step in expanding investment opportunities for NBFIs while increasing regulatory demands. Under Law № 3480-IV "On Capital Markets and Organized Commodity Markets" (2006), NBFIs were limited to traditional financial instruments such as stocks and bonds, constraining their ability to diversify portfolios and manage risks effectively. (Law № 3480-IV, 2006, Art. 4,5).

The adoption of Amendments Law № 738-IX (2020) introduced new opportunities for risk management and portfolio diversification, aligning NBFIs with global market practices. However, the expansion of investment capabilities is coupled with heightened regulatory obligations. The amended framework imposes stricter financial reporting, capital adequacy, and anti-money laundering (AML) compliance standards. While these measures are designed to foster investor confidence and systemic stability, they also increase operational costs, particularly for smaller NBFIs. This dynamic mirrors a broader theme in

this thesis: reforms simultaneously create opportunities for NBFIs' market development and impose compliance burdens that may disproportionately affect less-resourced institutions.

The regulation of consumer rights and market competition plays a fundamental role in shaping the operational landscape for NBFIs in Ukraine. Strengthening consumer lending laws, economic competition regulations, debt collection frameworks, and anti-money laundering (AML) rules ensures market fairness, financial stability, and responsible financial practices. These developments are particularly relevant as NBFIs expand in credit provision, factoring, and financial services outsourcing, requiring stricter oversight to prevent predatory lending and unethical practices.

The Law № 1734-VIII "On Consumer Lending" (2016) and Law № 1023-XII "On Consumer Rights Protection" (1991) collectively establishes rules for lending practices, fee disclosures, and ethical debt collection practices. These laws prohibit misleading advertising, limit excessive charges, and empower the NBU regulatory oversight over NBFIs engaged in consumer lending.

The Law № 2210-III "On Protection of Economic Competition" (2001) ensures fair market practices by preventing monopolistic behavior among financial institutions, including NBFIs. The law restricts market concentration, regulates mergers and acquisitions and prohibits anti-competitive strategies like price-fixing or exclusive agreements, fostering a competitive financial services sector.

Previously, the regulation of debt collection and factoring, which are often outsourced to NBFIs, was governed by the Law № 2664-III (2001) and Law № 1953-IX (2021). While these laws classified factoring as an NBFi service, but did not initially require licensing for debt collection. This regulatory gap allowed unregistered firms to engage in aggressive and unethical debt recovery practices.

The adoption of Law № 1349-IX "On Amendments to Certain Laws of Ukraine on Consumer Protection in the Settlement of Overdue Debt" (2021) addressed this issue by introducing mandatory NBU registration for debt collectors. It aimed to ensure ethical conduct, prevent harassment, and prohibit unauthorized disclosure of debtor information. To strengthen oversight and transparency, the Resolution № 75 "On approval of the Regulation on registration of collection companies" (2021) established detailed requirements, obligating debt collectors to disclose ownership structures and provide evidence of compliance. The resolution also granted the NBU supervisory authority over collection agencies, ensuring adherence to consumer protection norms and fair debt collection standards.

Another critical regulatory framework affecting NBFIs is the Law № 361-IX “On Prevention and Counteraction to Legalisation of Criminal Proceeds” (2019). It establishes Ukraine’s framework for combating financial crimes, including money laundering and terrorist financing. According to the provisions of this law, NBFIs are required to implement enhanced due diligence measures, risk assessment, and suspicious activity reporting. The law adopts a risk-based approach, requiring continuous transaction monitoring and compliance with virtual asset rules, particularly for NBFIs engaged in digital financial services. Additionally, the law mandates cooperation with authorities in freezing assets linked to sanctioned individuals or entities.

The reforms mark a significant shift in Ukraine’s NBFI regulatory landscape, enhancing transparency, preventing market abuses, and strengthening oversight. By mandating fair lending practices, prohibiting deceptive schemes, and regulating debt collection, authorities aim to protect vulnerable borrowers and ensure financial stability. Stricter AML compliance further aligns NBFIs with international best practices, reducing risks related to financial crime. However, compliance costs are expected to rise, particularly for small and medium-sized NBFIs, which must adapt to enhanced reporting requirements and risk management protocols.

### **2.3. Analysis of interviews and discussion of results**

This sub-chapter presents findings from qualitative interviews conducted with experts from Ukraine’s nonbank financial sector, structured around five thematic areas identified during the research design stage (see sub-chapter 2.1). The analysis explores how recent regulatory reforms implemented by the NBU have reshaped sector dynamics, influenced consumer access, and challenged institutional capabilities.

The first theme addresses structural outcomes of regulatory reform on the NBFI sector. As shown in Table 7, three major categories were identified from the coding process. These categories highlight how regulatory reforms, while aimed at strengthening governance, have produced uneven outcomes across different types of institutions.

These findings echo earlier studies like Buttigieg et al. (2020) and Busch and van Rijn (2018), which observed that overly rigid or uniform regulation tends to create disproportionate compliance burdens for smaller market participants, even when aligned with financial stability goals. They also reflect a broad implementation barrier in reforming jurisdictions, where legal harmonization outpaces institutional capacity (Ghiță-Mitrescu et al., 2016; Kneiding et al., 2014).

This pattern reveals a deeper issue in regulatory design. Although the reforms aimed to enhance market integrity and trust, consistent with the public interest theory, their uniform implementation contradicts the proportionality principle in risk-based supervision (Baldwin et al., 2011; BCBS, 2004). The uneven outcomes across institutions further illustrate dynamics described by economic regulation theory, where dominant actors benefit the most (Peltzman, 1976).

Table 7

*Coding Structure: Theme I*

Theme	Codes	Categories
I. Regulatory impact on sector structure and dynamics	Overload	Regulatory overload and misaligned implementation
	Mismatch	
	One-size-fits-all	
	Incomplete	
	Necessary	Market consolidation and structural filtering
	Exit	
	Survivors	
	Consolidation	
	Power shift	
	Filtering	Selective benefits and strategic opportunities
	Shift	
	Modernization	
	Formalization	
Strategic adaption		

Source: Compiled by the author

Interviewees consistently described the implementation phase of regulatory reform as rapid and administratively intensive. While regulation is broadly acknowledged as necessary to stabilize and professionalize the sector, the speed and uniformity of the process created substantial friction. As P1 stated, *“It was all implemented too fast and at once; even large companies couldn’t always keep up”*. This was reinforced by P5, who noted that the reforms adopted banking logic that does not suit the structure of smaller NBFIs. These responses underscore that, despite good intentions, the reforms lacked sufficient adaptation to the structural and operational diversity of the NBFI sector.

This barrier is not unique in Ukraine. Ghiță-Mitrescu et al. (2016) observed similar difficulties in Romania, where NBFIs struggled with reform implementation due to limited capacity and transition support. Similarly, Kneiding et al. (2014) highlighted that across

Eastern Europe, uniform regulatory approaches often ignored institutional differences — an issue also reflected by several Ukrainian experts in this study.

These concerns are also embedded in legal design. Resolution №153 (2024) and Law № 1953-IX (2021) introduced reforms without distinguishing between institutions by size or risk profile, and without transitional measures for firms with limited compliance capacity of smaller or regionally focused NBFIs. This regulatory gap contradicts the proportionality principles and reinforces the implementation barriers described by participants.

The use of “one-size-fits-all” regulatory tools further complicates compliance. Several respondents pointed to unclear instructions and inconsistent communication. P4 noted, *“It was unclear how to interpret some of the instructions. We had to ask NBU multiple times before we even understood what they wanted”*. This confusion reflects a disconnect between the legislative intent of reform and the technical and institutional readiness of NBFIs, especially those lacking in-house legal or regulatory expertise.

The second key category — market consolidation and structural filtering — captures how the reforms triggered sectoral restructuring. Institutions unable to meet new compliance thresholds either exited voluntarily or lost their licenses. P6 reflected, *“It became clear that only structured and well-resourced companies would survive. Smaller ones with weak legal or IT functions just disappeared”*. P5 added, *“It’s the groups with strong legal teams and foreign capital that are now dominating”*.

These outcomes align with Article 38 of Law № 1953-IX (2021), which consolidates licensing procedures and raises entry barriers to reduce systemic risk. While these measures aim to professionalize the sector and limit unregulated actors, they may also stifle entrepreneurial innovation and local financial inclusion by marginalizing smaller players. This confirms Peltzman’s (1976) view that regulation often benefits dominant actors and exacerbates structural inequalities — a concern also raised by Vnukova and Bacho (2021) in their assessment of recent Ukrainian reforms.

Despite these challenges, several participants noted positive effects, particularly for well-prepared institutions. The third category — selective benefits and strategic opportunities — captures how reform outcomes vary depending on institutional capacity. As P1 observed, *“We used the transition period to modernize our processes and position ourselves better”*. Organizations with strong governance, digital infrastructure, and legal expertise were better positioned to comply with the new solvency, documentation, and reporting requirements, enhancing their competitive advantage in the post-reform landscape.

These advantages are reinforced by the legal framework itself. Reforms such as the introduction of electronic policy issuance and updated solvency standards contributed to higher levels of transparency and professionalism across licensed NBFIs. However, these benefits were largely accessible only to firms with sufficient legal and compliance capacity. As P6 explained, “*It’s a benefit if you already have legal and compliance structures. Otherwise, it’s overwhelming*”. These findings support the dual-track outcome described by Buttigieg et al. (2020), where regulatory improvements strengthen formal governance but risk reinforcing structural exclusion.

These institutional shifts also affect the consumer experience. As regulatory demands push providers toward more formalized and digitized operations, the interface between institutions and clients undergoes rapid transformation.

The second theme — consumer access and digital transformation — analyzes how regulatory reforms, coupled with accelerating digitalization, are reshaping the way consumers interact with financial services. It examines the interplay between legal initiatives and digital delivery mechanisms, focusing on how these developments have affected consumer access, convenience, affordability, and protection. The findings highlight both tangible improvements and emerging challenges within Ukraine’s evolving regulatory environment.

Based on coded interview data, four analytical categories were identified. These are presented in Table 8.

Table 8

*Coding Structure: Theme II*

Theme	Codes	Categories
II. Consumer access and digital transformation	Fast	Digital access and convenience
	Mobile	
	Self-service	
	Automation	
	Digital expansion	
	Time burden	Barriers and exclusion in the digital environment
	Eligibility checks	
	Digital complexity	
	Exclusion	
	AI rejection	
Price increase	Affordability gap	Affordability and cost shifts
Transparency	Miscommunication	Transparency, literacy, and consumer protection
	Ethical standards	
	Inclusion	

Source: Compiled by the author

The first category — digital access and convenience — captures how regulatory reforms have accelerated the adoption of digital infrastructure across the sector. Interviewees described improvements in service availability and efficiency, particularly through mobile platforms and self-service tools. As P2 noted, “*Consumers can now receive and sign everything online, even through a smartphone*”. This development aligns with Article 17 of Law № 1953-IX (2021), which legitimizes the use of digital channels and electronic signatures. From a policy perspective, digitalization has streamlined service delivery and expanded outreach, especially to consumers in remote or underserved areas.

However, several participants emphasized the uneven nature of this transition. The second category — barriers and exclusion in the digital environment — highlights concerns about unequal access. While digital platforms have become the dominant mode of interaction, not all consumers are able to use them effectively. As P4 remarked, “*There are many older clients who cannot even access the app*”. Additional concerns include automated eligibility checks and unclear AI-driven decision-making, which may lead to unjustified service denial. These findings raise concerns about digital inclusion, particularly in light of Law № 1023-XII “On Consumer Rights Protection” (1991), which requires providers to ensure non-discriminatory access.

This mirrors findings by Kneiding et al. (2014), who emphasized the need for adaptive engagement to ensure inclusion during digital reform. Similarly, Vnukova and Bacho (2021) noted that digitalization in Ukraine’s financial sector has created new access barriers for vulnerable consumers, despite formal consumer protection.

The third category — affordability and cost shifts — addresses how compliance-driven digitalization has indirectly affected pricing. Although efficiency gains were expected, institutions noted that regulatory and technical upgrades increased operational costs, which are often transferred to consumers. As P3 noted, “*Prices went up slightly because of the technical and legal updates we needed to implement*”. While Article 25 of Law № 1953-IX (2021) requires transparency and fairness in pricing, but it does not prevent institutions from shifting costs to end users, placing a disproportionate burden on lower-income consumers. This dynamics support Busch and van Rijn (2018), who observed that modernization without proper cost management can deepen financial exclusion.

The final category — transparency, literacy, and consumer protection — explores the gap between legal compliance and consumer understanding. Digital transformation, chatbots, and automated contract generators introduced operational efficiencies and also created confusion among consumers unfamiliar with the legal and digital terminology. P6 expressed

concern that “*Many consumers do not fully understand the terms they are agreeing to*”. P7 added, “*Processes have accelerated, but personalization has decreased*”. Although Law № 361-IX (2019) mandates real-time verification and automated monitoring, such measures may unintentionally reduce clarity and user engagement. These findings align with Buttigieg et al. (2020), who noted that digital regulation, without adequate communication and support, can deepen information asymmetry.

In conclusion, Theme II illustrates the dual impact of regulatory digitalization. On one hand, it enhances efficiency, access, and legal formalization of financial services. On the other hand, it introduces systemic challenges related to affordability, digital exclusion, and consumer literacy. While Ukraine’s legal framework provides the structural basis for secure and innovative service delivery, the success of these reforms ultimately depends on the ability of NBFIs to implement systems that are not only technologically robust but also socially inclusive and responsive to diverse consumer needs.

While Theme II focused on consumer-facing aspects, Theme III shifts the focus to institutional impacts, particularly in supervision, regulatory communication, and oversight credibility. As the NBU expanded its role as the sole regulator of NBFIs, new supervisory practices were introduced to enhance market stability and enforce compliance. However, this shift has produced both confidence-building effects and significant operational strain across the sector. The analysis is organized into three main categories, presented in Table 9.

Table 9

*Coding Structure: Theme III*

Theme	Codes	Categories
III. Supervision, transparency, and credibility	Stability Reputation Inspections Transparency	Strengthened oversight and stakeholder confidence
	Lack of clarity Poor communication Lack of feedback	Transparency and communication gaps
	Overload Sanctions Unclear Misuse Instability	Supervisory burden and rigid oversight

Source: Compiled by the author

This theme explores how intensified NBU supervision has shaped trust in the market, affected communication flows between regulators and institutions, and increased the regulatory burden placed on NBFIs.

The first category — strengthened oversight and stakeholder confidence — captures the stabilizing role of enhanced inspections and increased visibility of NBFIs in the financial landscape. The strengthened role of the NBU as the sole regulator is largely viewed by participants as a positive institutional shift, particularly in terms of market credibility and investor confidence. As noted by P2, *“There’s more structure now; the market is cleaner. It feels like the sector is finally being taken seriously”*. This perception aligns with the objectives of Resolution №153, (2024) which introduced stricter entry requirements and expanded oversight. P4 similarly commented: *“We felt the market became more predictable — trust from clients and partners has increased”*.

These responses reflect the broader strategy of NBU to align NBFIs with higher governance standards and promote long-term market stability. This perception aligns with Buttigieg et al. (2020), who emphasized that consolidated supervision can enhance sector reputation and investor trust. These also echo public interest theory, where visible oversight fosters market discipline and stakeholder confidence (Baldwin et al., 2011).

The second category — transparency and communication gaps — highlights concerns about the practical implementation of reforms. Despite the positive intentions behind the new legislation, many respondents noted uncertainty, a lack of transitional periods, and insufficient communication from the regulator. For example, P3 stated, *“There are so many changes. We constantly receive letters from the NBU, but often they come without clear explanations”*. This became particularly relevant during the implementation of the risk management system, which requires internal adjustments that some institutions struggled to implement. P6 added that *“The regulator sets the pace, but doesn’t always explain the direction”*. As a result, many NBFIs turned to consultations or external legal advisors, which introduces variability in interpretation and increased legal uncertainty across the sector. The resulting legal uncertainty undermines uniform compliance and burdens NBFIs.

Similar concerns were raised by Busch and van Rijn (2018), who noted that even well-designed reforms can create confusion when communication between regulators and the market is weak. This issue also reflects a disconnect between the intent of risk-based supervision and the capacity of supervised entities to adapt.

The third category — supervisory burden and rigid oversight — reflects the perception that inspections often prioritize procedural formality over substance. Several

interviewees expressed frustration with what they described as excessive formalism in the supervision process. P1 stated, *“The formalism is overwhelming — you can get fined for using the wrong font, not for real violations. That’s demotivating”*. Institutions also pointed to the high volume and frequency of reporting obligations, combined with a lack of differentiation between large and small NBFIs.

As P5 put it, *“There is control, but often it’s superficial. They collect data, but don’t really analyze it”*. Respondents viewed this as a sign that the NBU continues to apply a banking logic that overlooks the operational realities of NBFIs. These findings align with critiques by Kneiding et al. (2014) and Vnukova and Bacho (2021), who observed that disproportionate and formalistic oversight in Eastern Europe often leads to regulatory fatigue, especially among smaller institutions. This theme also reinforces concerns about the application of uniform supervisory models that fail to reflect institutional diversity, contradicting the proportionality principles in the risk-based framework by BCBS (2004).

While Theme III addressed external supervisory dynamics, Theme IV shifts the analytical lens inward — examining how nonbank financial institutions manage risk and compliance under evolving regulatory pressures. As regulatory requirements increase in complexity, NBFIs must not only respond to formal legal standards, but also build internal systems capable of operationalizing these demands effectively. The findings reveal how regulatory reform has both exposed existing institutional limitations and driven adaptation in risk and compliance management practices.

The analysis identified four categories based on interview data, capturing both regulatory strain and areas of adaptive innovation. This structure reflects the tension between regulatory ambition and institutional capacity, and highlights that reform success depends on proportional implementation that supports, rather than overwhelms, core operations. The coding structure is presented in Table 10 on the next page.

The first category — disproportionate compliance requirements — highlights the misalignment between regulatory expectations and institutional scale. Requirements such as capital modeling, dedicated risk and compliance managers, and IT-based reporting systems were often designed with larger, bank-like institutions in mind. As P2 emphasized, *“We’re forced to build entire compliance teams that simply don’t match our operational model”*. These expectations place a disproportionate burden on smaller institutions and limit flexibility in applying compliance frameworks. These tensions reflect standardized provisions in Law № 1953-IX (2021), particularly Article 15, which imposes uniform requirements without accounting for institutional size or complexity. This mirrors concerns raised in earlier

empirical studies, where uniform frameworks in Eastern Europe led to overburdening smaller providers.

Table 10

*Coding Structure: Theme IV*

Theme	Codes	Categories
IV. Risk and compliance challenges	Staff	Disproportionate compliance requirements
	High cost	
	Scale mismatch	
	Transition period	
	Overformalism	Evolving risk and compliance practices
	Adaptation	
	Tool mismatch	
	Process overload	
	Capacity building	
	Uncertainty	Systemic challenges in regulatory implementation
	IT	
	Capital models	
	Penalties	
	License loss risk	
Reputational risk		
Adaptation	Institutional adaptation and strategic development	
Risk managers		
Investment		
Regulatory alignment		
Internal restructuring		
Corporate governance		
Innovation		

Source: Compiled by the author

The second category — evolving risk and compliance practices — examines how NBFIs are adjusting internal processes to meet increasing compliance. While formal compliance and risk roles have been established, participants noted that these functions often lack operational authority. As P4 explained, *“Our compliance officer signs the checklist, but the actual process isn’t built out — it’s surface-level”*. Barriers such as mismatched tools, process overload, and delays in digital integration indicate that many institutions are still in the adaptation phase. Yet some positive dynamics were observed: capacity building, operational learning, and attempts to tailor digital tools to fit compliance needs are slowly emerging. This finding supports Buttigieg et al. (2020), who emphasized that adaptation in post-reform environments is incremental and requires both regulatory push and institutional initiative.

The third category — systemic challenges in regulatory implementation — addresses structural issues within the regulatory framework itself. These are not institutional failures, but risks created by inconsistent interpretation, unclear enforcement and the lack of transitional support. For example, P5 pointed out, “*Risk requirements keep changing, but there’s no transition period — you’re always catching up*”. Additionally, short reporting deadlines, complex capital requirements, and unclear penalties contribute to a compliance climate defined by legal uncertainty. These obstacles not only complicate regulatory adherence but also divert institutional resources toward defensive legal strategies rather than long-term planning. This confirms what Ghiță-Mitrescu et al. (2016) described as a reform fatigue effect, where unclear or overly dynamic regulation triggers operational delays, legal outsourcing, and sector-wide confusion.

The final category — institutional adaptation and strategic development — reflects how some institutions are using reform as an opportunity to modernize their internal structures. Several participants described efforts to upgrade risk systems, automate compliance, and align with regulatory standards. As P6 noted, “*This has pushed us to clean up — we’ve started upgrading internal risk tools*”. These improvements were most evident in institutions with stronger governance or greater access to resources.

These trends align with Peltzman’s (1976) theory that more resourced actors adapt faster and benefit more from regulation. However, they also illustrate potential for broader sectoral improvement if reforms are paired with targeted support (Busch & van Rijn, 2018). Institutional transformation, in this context, hinges on the availability of technical assistance and guidance that can bridge the gap between policy and implementation.

Overall, Theme IV illustrates the dual nature of risk and compliance barriers, while many arise from internal limitations, others result from regulatory overreach or lack of support structures. As reforms continue, the long-term success of Ukraine’s compliance system will depend not only on formal rules but also on whether those rules are applied proportionally and supported by clear legal guidance.

Theme V shifts focus toward the future, exploring expert perspectives on how the NBFI sector in Ukraine should evolve. This includes forward-looking assessments of likely market developments and specific policy recommendations aimed at improving sector resilience, competitiveness, and consumer inclusiveness. The analysis integrates five key categories (see Table 11).

Table 11

*Coding Structure: Theme V*

Theme	Codes	Categories
V. Future outlook and policy recommendations	Finalize	Completion of reform and legal coherence
	Legal coherence	
	Transition periods	
	Consultation	Transparent markets and consumer-centric regulation
	Transparent pricing	
	Consumer access	
	Strong players	Market evolution and structural forecast
	Reform limits	
	Profitability issues	
	Price growth risk	
Support	Innovation, digitalization, and access	
Personalization		
Deep digitalization		
Public funding		
Partnership		
Proportionality	Flexibility and proportional regulation	
Flexibility		
Bureaucracy cut		
Adaptive regulation		

Source: Compiled by the author

The first category — completion of reform and legal coherence — reflects a widespread agreement among participants that current reforms remain incomplete. Several interviewees emphasized the need for a more coordinated and consistent legal framework. P6 commented, *“We often receive instructions that contradict earlier letters; sometimes old regulations are still in force without clear repeal”*. These challenges illustrate the risks of fragmented overlapping reform processes with unclear transitional mechanisms, which hinder compliance and reduce legal certainty.

These comments underscore risks identified by Vnukova and Bacho (2021) and Ghiță-Mitrescu et al. (2016), who noted that fragmented implementation undermines legal certainty and complicates compliance. A full legal audit and clearer repeal procedures were suggested as the next necessary steps.

The second category — transparent markets and consumer-centric regulation — captures aspirations for more accessible financial services. Interviewees frequently raised concerns about the complexity of contracts and legal disclosures. P3 noted, *“Many clients do not read the contracts — they’re too long, not standardized, and full of legal jargon”*. Calls

for standardized documentation and clearer language were common, emphasizing the need to simplify communication without reducing consumer protections.

These concerns align with Busch and van Rijn (2018), who emphasize that formal compliance is ineffective without consumer comprehension. They also reinforce that regulatory transparency must be accompanied by usability and fairness to drive inclusion.

The third category — market evolution and structural forecast — reflects expectations of market contraction and consolidation. Interviewees anticipate that only the most resilient players will remain. P2 observed, *“The number of licensed players will shrink—some voluntarily withdraw, others will not pass the compliance bar”*. While some see this as a natural filtering process, others expressed concern that reduced diversity could increase consumer costs and limit competition. These dynamics correspond to the economic theory of regulation, which cautions that tighter rules often benefit stronger actors and reduce access for smaller actors. (Peltzman, 1976)

The fourth category — innovation, digitalization, and access — points to cautious optimism. Participants expect that continued investment in digital infrastructure, personalized product offerings, and partnerships (including with public actors) will foster sector growth. As stated by P5, *“There’s strong potential in mobile services and public funding partnerships, but not every firm is ready”*. Digitalization is thus framed as both a challenge and an opportunity. These insights mirror Kneiding et al. (2014), who noted that digital finance adoption in CEE countries is uneven and depends heavily on regulatory incentives and infrastructure development.

The final category — flexibility and proportional regulation — is one of the most emphasized themes. Experts stressed that uniform requirements may unfairly disadvantage micro- and small-scale institutions, which still play a crucial role in financial inclusion. Participants called for adaptive regulation based on size, risk exposure. Without such flexibility, even well-intentioned reforms may exacerbate sectoral concentration and hinder broader access to financial services. Calls for adaptive and tiered regulation support the risk-based supervision logic promoted in Basel frameworks, and align with public interest theory by advocating fairness without sacrificing market integrity. (BCBS, 2004; Baldwin et al., 2011)

In summary, Theme V presents a forward-looking synthesis of institutional, regulatory, and consumer priorities. It highlights the need to finalize reforms, ensure legal clarity, support digital inclusion, and apply regulation proportionately. Experts see both barriers and opportunities, but emphasize that the success of the reform will depend not only

on compliance but on the quality of policy design, communication, and execution in the coming years.

### **Conclusion**

This thesis has examined the regulatory framework governing nonbank financial institutions (NBFIs) in Ukraine, focusing on the systemic barriers and opportunities that have emerged in response to recent regulatory reforms. The research employed a dual-method approach, integrating a detailed analysis of legislative acts with qualitative insights from semi-structured interviews with sectoral experts. This methodological design enabled a comprehensive assessment of both the theoretical foundations and the practical implications of the regulatory environment for NBFI operations.

The theoretical part of the thesis clarified the definitional complexity and sectoral diversity of NBFIs. These institutions, ranging from credit unions and insurance companies to leasing firms and pawnshops, play a crucial role in financial inclusion, risk distribution, and service flexibility. However, their lack of a uniform regulatory identity and fragmented legal categorization historically limited their integration into coherent supervisory frameworks. This definitional ambiguity set the stage for many of the challenges addressed in the legal and empirical parts of the thesis.

The author also outlined key regulatory approaches, including public interest theory, risk-based supervision, and economic regulation theory. These frameworks helped explain both the rationale behind recent reforms and the structural tensions they introduced, especially the tendency for dominant institutions to benefit more from regulatory changes. Cross-country comparisons with the EU, Malta, and Romania highlighted the recurring challenge of balancing legal harmonization with local institutional capacity. These theoretical insights were instrumental in interpreting the interview data and identifying how global regulatory trends interact with domestic institutional realities.

The findings indicate that Ukraine's regulatory landscape for NBFIs has undergone substantial transformation, particularly through the adoption of risk-based supervision, unified licensing systems, enhanced consumer protection mechanisms, and the formalization of financial services secrecy. These reforms represent a strategic shift toward alignment with European Union regulatory standards and have improved legal clarity and institutional accountability across various NBFI segments.

Nevertheless, the study identified several enduring barriers, grounded in both the legal analysis and expert interviews:

- Disproportionate compliance burdens on smaller and regional NBFIs;

- Overlapping and fragmented legal provisions, creating uncertainty;
- Limited transitional guidance and inconsistent regulatory communication;
- Risk of market consolidation, reducing financial access and diversity;
- Digital exclusion for vulnerable consumer groups;
- Formalistic supervision, focused more on documentation than outcomes.

Smaller NBFIs, particularly those operating in regional and underserved markets, face considerable difficulties in adapting to heightened compliance demands. The introduction of more stringent capital requirements, governance standards, and data protection obligations has disproportionately impacted these institutions, creating risks of market consolidation and reduced financial accessibility for vulnerable populations. Additionally, the rapid pace of regulatory change, coupled with inconsistent enforcement practices, has generated uncertainty and operational strain within the sector.

The empirical evidence gathered through expert interviews corroborates these findings. Participants acknowledged the benefits of enhanced market stability and consumer protection but expressed concerns regarding the feasibility of compliance for smaller entities. The dual pressures of meeting regulatory expectations while maintaining competitive service offerings were consistently identified as core barriers. Moreover, the integration of digital technologies, while facilitating improved service delivery and regulatory compliance, has also introduced risks related to digital exclusion, affordability, and uneven access to financial services.

At the same time, the reforms created several significant opportunities:

- Greater legal clarity and harmonization with EU practices;
- Improved consumer protection through clearer disclosure requirements;
- Adoption of risk-based supervision, enabling proportionate oversight;
- Acceleration of digital transformation in financial service delivery;
- Professionalization of NBFIs, improving institutional reputation;
- Increased market confidence and transparency through regulatory formalization.

In light of these findings, this thesis concludes that future regulatory development should prioritize several key areas. Regulatory frameworks should incorporate proportionality principles, tailoring compliance requirements to the size, complexity, and risk profile of financial institutions. This approach would alleviate undue burdens on smaller NBFIs while maintaining sector-wide standards of accountability and transparency. Additionally, efforts must be made to harmonize overlapping legal provisions across financial sectors, ensuring

consistency and predictability in regulatory enforcement. Such legal coherence would reduce ambiguities and foster a more integrated regulatory environment. The state and regulatory authorities should also implement targeted capacity-building programs, including technical assistance and training for NBFIs, particularly smaller institutions. These initiatives would enhance institutional resilience and facilitate smoother compliance transitions. Furthermore, regulatory strategies should prioritize consumer inclusion by promoting financial literacy, ensuring the accessibility of digital financial services, and safeguarding against exclusionary practices. Enhanced transparency and fair service terms must be mandated across all NBFI operations to ensure that consumers are adequately protected.

The scope of this thesis was limited by the representativeness of the interview sample. The interview sample primarily included experts from the credit union and insurance sectors, which restricts the generalizability of the findings across the broader landscape of nonbank financial institutions. Broader engagement with stakeholders from leasing firms, capital market participants, and debt collection agencies would provide a more comprehensive sectoral overview. In addition, the thesis captures a specific moment within an ongoing regulatory transition, making it difficult to assess the long-term outcomes of the 2024 reforms.

Future research could address these limitations in several ways. First, longitudinal studies are needed to evaluate the sustained effects of regulatory reforms over time and to assess whether the initial trends identified in this thesis persist or evolve. Second, the empirical base should be expanded to include a broader range of NBFI sectors. Third, integrating consumer-level data would provide valuable insights into how regulatory changes affect financial accessibility, trust, and overall service experience. Finally, comparative studies across other emerging and transitioning economies could help identify shared barriers and opportunities of adaptive financial regulation.

In conclusion, the regulatory evolution of Ukraine's NBFI sector embodies a complex interplay between fostering financial stability and promoting inclusive market development. While the implemented reforms have significantly strengthened the sector's regulatory foundations, their success ultimately hinges on balancing oversight with institutional adaptability. Ensuring that NBFIs can effectively operate within this evolving landscape, while continuing to provide accessible financial services, remains a critical challenge for Ukraine's financial sector policymakers and regulators.

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Appendices

Appendix A

Participant Consent Form

**Nonbank Financial Institutions in Ukraine: Opportunities and Barriers of  
Regulatory Framework:**

**Should you agree to participate in this study please read the statements below  
and if you agree to them, please sign the consent form.**

- I have read and understood the participant information sheet.
- I understand what the project is about, and what the results will be used for.
- I understand that what the researchers find out in this study may be shared with others but that my name will not be given to anyone in any written material developed.
- I am fully aware of what I will have to do, and of any risks and benefits of the study.
- I know that I am choosing to take part in the study and that I can stop taking part in the study at any stage without giving any reason to the researchers.
- I consent to audio or video recording during the study for further analysis, with the assurance that confidentiality will be maintained.

I agree to the statements above and I consent to taking part in this research.

Name: (please print): \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Investigator's Signature \_\_\_\_\_ Date: \_\_\_\_\_

## Appendix B

## Participant Information letter

**Nonbank Financial Institutions in Ukraine: Opportunities and Barriers of Regulatory Framework**

**What is the study about?** The final goal of all activities is to analyze the regulatory barriers and opportunities for nonbank financial institutions (NBFIs). The study will examine the impact of recent regulatory changes, the challenges NBFIs face, and potential improvements to the regulatory framework.

**What will I have to do?** I kindly ask you to participate in the research by taking part in an interview. To confirm your participation, you will be asked to sign a participant consent form.

**What are the benefits?** By participating in this study, you will contribute to valuable research that can help policymakers, industry professionals, and researchers better understand the regulatory environment of NBFIs. Your insights may lead to recommendations for improving the regulatory framework, benefiting the financial sector.

**What are the risks?** The risks to participating in this study are minimal. I do ensure anonymity in the research publication and do not share the content of the provided information with anyone, but we do acknowledge that the different research participants might know each other.

**What if I do not want to take part?** Participation in this research is voluntary and you can choose not to take part or to stop your involvement at any time.

**Who else is taking part?** I aim to recruit up to 10 individuals who including financial experts, representatives from credit unions, insurance companies, and lawyers specializing in financial regulation.

**What happens at the end of the study?** At the end of the study, the results will be published in thesis and presented anonymously. No names will appear in any of the results.

**What if I have more questions or do not understand something?** If you have any questions about the study, you may contact the researcher. It is important that you feel that all your questions have been answered.

**What happens if I change my mind during the study?** At any stage should you feel that you want to stop taking part in the study, you are free to stop and take no further part. There are no consequences for changing your mind about being in the study.

Name and contact details of investigator(s):

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## Appendix C

## Interview plan

Themes	Interview questions	Legal and theoretical basis
I. Regulatory impact on sector structure and dynamics	1. How do you assess the impact of recent regulatory changes by the NBU on the activities of nonbank financial institutions in your sector?	Law № 1953-IX (2021) Resolution №153 (2024) National Bank of Ukraine (2024b)
	2. How have the new capital and licensing requirements influenced the structure of the NBFI sector in terms of market concentration, competition, and the presence of smaller vs. larger firms?	Law № 1953-IX (2021) Resolution №153 (2024) Buha et al. (2023)
II. Consumer access and digital transformation	3. How has regulation affected access to financial services for consumers? Has it become harder/more expensive for consumers to obtain loans, insurance, or other financial services?	Law № 1953-IX (2021) National Bank of Ukraine (2024a) Law № 1023-XII “On Consumer Rights Protection” (1991) Buha et al. (2023)
	4. How does digitalization impact the regulation and operation of NBFIs? What new opportunities has digitalization created for NBFIs under the current regulatory framework?	Law № 1953-IX (2021) Law № 361-IX “On Prevention and Counteraction to Legalisation (Laundering) of Criminal Proceeds” (2019) National Bank of Ukraine (2024a)
III. Supervision, transparency, and credibility	5. How has strengthened NBU supervision affected transparency and reporting? Has it also created opportunities, such as increased investor confidence, improved market credibility, or expansion prospects for NBFIs?	Law № 1953-IX (2021) Resolution №153 (2024)
IV. Risk and compliance challenges	6. How have regulatory changes impacted risk management in NBFIs?	Law № 1953-IX (2021) Law № 361-IX (2019)
	7. What are the key legal risks that have emerged following regulatory changes in NBFIs?	Law № 361-IX (2019) National Bank of Ukraine (2024a) Resolution № 75 (2021)

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	8. What has been the most challenging aspect of compliance for NBFIs? Have recent regulatory changes also opened new growth areas or created opportunities for developing new financial products and services?	Law № 1953-IX (2021) Buha et al. (2023)
V. Future outlook and policy recommendations	9. What further reforms are needed to make NBFIs more stable, competitive, and accessible to consumers?	Vnukova and Bacho (2021) Buttigieg et al. (2020)
	10. How do you see the NBFi market developing over the next 3–5 years?	Busch and van Rijn (2018)

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Source: Compiled by the author

## Resümee

### UKRAINA MITTEPANGANDUSLIKE FINANTSASUTUSTE REGULATIIVNE RAAMISTIK: VÕIMALUSED JA TAKISTUSED

Karyna Valinkevych

Käesolev bakalaureusetöö analüüsib Ukraina mittepanganduslike finantsasutuste (NBFI-de) regulatiivse raamistiku arenguid, keskendudes hiljutiste reformide poolt loodud võimalustele ja takistustele. Töö eesmärk on hinnata, kuidas 2024. aastal jõustunud regulatiivsed muudatused on mõjutanud NBFI-de tegevuskeskkonda, turustruktuuri ning järelevalvepraktikaid.

Töö koosneb teoreetilisest ja empiirilisest osast. Teoreetilises osas selgitatakse NBFI-de määratlust ja funktsiooni finantssüsteemis, käsitletakse erinevaid regulatiivseid teooriaid (nt avaliku huvi teooria, haaramisteooria ja riskipõhine järelevalve) ning analüüsitakse varasemaid uuringuid Ukrainast, Euroopast ja mujalt. Need loovad tausta hiljutiste reformide kriitiliseks hindamiseks.

Empiiriline osa tugineb kvalitatiivsele analüüsile, mis ühendab õigusaktide sisuanalüüsi ja ekspertintervjuud. Intervjueeriti seitsme kindlustus- ja krediidiühistute sektori esindajat ning kahte õiguseksperti. Intervjuud keskendusid viiele teemale: reformide mõju turustruktuurile, digiteerimise ja juurdepääsetavuse muutused, järelevalve ja usaldusväarsuse areng, riskide ja vastavusega seotud probleemid ning tulevikusuunad ja poliitikasoovitused.

Töö tulemused näitavad, et kuigi reformid suurendasid turu läbipaistvust ja professionaalsust, tekitasid need väiksematele NBFI-dele märkimisväärseid rakendusraskusi. Ühtlustatud nõuded ei arvestanud institutsioonide erineva suuruse ja võimekusega, põhjustades koormust ning mõningatel juhtudel turult lahkumist. Samas kasutasid tugevamad asutused reformiperioodi protsesside moderniseerimiseks ja konkurentsieelise saavutamiseks.

Digitaliseerimine parandas teenuste kättesaadavust, kuid tekitas uusi tõrkeid eakate ja tehnoloogiliselt vähemate oskustega klientide jaoks. Suurenenud aruandluskohustus ja tehnilised nõuded tõstsid kulusid, mis kanti osaliselt tarbijate õlule.

Järelevalve tugevnemist peeti küll positiivseks usalduse tõstmise seisukohalt, kuid intervjuudes toodi esile ka jäik suhtlus, ebaselged juhised ning formaalsetele detailidele liigne keskendumine. Riskijuhtimise ja vastavusraamistike rakendamisel ilmnemiseid märkimisväärsed raskused, eriti väiksemate asutuste seas, kellel puudusid vajalikud ressursid ja oskusteave.

Tulevikku vaadates töid eksperdid esile vajaduse lõpetamata jäänud reformide ühtlustamiseks, parema õigusselguse tagamiseks ning paindlikuma ja proportsionaalsema

järelevalve mehhanismide kujundamiseks. Samuti rõhutati vajadust lihtsustada dokumentatsiooni ja tugevdada tarbijakaitset.

Töö annab olulise panuse arutelluse NBFI-de reguleerimise ja arenguperspektiivide üle ning pakub praktilisi soovitusi nii poliitikakujundajatele kui ka turuosalistele.

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