



Current Issues of Financial Security of Commercial Banks

Mirziyoev A

Independent Researcher, Tashkent Institute of Finance, Uzbekistan

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Abstract

Ensuring financial security is a prerequisite for ensuring the liquidity and financial stability of commercial banks. Thus, the deepening of risks in the activities of banks negatively affects their liquidity and financial stability. The article identifies topical problems associated with ensuring the financial security of commercial banks of the Republic of Uzbekistan and developed scientific proposals aimed at solving these problems.

Keywords: *Commercial Bank; Financial Security; Liquidity; Financial Stability; Risk; Credit; Capital; Deposit; Reserve; Interest Rate*

Introduction

Improving the quality of the loan portfolio and risk management in the Strategy of Banking Reform of the Republic of Uzbekistan for 2020-2025, the introduction of technological solutions for the assessment of financial risks; The introduction of modern standards of banking, information technology and software products has been identified as one of the priorities in reforming the country's banking system (Decree of the President: 2020). This, in turn, necessitates the identification of current problems related to the financial security of banks and the development of scientifically based ways to solve them.

One of the minority groups occupying the island of Bali is the Muslim community of Bali. There are as many as 13.37% of Balinese people who are Muslim spread from the western end to the eastern tip of Bali island which is divided into two types of Muslim community, namely the indigenous Muslim community of Bali and the Muslim Community of Migrants. Wanasari Hamlet is an area located in North Denpasar that has the largest immigrant Muslim community in Bali. The presence of Muslims in the Muslim-majority Hamlet of Wanasari can be said to have almost never sparked an actual conflict with the indigenous Balinese who have been Hindu for nearly three generations. Focusing on Stella Ting-Toomey's identity negotiation theory approach, this article analyzes the process of negotiation between the identities that occur, what elements of identity are involved, as well as what identity factors have an impact on communication in a harmonious life, especially among the migrant population (Javanese-Muslim) with indigenous peoples (Bali-Hindus) in Wanasari Hamlet, Denpasar City, Bali.

Literature Review

According to V. Gaponenko, financial security is a stable and balanced state of the financial and credit sector against external and internal negative influences (Gaponenko: 2013, pp. 165-169).

According to Y. Platonova, the financial security of a commercial bank is achieved through strategic and tactical planning and measures to prevent future threats of financial significance. The main measures to ensure financial security are to achieve a high level of solvency, liquidity and financial stability, as well as the formation of an effective capital structure (Platonova: 2019, pp. 130-133).

It is clear from this conclusion that the high solvency, liquidity and stability of the capital structure of commercial banks are the main criteria determining its financial security.

According to a group of economists, the macroeconomic indicators that characterize the financial security of commercial banks are:

- * external and internal debt;
- * GDP per capita;
- * volume of investments;
- * the share of the processing industry in the volume of industrial output;
- * state budget deficit;
- * volume of money supply (Gailuk: 2015, pp. 1-22).

Indeed, changes in macroeconomic indicators have a strong impact on the financial security of commercial banks.

According to Y. Averyanova, financial security of the banking system means ensuring the development of commercial banks, which creates the necessary financial conditions and resources for the socio-economic stability and development of banks, the integrity and unity of the banking system. The financial security of a commercial bank is the ability to maintain and increase the financial capacity of commercial banks to achieve their strategic goals and objectives, as well as to ensure their independence and sustainability (Averyanova, pp. 220-225).

Apparently, Y. Averyanova points out that the financial security of a commercial bank, which is taken separately from the financial security of the banking system, differs significantly from each other.

According to J. Sinki, the management of liabilities and liquidity risk management play an important role in ensuring the financial security of a commercial bank. In particular, the instability of liabilities and the deepening liquidity problem seriously damage the financial security of banks (Sinky: 2017, pp. 651-661). In general, it should be noted that a number of factors, including tax discipline, tax culture, financial technology, have a special impact on the provision of financial security (Allayarov: 2019; Allayarov and others: 2020; Allayarov: 2020 (Combination...), pp. 64-69). It is also known from international practice that from the point of view of ensuring financial security, the role of taxes in the development and support of entrepreneurship is of particular importance (Allayarov: 2020 (Faktor...), pp.2343-2348; Allayarov: 2020 (Strengthening...), pp. 124-128; 19, pp. 57-62). Ensuring financial security remains important, especially in terms of strategic management of enterprise competitiveness (G. Shamborovsky: 2020, pp. 1-7; 21).

Analysis and Results

Ensuring liquidity and financial stability of commercial banks in the Republic of Uzbekistan is one of the priorities of the country's banking system reform and a central issue of prudential supervision.

The Central Bank of the Republic of Uzbekistan has established prudential requirements for liquidity and financial stability of commercial banks, the implementation of which is the subject of constant control.

The Instruction of the Central Bank of the Republic of Uzbekistan No. 2709 of August 13, 2015 “On requirements for liquidity management of commercial banks” sets four prudential requirements for the liquidity of commercial banks (instantaneous liquidity ratio, current liquidity ratio, liquidity ratio ratio coefficient) (Resolution of the Board of the Central Bank: July 22, 2020).

According to the Instruction of the Central Bank of the Republic of Uzbekistan No. 2693 of July 6, 2015 “On capital adequacy requirements of commercial banks”, Tier I capital must be not less than 75% of regulatory capital, Tier I fixed capital must not be less than 60% of bank regulatory capital.

To assess the financial security of JSC “Asaka Bank”, we assess the change in the amount and level of profit of the river (Table 1).

Table 1: Quantity and level of net profit in JSC “Asaka Bank” (www.asakabank.uz)

Indicators	2018 year	2019 year	2020 year	Change in 2020 compared to 2018
Net profit, mln. sum	857 113	166 588	340 562	39,7 %
The ratio of net profit to the amount of assets at risk,%	4,5	0,6	0,9	- 3,6 f.p.

It can be clearly seen from the data in Table 1 that the amount of net profit in Asaka Bank in 2020 decreased by 60.3% compared to 2018. This is a negative situation in terms of ensuring the financial security of Asaka Bank.

Table 1 show that the level of net profit in Asaka Bank in 2020 decreased by 3.6 percentage points compared to 2018. Moreover, the normative level (2.0%) of the net profit margin in 2020 has not been met.

The amount of net profit and its level are important indicators that characterize the financial stability of commercial banks. Since financial stability is one of the important criteria determining the financial security of commercial banks, the analysis of indicators characterizing financial stability plays an important role in ensuring the financial security of commercial banks.

One of the important criteria determining the financial security of commercial banks is their liquidity. In turn, changes in the ratio of highly liquid assets to demand deposits play an important role in ensuring the liquidity of commercial banks.

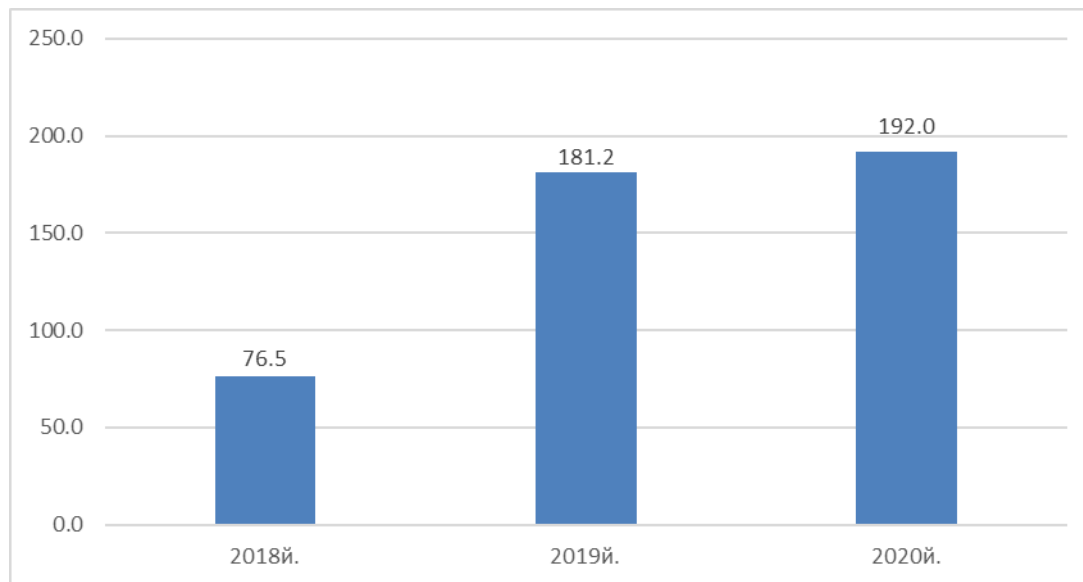


Figure 1. The ratio of highly liquid assets to demand deposits in JSC “Asaka Bank”, as a percentage (www.asakabank.uz)

The data shown in Figure 1 show that in 2018-2020, the ratio of highly liquid assets to demand deposits in “Asaka Bank” increased. This is a positive development in terms of ensuring the financial security of “Asaka Bank”.

In the banking practice of the Republic of Uzbekistan, the structure of highly liquid assets of commercial banks includes:

- * pure cast gold;
- * funds on the bank's Nostro correspondent account with the Central Bank;
- * Interbank loans and deposits for up to 7 days;
- * Securities of multinational companies from low-risk countries, listed on developed stock exchanges, with the highest ratings by international rating agencies Standard & Poor's, Fitch Ratings and Moody's;
- * funds on the bank's Nostro correspondent accounts opened with other banks;
- * Liquid assets not placed as collateral in banks in low-risk countries.

However, the balance sheets of commercial banks of the country are pure gold, interbank loans and deposits with a term of up to 7 days, as well as the highest ratings of international rating agencies Standard & Poor's, Fitch Ratings and Moody's, included in the list of developed stock exchanges. there are no securities of multinational companies of the countries.

Conclusions and Suggestions

In the course of scientific research, we have formulated the following conclusions:

Improving the quality of credit portfolio and risk management in the strategy of reforming the banking system of the Republic of Uzbekistan; Recognition of the implementation of technological solutions for the assessment of financial risks, the introduction of modern banking standards, information technology and software products as priorities for reforming the country's banking system makes it necessary to study the financial security of banks on a scientific basis.

An important criterion for ensuring the financial security of commercial banks is a high level of solvency and liquidity, as well as a stable capital structure.

Indicators characterizing the financial security of commercial banks are divided into macroeconomic and microeconomic indicators.

Criteria characterizing the financial security of commercial banks in the country is one of the priorities of the country's banking system reform and a central issue of prudential supervision.

The analysis showed that:

* The fact that the amount of net profit of Asaka Bank in 2020 compared to 2018 decreased by 60.3% and the level of net profit decreased during this period and its standard level was not ensured is a negative situation in terms of ensuring its financial security;

* The fact that in 2018-2020 "Asaka Bank" has a tendency to increase the ratio of highly liquid assets to demand deposits is a positive situation in terms of ensuring its financial security.

In our opinion, in order to ensure the financial security of commercial banks of the country, the following measures should be taken:

1. In order to ensure a normative level of net profit in commercial banks, first of all, it is necessary to ensure a stable level of interest expenses relative to interest income by improving the practice of management of liabilities; secondly, it is necessary to ensure that the growth rate of net profit is not lower than the growth rate of the amount of the bank's assets at risk; third, it is necessary to ensure that the scale of risk exposure of the assets of commercial banks fully complies with the requirements of the Basel Committee.

According to the current requirement of the Basel Committee, the maximum risk level of assets of commercial banks is 150% (<http://www.bis.org.publications>). However, the banks of the Republic of Uzbekistan have assets with risk levels of 200% and 300%. For example, the risk level of car loans issued by commercial banks to customers is set at 300%.

2. Due to the limited ability of commercial banks of the Republic to invest in highly liquid securities, it is necessary to take into account the level of asset risk in the transformation of deposits attracted by banks.

The limited volume of securities issued by the Government of Uzbekistan and the underdevelopment of investment operations of banks with securities do not allow to ensure the current liquidity of commercial banks at the expense of highly liquid securities.

As of August 1, 2021, the share of investments in securities in the total assets of commercial banks of the Republic of Uzbekistan was only 3.9% (www.cbu.uz).

Also, the amount of investment in Government securities on the balance sheet of commercial banks is very small. For example, in JSC "Asaka Bank", as of December 31, 2020, the share of investments in government securities in gross assets amounted to only 0.5% (www.asakabank.uz).

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