



Attract Deposits to Commercial Banks and Strengthen their Resource Base

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Abstract

This article deals with the issue of transferring funds of legal entities and individuals at the disposal of commercial banks of the Republic to the Bank's resource funds. Also, this paper studied the influencing factors and their properties. At the same time, recommendations were made to strengthen the deposit base.

Keywords: *Commercial Bank; Deposit; Deposit Base; Types of Deposit; Certificate of Deposit; Bank Resources; Attracted Funds; Bank Resource Base; Respondents; Diversification*

Introduction

The role of financial policy in the activities of commercial banks in Uzbekistan is growing day by day due to the development of free market relations, increased competition, limited domestic financial resources and their short-term nature.

The development of fiscal policy for everyone allows the state to provide households with a clear picture of the intended goals, methods and techniques of financial management and its formation, to assist in the implementation of the interests of the parties involved in financial relations. In this case, the financial policy of any business entity is designed to take into account the multifactorial and multivariate nature of financial management. Without such a policy, the actions of market participants will be misleading and the dynamics and stability of development will be lost, which in turn can lead to a crisis in any financial economy. The need to increase the participation of banks in the investment process stems from the interdependence of the banking system and the successful development of the economy as a whole. On the one hand, commercial banks are interested in a stable economic environment, which is a prerequisite for their activities, on the other hand, the sustainability of economic development largely depends on the level of reliability of the banking system and its efficiency. However, since the interests of an individual bank as a commercial entity are focused on maximizing profits at an acceptable level of risk, the participation of credit institutions in investing in the economy occurs only under favorable conditions.

Discussion

Ensuring the efficient operation of modern commercial banks, meeting the needs of the economy and population, the development of competitiveness and their financial stability are largely determined by the level of financial capacity of credit institutions and the quality of banking.






Attracting financial resources is an essential task, because without them there will be no commercial banks. The bank's ability to attract deposits and interbank loans and place its own securities is a key criterion for the bank's recognition by various financial market participants. The condition of the resource base of a commercial bank is the main criterion for assessing the stability and reliability of the bank, and is an indicator of the quality of customer service provided by the bank. The exact method of calculating deposits in the resource base of commercial banks in our country was developed by *the Ministry of Justice of the Republic of Uzbekistan on July 3, 2015 № 2692, approved by the Board of the Central Bank of the Republic of Uzbekistan on June 13, 2015 № 14/1.*

The scale of a bank's operations, its income and expenses depend on the amount of resources it has in the market, especially on deposits. This means that there is competition between banks to attract resources. The resources raised are of great importance to banks, as they cover an average of 35-40% of their total resources as they cover the largest share of their needs in the funds.

However, we cannot say that the source of bank resources such as deposits has some shortcomings. We are talking about the significant material and monetary costs of the bank to raise funds for limited deposits. In addition, the accumulation of funds for deposits depends largely on the customer, not on the bank itself. Therefore, competition between banks in the credit market forces them to take measures to develop services that will help them attract deposits. For these purposes, it is important to develop a deposit policy strategy based on the goals and objectives of banks. Strengthening the deposit base is very important. By increasing the total volume of deposits and expanding the number of depositors, legal entities and individuals, it is possible to improve the organization of deposit operations and the system of incentives to attract deposits. Creating a resource base that includes not only attracting new customers, but also constantly changing the content of resources to attract resources is an integral part of flexible, proactive, and accountable management. Effective management of liabilities implies the implementation of an authorized deposit policy. The peculiarity of this area of activity is that the choice of a bank for passive operations is usually limited to a certain group of customers and is more strongly associated with borrowers.

The limited resources associated with the development of banking competition lead to closer ties with specific customers. If the range of these customers is narrow, the bank's dependence on them is very high. Therefore, to strengthen the resource base, banks will need a balanced deposit policy based on volumes and interest rates, maintaining the necessary level of diversification, attracting monetary resources from other sources and maintaining the balance with assets.

In order to expand the resource potential of banks, it is necessary to gradually implement their deposit policy. In this regard, one of the priorities of their work should be the gradual development of the deposit portfolio, in particular, the expansion of the list of existing deposits to customers, the introduction of competent deposit policies aimed at introducing new types of services for their convenience. The package of measures to expand the deposit base includes a number of financial and marketing tools. Financial instruments include:

-  *expanding the list of deposits;*
-  *determining the required amount of funds;*
-  *creating optimal retention periods for funds;*
-  *protection against early write-off of time deposits;*
-  *issuance of savings certificates.*

At this point, in the context of marketing tools, we need to consider:

- ✚ *activation of advertising policy;*
- ✚ *segmentation of the deposit portfolio by the client;*
- ✚ *creation of telecentre service.*

Banks of the Republic recommend legal entities to place temporarily vacant funds in the bank on the condition of making a profit (interest), which will allow them to use the funds as efficiently as possible. The Bank's deposit policy should take into account the needs of all social and age groups of citizens - workers and retirees, young and middle-aged people, and is designed for the poor and middle and high income people.

For individual entrepreneurs and legal entities who have learned to plan their funds and income, the bank has developed a number of special deposits that can be obtained on different terms, terms and with different profits (interest). The bank guarantees the safety of the invested funds and their return. The benefit depends on the amount and timing of the investment. Deposits can be made in cash, but only by transferring money from the account of a legal entity. The Bank accepts deposits in national and foreign currencies. Upon expiration of the deposit, the deposit amount and accrued profits (interest) are transferred to the details of the depositor specified in the bank deposit agreement.

According to a survey by the National Bank, the share of respondents who expressed a desire to open a deposit in the near future increased from 37% in the fourth quarter of 2019 to 41% in the first quarter of 2020. Banks may also add new types of deposits to the list of deposits aimed at this group to attract middle-aged customers. In order to ensure that depositors have access to this type of deposit, it is advisable to introduce some incentives among the younger population that are attractive to potential customers.

In order to improve the deposit policy, the bank may also offer a range of deposits aimed at high-income customers. For example, a customer manager who makes a customer's personal information known only to one person at the bank. However, interest can be paid monthly, including on a free plastic card issued by the bank. In addition, the identity of the customer is not disclosed when depositing money at the checkout. Thus, the average and small employees of the bank do not know any information about the client, and the risk of disclosure of deposit information should be minimal. Banks should strive for long-term cooperation with each client.

To do this, banks need to forecast the development of customer needs, the emergence of new areas of banking business, conduct marketing research, develop and offer a full range of banking products and services. In addition, it is possible to assume that the bank's customers will benefit from targeted deposits, when payments are made on deposits for which holiday period, birthday or other holiday. Their terms are shorter than traditional deposits, and the interest rates are higher. Target deposits can be, for example, *New Year and Navruz deposits*, which means that the bank accepts small deposits during the year and pays out to depositors at the end of the year. However, anyone can continue to save until the next New Year. The bank can also offer a combination of credit and insurance products and deposit products, develop products to meet the needs of depositors in housing, large purchases, education, tourism and recreation. In order to expand the deposit base, the bank should pay attention to such a means of raising funds as a certificate of savings, which will be beneficial for both potential customers and the bank itself. Certificates have significant advantages over time deposits with simple deposit agreements. There are several benefits to issuing savings certificates for banks. First, the issuance of certificates does not allocate funds to the mandatory reserve fund, which is used to lend to businesses. Second, the range of potential investors is expanding due to the distribution of certificates and the large number of financial intermediaries that can be traded. There are also significant benefits to holding a fund certificate. For

example, certificate holders lose a smaller percentage of income when taxed, because the procedure for taxing income on certificates is similar to taxing income on securities.

Moreover, in the secondary securities market, the certificate can be sold early by the holder to another person during the storage of the certificate and without changing the amount of bank resources, and early withdrawal of a time deposit by the holder will result in loss of income for him. for the bank, it means the loss of a certain part of its resources. Advantages of depositing money:

✚ *Depositing is a convenient way to save and collect money and guarantees timely return and payment to the owner:*

✚ *Your company's temporarily idle cash can provide jobs and a steady income for customers;*

✚ *allows both short-term and long-term investments;*

✚ *the term of the deposit and the interest received from it (interest) are specified in the contract and can not be changed unilaterally;*

✚ *the contract can be concluded on special terms;*

✚ *deposit refund is guaranteed.*

The implementation of loans and deposits to commercial banks in the country from January 1 to May 1, 2020 is shown in Table 1 below.

Table 1: About loans and deposits of commercial banks as of May 1, 2020 INFORMATION *

	Names of banks	Total loans;	of which (billions soums);		Total deposits (billions soums);	Of which (billions soums)	
		(billions soums);	Physical individuals	legal individuals		Physical individuals	legal individuals
	Total	232 302	43 821	188 481	92 631	23 992	68 638
	Banks with state share	205 815	38 555	167 260	66 518	15 690	50 829
	NBU	58 730	4 751	53 979	16 002	4 150	11 853
	Uzsanoatqurilishbank	33 471	3 692	29 779	8 069	1 689	6 380
	Asakabank	29 742	3 995	25 747	8 115	1 344	6 770
	Ipotekabank	20 174	7 362	12 812	7 302	1 800	5 502
	Agrobank	20 448	3 301	17 147	5 540	2 312	3 227
	KhalqBank	14 219	5 245	8 975	8 913	1 436	7 477
	Qishloqqurilishbank	11 541	6 877	4 664	3 165	760	2 405
	Aloqabank	5 426	967	4 459	4 686	503	4 184
	Turonbank	4 797	464	4 332	1 530	629	901
0	Mikrokreditbank	5 417	1 488	3 929	1 443	481	962
1	AsiaAllianceBank	1 672	378	1 294	1 612	581	1 031
2	Poytaxtbank	88	30	58	109	4	105

3	Uzagroeksportbank	89	3	85	32	0	32
	Otherbanks:	26 487	5 266	21 221	26 112	8 303	17 809
4	Hamkorbank	6 296	1 554	4 742	3 349	1 793	1 556
5	Ipakyo'libank	4 145	616	3 529	1 925	665	1 260
6	Kapitalbank	3 108	842	2 266	4 099	2 464	1 635
7	UzKDBbank	810	12	798	4 662	191	4 471
8	InvestFinansbank	2 879	729	2 150	2 864	1 079	1 784
9	OriyentFinansbank	2 676	336	2 339	2 446	374	2 072
0	Trastbank	1 835	154	1 681	2 799	438	2 361
1	Davrbank	1 055	357	698	772	182	590
2	Savdogarbank	786	264	523	705	153	552
3	Turkistan bank	819	32	786	787	263	524
4	Universalbank	597	195	402	681	285	397
5	Ziraatbank	453	18	435	314	164	151
6	Ravnakbank	399	108	290	444	231	213
7	Tengebank	228	24	204	27	1	26
8	EronSoderotbank ;	5	4	1	26	1	25
9	Hi-Techbank;	248	4	244	171	17	154
0	Madadinvestbank	150	16	134	40	1	39

* Source of information: <https://cbu.uz/uz/statistics/bankstats/275990/>

According to Table 1 (Figure 1), by May 1, 2020, the NBU will have issued 58730 billion sum, Uz sanoat qurilish bank - 33 471 bln. sum, Asaka bank 29742 bln. sum.

The National Bank of Uzbekistan has accepted a loan of 16,002 billion sum. UZS, Uz sanoat qurilish bank – 8069 bln. sum, Asaka bank 8115 bln. UZS deposits. Here are the results of all banks of our country. From the beginning of 2020 to May 1, 2020, the amount of loans amounted to 3.6 times the amount of deposits in the NBU, 4.1 times in Uz sanoat qurilish bank, 3.6 times in Asaka Bank. From the data, we can see that from the beginning of 2020 to May 1, 2020, the amount of loans in state-owned banks amounted to 3.1 times the amount of deposits.

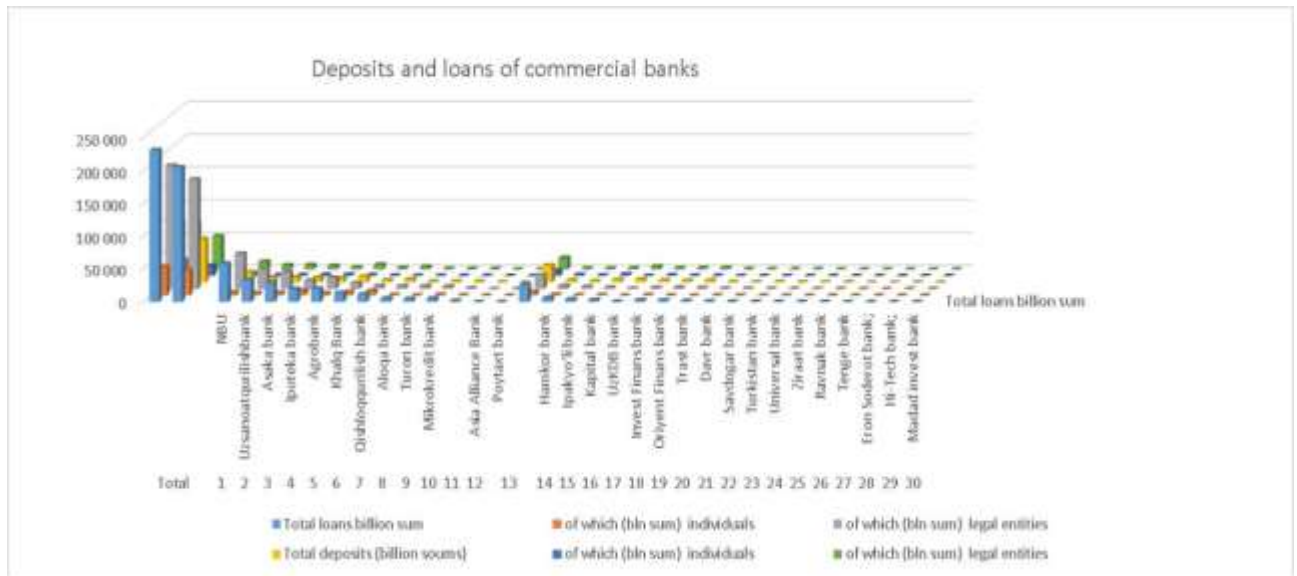


Figure 1. Deposits and loans of commercial banks

The National Bank of Uzbekistan received 3.6 percent, the Uzsanoatqurilishbank 4.1 percent, the Asaka Bank 3.6 percent, Ipoteka Bank 2.8 percent, and the Agro Bank 3.7 percent. Qishloq Qurilish Bank accounted for 3.6 percent, Turon Bank for 3.1 percent, Microcredit Bank for 3.7 percent, and Uzbekistan Agro-Export Bank for 2.8 percent. The lowest rates were 1.6 percent at Khalq Bank, 1.1 percent at Aloka Bank and 1.03 percent at Asia Alliance Bank. According to the calculations, we can see that the interest rates on loans are higher than the interest rates on deposits, and also from the beginning of 2020 to May 1, banks with a loan amount of more than 3.1 times the amount of deposits earned more. In fact, one of the main tasks of commercial banks is the optimal use of funds available to individuals and legal entities.

In accordance with regulations "On the mechanism of formation of interest rates on deposits attracted by commercial banks", "On the Central Bank of the Republic of Uzbekistan", "Banks and banking activities" and the Law of the Republic of Uzbekistan and the Resolution of the President of the Republic of Uzbekistan dated May 6, 2015 № 2344 "On measures to further increase the financial stability of commercial banks and develop their resource base" determines the rules of formation of interest rates on deposits.

One of the priorities planned for 2019 was to accelerate the reforms in the banking and financial system, the widespread introduction of modern market mechanisms in the industry. Extensive work has been done over the past year to accomplish these tasks.

In particular, the Law of the Republic of Uzbekistan № 580 of November 5, 2019 On Amendments and Addenda to the Law of the Republic of Uzbekistan "On Banks and Banking" and The Law of the Republic of Uzbekistan № 582 On Amendments and Addenda to the Law of the Republic of Uzbekistan "On the Central Bank" were adopted.

Resolution of the President of the Republic of Uzbekistan dated November 30, 2019 № 4540 "On measures to reorganize the unitary enterprise National Bank for Foreign Economic Activity of the Republic of Uzbekistan in the form of a joint stock company". The National Bank for Economic Activity was reorganized into the National Bank for Foreign Economic Activity of the Republic of Uzbekistan.

Attention was paid to the main problems of the banking system, highlighted in the *Address of the President of the Republic of Uzbekistan to the Parliament* on the most important priorities for the development of our country in 2019. Given that the bulk of assets and capital in the banking system belong to the state and this has a negative impact on healthy competition in the banking sector, the quality of services, the Ministry of Finance has established the *Department for Coordination of Reforms of State-Participated Commercial Banks*.

Significant intensification of competition between banks was reflected in interest rates on time deposits in the national currency. In particular, in December 2019, the weighted average interest rate on time deposits of individuals was 19.7%, while for time deposits of legal entities this figure rose to 16.5%. The popularity of total banking services in the banking system as a result of the increase in the attractiveness of interest rates on deposits and the increase in the amount of certificates of deposit allows customers to maintain their accounts, make payments quickly and create reports on bank accounts. In addition, bank customers have the opportunity to place their funds on deposits or apply for loans remotely via mobile phones around the clock. In 2019, a number of changes were made in the payment system. In particular, the number of plastic bank cards in circulation increased by 2.86 million, the number of installed terminals increased by 147,448, the number of installed ATMs and kiosks increased by 2,344. As a result, revenues from payment terminals this year amounted to 71 trillion sum.

Moreover, from October 31, 2019, banks have the right to establish banking service offices in order to provide prompt service to their customers. Basic banking services such as opening deposit accounts, accepting deposits, making payments and international money transfers, currency exchange, consumer loans and micro crediting have been launched in the banking services offices.

At the same time, last year a great deal of attention was paid to improving the knowledge and skills of commercial bank employees through the introduction of modern methods of training and retraining of personnel in the banking sector. In particular, there has been a systematic approach to training based on international standards and best international practices. At the same time, a bonus system was introduced for the management, middle and lower-level employees of commercial banks based on their qualifications, knowledge and specific performance.

It should be noted that on November 25, 2019, the first step was taken to integrate banks into international capital markets. *Industrial Construction Bank of Uzbekistan placed its 5-year international bonds in US dollars on the London Stock Exchange at a coupon rate of 5.75 percent*. In one year, the Republic of Uzbekistan will spend 1.3 billion sum. The issuance of US dollar bonds on the international capital market has opened the door to new opportunities for other commercial banks and enterprises in our country.

The launch of cash foreign exchange transactions to individuals in the last ten days of August 2019 has further boosted public confidence in the banking system. As a result, the amount of foreign currency purchased by individuals through currency exchange offices of commercial banks last year increased by 41% compared to 2018 and amounted to 3.8 billion USD. As of December 1, 2019, the total assets of the banking system increased by 94 trillion sum compared to the same period last year.

Conclusions and Suggestions

In conclusion, when developing a deposit policy, banks should be guided by certain criteria of its optimization, among which can be distinguished:

- ❖ Interdependence of the bank's deposit, credit and other operations to maintain its stability, reliability and financial stability;
- ❖ diversification of bank resources to minimize risk;
- ❖ segmentation of the deposit portfolio (by customers);
- ❖ a differentiated approach to different groups of clients;
- ❖ Competitiveness of banking products and services.

In general, the activities of banks in the field of attraction of deposits, including the establishment of interest rates on attracted deposits, deposits (deposits) and accrued interest on deposits between the bank and the client (deposit) timely repayment in accordance with the agreements is made in accordance with the deposit and interest policies of banks. The main reason for the increase in the share of deposits of legal entities and individuals is the fact that banks gain the trust of customers.

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