

ISSUES OF IMPROVING FINANCIAL MONITORING IN COMMERCIAL BANKS

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Abstract. *This article presents the theoretical and legal foundations for improving financial monitoring in commercial banks. It was divided into general criteria for national banking supervision systems in a macro and micro approach. In addition, the types of banking internal control in banks and its organization were considered. The state of implementation of prudential standards by commercial banks in the coming years was also analyzed and appropriate conclusions were given.*

Keywords: *financial monitoring in banks, prudential standards, banking internal control, credit, capital, liquidity.*

Introduction

The role of commercial banks in the economic improvement of the country cannot be equal with any other entity. Commercial banks, in addition to meeting the economy's demand for money and credit, also consider earning income as their main target. In order to ensure the transparency of commercial banks' activities, to prevent from endangering the interests of depositors and creditors as a consequence of dangerous and unhealthy activities, there is essential to conduct financial monitoring in banks perfectly. In particular, the Decree No. PF-5992 of the President of the Republic of Uzbekistan dated May 12, 2020 on the strategy of restating the banking system of the Republic of Uzbekistan for 2020-2025 was adopted. This document is mainly aimed at developing the legal framework for banking supervision as one of the important directions of reforms in the banking sector, involving the introduction of Basel Committee standards, international standards of financial reports, etc. [1]. Bank supervision plays a leading role in ensuring the stability of banks and maintaining their efficiency. In order to correctly assess the danger of money laundering, it is essential to imagine the scale of this phenomenon. Since it is impossible to accurately count the real incomes gained and legalized from organized criminal activities, only experts can estimate them at the level of relative probability. Looking at the experts of the International Monetary Fund, the total amount of legalization of criminal income is up to 2-5% of the whole world gross domestic product or 0.6-1.5 trillion per year. Estimated in USD [2].

It is necessary to note that the information base is dramatically improving in order to ensure the effective organization of banking supervision in the Republic. The organization of banking supervision is depended on the legal framework of the country and the recommendations of international banking organizations. Meanwhile, ensuring the stability of the national banking system, developing the quality of banking services given to the population and enterprises creates the need to form an internal control system in the activities of commercial banks.

Literature review

In the existing economic literature, the processes of "bank control or bank monitoring" and the issues of its implementation have been conducted by foreign scientists and experts, and relevant

tariffs have been provided. Korobova G.G. is a process of continuous management at all levels of the internal banking activity, and it is essential to do all treatment works with the bank board, the workers of the bank management, and the executive officer [3]. Tavasiev A.M. in his concept, bank management involves in «supervised by the bank and its own control" [4]. Olkhova R.G. describes control as "a controlled system that guarantees processing and support for decisions, a known process production system" [5].

Nowadays, modern internal control systems are depended on COSO's Integrated Internal Control Framework. Basing on the specific direction of the solution, L.V. Usatova only two in the textbook: and administrative type [6], R.G. Olkhova divides the cake into: administrative, accounting, power and legal types [5]. A.M. Tavasiev additionally adds market, technical-technological, management, information and accounting categories to these categories [4]. Most researchers agree with his classification. However, refuse the market type and divide the technical-technological, technological and informational type into a type, and the accounting type into the account and accounting type. Monitoring is against the legalization of proceeds of crime by banks might be included in specific controls.

Analysis depended on the time of execution of control actions, Doctor of Economic Sciences G.G. Korobova distinguishes only current and subsequent types of control [7], but the need for primary control cannot be forgotten. L.V. Usatova and T.I. Kapaeva felt that the control system in scientific works should be managed not only personnel, but also placement [8].

Research methodology

In the preparation of the article, practical data on inclining the level of capitalization of commercial banks were analyzed and all the provided data were carried out by the author depended on the today's legal documents and statistical indicators of the Central Bank. The article involves methods of grouping, comparison, systematic approach, and structural analysis.

Analysis and results

Adequacy and effectiveness of control over the activities of commercial banks is the important factor for ensuring the stability of the banking system and enhancing trust in banks. The high risk of deterioration of credit organizations, mostly banks, requires the continuous monitoring of banking activities.

Managements aimed at combating money laundering by banks may be involved in special controls. Only strong banking supervision ensures the stable operation of the banking and financial system, which is the lifeblood of the economy, avoiding of economic crises, widely involvement of private capital, and additional increase of the confidence of foreign investors in the country's banking and financial system. According to account the importance of bank control in the economic and social life of the country, it is urgent today to analyze the idea of bank control, its targets and functions, types and forms of scientific and theoretical views in a systematic way. It is possible to notice the common goals of the national systems of banking supervision in both macro and micro approach. The overall criteria and comparative analysis of these approaches are highlighted in the table.

Table 1

The macro and micro approach of national systems of banking supervision general criteria and comparative analysis [9]

Criteria's	In a macro approach	In a micro approach
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a short-term target	limit negative processes in the system	separate loan limitation of negative process in organization
a long-term target	avoiding the reduction of the gross domestic product	protection of interests of depositors and loans (customers)
risk definition model	Endogenous (partially)	Ekzogen
interrelationship between organizations	high	not confirmed
Prudentail control. selection of measurements	estimate negative processes based on process evaluation	estimating separate loan risk assessment

In all countries, the primary object of banking supervision is credit institutions, that is, commercial banks. Looking at the experience of the developed countries of the world, it is impossible to improve the state economy and achieve its stability without leaving alone the effective functioning of the two-tier banking system, which includes the network of emission banks and commercial banks [10]. In this case, the Central Bank is the first step, which regulates the money circulation of the country and the activities of all credit institutions. The second bank is made up of commercial banks and other credit organizations. Commercial banks, on the other hand, constantly monitor their activities. This control is called bank internal control and it has 3 types.

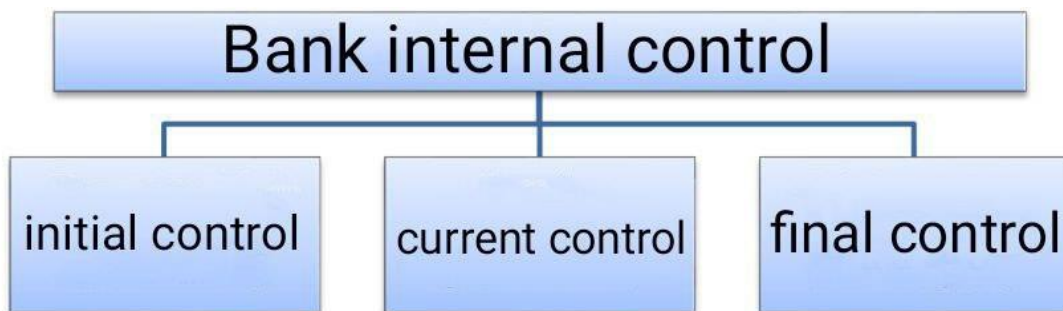


Fig 1. Types of duration of internal control in commercial banks.[11]

Primary control is showed before the audited operation is done. Control, known as current control or operational control, is carried out during the implementation of economic and financial operations, financial plans, budget implementation. The results of formation and use of financial resources are subject to final control. The completeness of the formation of financial resources, the legality and expediency of their use are checked in the implementation of budgets and financial plans of economic entities, in the implementation of estimates of budgetary institutions. Evaluation is carried out as a result of the analysis of the use of material, labor and financial resources, the legality of the implemented financial and economic operations, and the financial results achieved. Final control is distinguished by the in-depth organization of the economic and financial activities of the economic entity in a certain period [12]. Its results are inextricably linked with the initial or current control results and help to reveal defects in their transmission [13,14,15,16]. Of course, it is important for commercial banks to fully comply with economic regulations.

Table 2
Implementation of prudential standards by ATIB "Ipoteka bank" conditions [17]

№	Prudential standards	2020	2021	2022	The norms	
1	Capital Adequacy Ratio					
1.1	Capital Adequacy Ratio	0,170	0,170	0,168	Min 0,130	
1.2	Tier I Capital Adequacy Ratio	0,132	0,132	0,126	Min 0,010	
1.3	Tier 1 Core/ Fixed Capital Adequacy Ratio	0,132	0,132	0,126	Min 0,080	
1.4	Leverage Ratio	0,094	0,094	0,099	Min 0,060	
2	Liquidity Ratios					
2.1	Share of highly liquid assets in total assets	x	x	0,204	Min 0,100	
2.2	Liquidity coverage ratio	Total	3,243	3,243	1,885	Min 1,000
		in local currency	1,048	1,048	2,478	
		in for. currency	15,452	15,452	1,283	
2.3	Net stable funding ratio	Total	1,108	1,108	1,167	Min 1,000
		in local currency	1,042	1,042	1,137	
		in for. currency	1,309	1,309	1,235	
3	Normative for transactions with borrowers					
3.1	Maximum Risk Rate for One Borrower or Group of Interconnected Borrowers, Secured Loans/Leases	0,239	0,239	0,228	Max 0,25	
3.2	Maximum Risk Rate for One bank or Group of Interconnected bank borrowers for interbank loans and deposits	0,120	0,120	0,208	Max 0,25	
3.3	Maximum Exposure to One Borrower or Group of Interrelated Borrowers (excluding interbank exposure)	0,000	0,000	0,000	Max 0,05	
3.4	Aggregate largest risk ratio	1,294	1,294	1,548	Max 5,00	
4	Normative on Operations with Securities					
4.1	Maximum amount of Bank's Investment in Securities of One Issuer	0,000	0,000	0,005	Max 0,15	
4.2	Maximum Amount of Bank Investments in Trading Securities	0,000	0,000	0,000	Max 0,25	
4.3	Maximum Amount of Total Bank Investments in Securities of All Issuers	0,038	0,038	0,028	Max 0,50	
5	Normative on Operations with related parties					
5.1	Amount of Granted Loan to One Insider or Group of Insiders, Secured Loans/Leases	0,000	0,000	0,000	Max 0,25	
5.2	Total Amount of Loans Granted to All Insider	0,004	0,004	0,004	Max 0,50	

6	Normative for bank investments in real estate				
6.1	Total amount of all bank investments in real estate	0,103	0,040	0,034	Max 1,00

All indicators in the table are fully fulfilled. This indicates that prudential standards have been sufficiently fulfilled in the Mortgage Bank in recent years. Only in 2022, the indicator of the share of highly liquid assets in total assets, developed by the Central Bank, was fulfilled by more than 2 times the set norm. We must evaluate this positively.

Conclusion and suggestions

As a conclusion, in the banking system of our republic, there are lots of problems related to the formation of the capital structure of commercial banks and ensuring its adequacy, as well as the implementation of the requirements of the Basel Committee.

Depended on the above analyzes and studies, we managed to develop the following recommendations for financial monitoring of banks:

1. Financial monitoring of commercial banks should be gradually introduced depended on the recommendations of the Basel Committee;

2. It is essential to leave aside the continuous improvement of the qualifications of the bank employees working in the structural units of internal control in banks.;

3. The consequences of analyzes and studies show that modern methods of financial monitoring of commercial banks should be more widely used, and experiences that have given positive results abroad should be more simplified. In particular, it is desirable to increase the level of capitalization and achieve stability by carrying out detailed financial monitoring of banks.

We believe that the implementation of the above proposals in order to eliminate the existing problems in the financial monitoring of commercial banks will create an opportunity to increase the effectiveness of bank control in the banking system of our republic, and as a result, the stability of the banking system of our republic will be ensured and, in turn, it will cause the public's trust in banks to increase.

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