European Journal of Business Startups and Open Society

Vol. 4 No. 01 (Jan - 2024): EJBSOS

http://inovatus.es/index.php/ejbsos

Problems and prospects for the formation of digital transformation of commercial banks.

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Abstract: The article discusses the problems and prospects for the formation of digital transformation of commercial banks in Uzbekistan. And also in the direction of reducing the state share in the banking sector through a comprehensive transformation of the commercial and regulatory framework of Uzbekistan.

Key words: banking and financial sector, transformation, commercial banks.

Relevance of the topic:

With the rapid and competitive evolution of such service-oriented offerings, the future of all commercial banks suddenly looks much more open. Digitally empowered banks of all sizes can more effectively compete and win in commercial banking, becoming indispensable partners in financial and digital transformation for their customers.

The banking system of the Republic of Uzbekistan as of January 1, 2020 is represented by 30 commercial banks. Commercial banks operating in the republic can be divided into four categories based on their capital structure. Compared to the size of the economy and population of Uzbekistan, the total number of banks is relatively small and the structure of their assets does not provide a truly competitive environment, since it is characterized by high concentration: at the beginning of 2020, the 3 largest banks with state shares accounted for 54.9% of total assets.

In this regard, systemic restructuring in the banking and financial sector, the introduction of modern market mechanisms into this area is becoming an integral part of a broad campaign to reform and revitalize the Uzbek economy, carried out by the Government of the Republic of Uzbekistan under the leadership of President Sh. M. Mirziyoyev, who, in particular, in his in a message to the Oliy Majlis on December 28, 2018, he noted that "The most important problem in the banking system today is that 83 percent of the capital of banks belongs to the state. This hinders healthy competition in the banking sector and negatively affects the quality of services provided... We will gradually reduce the share of state-owned banks due to the influx of private and foreign capital into the banking system" .

A serious step towards reducing the state share in the banking sector through a comprehensive transformation of commercial banks with a state share was the adoption on May 12, 2020 of Decree of the President of the Republic of Uzbekistan No. DP-5992, which approved the Strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025 and implementation with the assistance of international financial institutions staged privatization of the state's share in a number of commercial banks of the republic, providing for their institutional transformation (transformation of activities) at the first stage and the sale of the state block of shares (SPO) at the second stage.

Analysis and results.

The study showed that in the process of privatization of state-owned banks and the sale of shares of the state's share in the capital of joint-stock banks, there are at least three problems:

- a high level of toxic assets that the state plans to transfer from the assets of banks to a specially created structure or the Fund for Reconstruction and Development of the Republic of Uzbekistan;

- formality of implementation of corporate governance principles, which reduces the level of investment attractiveness and credit ratings;

- lack of market capitalization of banks, which does not allow the sale of bank assets at fair market value.

It is the problem of the lack of methodology and practice for assessing the market capitalization of the banking sector of the Republic of Uzbekistan that is the main subject of research in this study.

The capitalization of any business entity is the most important parameter for assessing its investment attractiveness as a business. It is capitalization that helps increase the resource potential of a particular company through additional attraction of direct and portfolio investments. Therefore, the volume of the financial market is very closely related to the level of capitalization. In addition, the higher the capitalization, the higher the collateral value of the company, the more loans it will be able to attract to develop its business. Within an individual institution, the level of capitalization characterizes the ability of its managers to prove the prospects of the activities of this institution. The importance of capitalization increases in the context of global changes in the production and institutional structure, the financial sector of the world economy, having a significant impact on the development of national economies.

The credit and financial mechanism that has developed in the Republic of Uzbekistan over the years of Independence is implemented through centralized investments and lending activities of commercial banks. Investment loans from commercial banks contribute to the creation of modern industries, support the development of small and medium-sized businesses, and stimulate the development of economic infrastructure. As a result, the capitalization of the banking system directly affects the stability and determines the main trends in the development of the economy of Uzbekistan.

In this regard, capital and the associated concept of “bank capitalization” are of particular importance for each specific bank. The analysis of existing definitions allows us to conclude that there is no unified approach to the disclosure of this concept, which, of course, indicates its versatility and ambiguity. Analysis of this problem also revealed a lack of comprehensive research on the issue of capitalization of commercial banks in Uzbekistan. The concept of capitalization itself is still not associated with the market interpretation of this term in relation to Uzbek credit institutions. Until now, both in the scientific community and the banking community, capitalization is understood only as an increase in the bank’s own capital.

Peter S. Rose notes that “we often use the term “capitalization”, meaning by this the own funds or equity capital of banks and its sufficiency to cover risks” .

Of course, it is difficult to overestimate one of the most important conditions for the stable operation of a bank - the amount of equity capital, which is formed from the contributions of the founders, profits and funds formed from them. The bank's own capital is a combination of fully paid elements of various purposes that ensure economic independence, stability and sustainable operation of the bank. A prerequisite for inclusion of certain funds in equity capital is their ability to serve as an insurance fund for coverage.

Depending on the applied quantitative assessment of the bank’s capital, it is customary to consider: accounting (balance sheet) capital; regulatory capital; economic capital. In the case of increasing the bank's capitalization by increasing its own funds, we should talk about the book value of equity capital (book value). “For example, capital may be valued at its book value (in accounting

terminology, “according to generally accepted accounting principles”). In this case, the majority of the bank’s assets and liabilities are valued on the balance sheet at the value they have at the time of acquisition or issue.” To calculate the book value of a bank's capital in banking, its own national standards and International Financial Reporting Standards (IFRS) are used.

The basic principle of adequacy: the size of equity capital must correspond to the size of assets, taking into account the degree of their risk. But in practice, in order to correctly assess capital adequacy, it is not enough to just calculate indicators. Bank managers and bank supervisors strive to find the optimal balance between the amount of capital and other parameters of the activities of a commercial bank.

The earliest methodology for calculating capital adequacy was developed in 1988 under the auspices of the Basel Committee on Banking Regulation in accordance with the Agreement on the International Harmonization of Capital Calculation and Capital Standards, which introduced the adequacy ratio (Cook's ratio) . The agreement came into force in 1993. and is currently used as a benchmark by the central banks of many countries. The regulation applies only to international banks. The basis of the concept of assessing capital adequacy was the following principles:

- division of capital into two levels - capital of the first (main) level and capital of the second (additional) level;

- taking into account the quality of assets by weighing assets and off-balance sheet transactions by risk, and therefore, assessing capital taking into account the risk accepted by the bank;

- emphasis on the quality of the loan portfolio and a balanced credit policy;

- establishing restrictions on the ratio between first and second level capital;

- determination of the regulatory requirement for capital adequacy (adequacy standard or Cook's ratio) at the level of 8 percent for the total amount of equity and 4 percent for first-tier capital.

It is proposed to calculate the capital adequacy ratio using the following formula (Cook's ratio):

Kêóêà = k/(ckp cop cpp) □ 100 □ 8%

Here,

К - own funds (capital) of the bank, thousand soums;

ckp - the total amount of credit risk, thousand soums;

cop - the total amount of operational risk, thousand soums;

cpp - total amount of market risk, thousand soums.

The approach to determining capital adequacy proposed by the Basel Committee has the following main advantages:

- characterizes “real” capital;

- promotes a review of banks' strategy and a refusal to excessively increase loans with minimal capital, giving preference not to the volume of the loan portfolio, but to its quality;

- helps to increase the bank’s risk-free activities;

- encourages the government to reduce regulation of the activities of banks, since it manifests more elements of self-regulation;

- makes it possible to take into account risks related to off-balance sheet obligations;

- allows you to compare banks from different countries.

However, this method of calculating capital adequacy has a number of significant disadvantages:

- lack of sufficient clarity in defining the constituent elements of capital by level, which makes it possible to soften capital requirements on the part of central banks;

- insufficiently detailed differentiation of assets by risk level and underestimation of reserve requirements for certain types of operations.

Despite some shortcomings of the Basel methodology, almost all central banks rely on it when drawing up their own methodology for assessing capital and its adequacy.

The final conclusion about capital adequacy is made on the basis, firstly, of comparing the actual levels of the ratios of the main indicators with the criteria levels adopted in the country and, secondly, assessing the results of the analysis of asset quality. The Cook's ratio sets the minimum ratio between a bank's capital and its on- and off-balance-sheet assets, weighted by risk according to norms that may vary by country, but must follow a certain logic. The coefficient is set at 8% (core or fixed capital must account for at least half).

According to Graham's theory, each share has a certain internal (true, real) value, which depends on its market value. One of the postulates of the theory states that the value of an asset is predetermined by fundamental indicators, and usually it is not affected by speculative forecasts about future profitability.

In the long term, those who operate on the basis of intrinsic value expect quotes to move closer to actual prices. However, prices may fluctuate significantly above or below this level for a long time before returning, just as they always return to the moving average on a price chart .

The method of using the Graham coefficient involves the use of an algorithm of three stages:

- identification of special criteria for selecting securities that meet the requirements of the Graham coefficient;

- calculating the coefficient itself;

- identification of undervalued shares using simple mathematical calculations.

Pre-selection criteria may include the following:

- the ratio of the price of paper on the market to the price of the bank’s capital per physical share should not be less than 0.75;

- the average daily trading volume of shares on the stock exchange must be at least one hundred times higher than the volume that the investor intends to purchase, otherwise the transaction will look dubious;

- the ratio of the market value of the security to the volume of the company’s working capital per share should not exceed 0.1. This suggests that the bank has enough liquid assets for operations, which allows the investor to bypass unnecessary risks by purchasing its securities;

- the ratio of the total volume of all bank debts to its market capitalization should not decrease to less than 0.15;

- the quotient of dividing the value of a company’s security by its sales volume per share should not be higher than 0.3. You should always pay attention to whether the bank is increasing its activity volumes. If yes, then this is a positive factor;

- the cost of an individual paper should not be very small.

Benjamin Graham was sure that if a company does not allocate funds to pay shareholders, then there is no point in working with such a company. If buying shares is considered a long-term investment, then the presence of dividends is very desirable. However, this criterion cannot be considered completely necessary due to the fact that today many banks and companies direct all profits to development, deliberately refusing to pay part of it in the form of dividends.

The second stage is to understand the very principle of the Graham coefficient, for the calculation of which a simple formula is used. The calculation implies that the indicator (Net Current Asset Value, NCAV) is calculated as the difference between all assets of the company (Total Current Assets) and its debts (Total Liabilities), divided by the number of issued securities. The final stage

is formulated in one phrase: it is advisable to purchase paper at a cost that is approximately 2/3 (66.67% +/- 5%) of the Graham ratio for this asset.

Conclusion:

It is worth noting that the company's market rate may not show growth immediately. The stock may even continue to fall, so a lot of patience will be required from the market participant. At the same time, there is a sure signal to buy a security: a stock that meets Graham's theory gradually increases in price over the course of a month, which means that its growth will continue in the future.

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