

# CRITERIA FOR ASSESSING THE LEVEL OF ECONOMIC SECURITY OF COMMERCIAL BANKS

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## Abstract:

The banking sector, as an integral part of the financial and economic system, has a significant impact on the processes taking place within the framework of both the national and global economies. One of the significant components of the financial stability and sustainability is economic security of banks, and therefore the improvement of the methodology for assessing the level of economic security of banks requires special attention. The paper deals with the criteria for assessing the level of economic security of a commercial bank. In addition, the article discusses the importance of prudential supervision in ensuring the economic security of banks.

**Keywords:** *commercial bank, economic security, financial security, evaluation criteria, risks, threats*

## Introduction

Financial stability and sustainability of the banking sector is a fundamental condition for the successful implementation of the planned reforms and strengthening the confidence of business and the population in the national banking system. The strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025 provides for ensuring the financial stability of the banking system [2].

The above priority task determines the development and implementation of new mechanisms, as well as tools for ensuring the economic security of the banking sector, which will allow a quick response to emerging threats, preventing or minimizing their negative impact on the activities of

commercial banks. In this connection, the primary task facing the banking system is to ensure the financial stability of commercial banks by increasing their economic security.

## **LITERATURE REVIEW**

At the present stage of development of economic relations, the issues of security of activity are a priority in the activity and development of any economic system, as well as the banking sector of the economy. Aspects of economic security of economic entities are considered in the works of foreign scientists: W.Albrecht, J.Wentz, T.Williams, D.North, A.Pattox, J.L.Hoffman, P.Schweiser, O.I.Lavrushin, L.I. Abalkin, A.V. Taradaeva, A.A.Syumkina, E.V.Ilinich, R.A.Gritsenko, V.I.Nechaev, P.V.Mikhailushkin, K.R.Tagirbekov, V.V.Svetlova, S.V.Eshtokin and others.

Economic approaches to ensuring the economic security of commercial structures are considered by domestic scientists such as: Sh.Z.Abdullaeva, A.A.Omonov, T.M.Koraliev, Kh.P.Abulkosimov, A.Ya.Abdullaev, S.S.Togaev, A.E.Ishmukhamedov, U.T.Hayitmatov and others.

## **RESEARCH METHODOLOGY**

In a scientific article, empirical research methods were used, such as observation, comparison, as well as analysis, induction and deduction.

## **ANALYSIS AND RESULTS**

The mechanism of the bank's economic security is a sequence of stages and a set of methods of interaction between objects and subjects of economic security to achieve an economically secure state of the organization and maintain it at the proper level in the future [7]. When organizing an effective banking security system, it is necessary to adhere to the basic principles [4]. To this end, the author has developed the principles of ensuring the economic security of commercial banks in an unstable financial environment:

1. Consistency. The systematic formalization of institutions and their consistency increase the stability of the environment for any activity.
2. Planning. This is a purposeful formation of norms that reflect the laws of contradictory modern trends, allowing to optimize the relations and interests of various groups of participants in the banking sector, achieving a compromise of their interests. The importance of planning for commercial banks operating in an unstable external environment is growing, as the risks of reducing competitiveness and loss of solvency increase.
3. Timeliness. The economic security system should be built in such a way that it can identify various destructive factors at an early stage, take measures to prevent their harmful effects and damage to activities.

4. Self-development, the ability to get out of economic crises. The economic crisis is a deep disruption of normal economic activity, which is accompanied by the destruction of habitual economic ties, a decrease in business activity, the inability to pay off debts and the accumulation of debt obligations. This phenomenon of a market economy is accompanied by a sharp decline in production, bankruptcy of enterprises, a fall in the gross national product, a large-scale increase in unemployment and the depreciation of the national currency.

5. Responsibility. This principle applies primarily to the Central Bank. Because the Central Bank, as the dominant system, must understand its responsibility, accept it and build a certain order for its development.

6. Legitimacy. All measures to ensure economic security are developed only on the basis of regulatory legal acts.

The choice of criterion is an important element in studying the economic security of a bank. The criterion for the economic security of a bank is a sign or a sum of signs, on the basis of which it can be concluded whether the enterprise is in economic security or not. The criterion should not only indicate the existence of the economic security of the bank, but also assess its level [6]. A quantitative assessment of the level of economic security should be obtained using indicators that are used in the planning, accounting and analysis of the bank, which is a necessary prerequisite for the practical use of this assessment.

In our opinion, there are 5 main criteria for assessing the economic security of a commercial bank:

- the values of the bank’s credit ratings of international rating agencies;
- the level of mandatory standards for the bank’s activities;
- the level of risks of a commercial bank;
- the effectiveness of ensuring the personnel security of the bank;
- the level of technical and information security of the bank.

To assess the economic security of a commercial bank, special criteria and indicators are used to comprehensively characterize the real economic situation and threats to the bank’s activities [5]. Criteria and indicators for assessing the economic security of a commercial bank have specific features associated with the peculiarities of the functioning of credit institutions.

The final assessment of the economic security of a commercial bank is a determination of the state of its security based on the analysis of a set of criteria (Table 1).

Table 1

**Criteria for assessing the state of economic security of the bank**

<b>State</b>	<b>Characteristic</b>
1. Stable	Indicators of economic security are within the threshold values, and the degree of use of the existing potential is close to the established norms and standards
2. Pre-crisis	Non-compliance of at least one of the indicators of economic security with the threshold value, while others approached the barrier values. At the same time, the technical and technological possibilities for improving the conditions and results of activity by

	taking preventive measures were not lost
3. Crisis	Non-compliance of most of the main indicators of economic security with the threshold value, there are signs of the irreversibility of the decline in services and partial loss of potential due to the exhaustion of the technical resource of technological equipment and areas, staff reduction
4. Critical	All barriers separating the stable and crisis states of activity development are violated, and the partial loss of potential becomes inevitable and unavoidable

To perform financial security tasks, each bank uses various analysis tools.

For any bank, it is important in the course of assessing its financial condition to obtain results that would accurately reflect the situation taking place in the bank [9]. To this end, a sufficiently large number of different methods have been developed that can be used to conduct a comprehensive assessment of the financial condition of a credit institution, but almost all of them are primarily based on the assessment of quantitative or qualitative information [8].

Despite the abundance of approaches to assessing the financial condition of a credit institution, each bank, mainly, must comply with the requirements put forward to it by the Central Bank of the Republic of Uzbekistan. The Central Bank of the Republic of Uzbekistan is a state body that regulates the field of banking and exercises powers of licensing, regulation and prudential supervision [1]. To perform prudential supervision, the Central Bank issues certain instructions and regulations that are mandatory for all credit institutions. In case of non-compliance with instructions and regulations in its activities, a commercial bank may be deprived of the license issued to it. Therefore, the most important point is the compliance of the bank with the conditions put forward to it by the Central Bank.

In connection with the above, first of all, it would be advisable to consider prudential standards.

#### 1. Capital adequacy ratios:

- the authorized capital of the bank must be at least 100.0 billion soums;
- the size of the Tier 1 bank's capital must not be less than the minimum size of the authorized capital of the bank;
- Tier 1 capital must be at least 75% of the regulatory capital;
- Tier 1 capital must be at least 60% of the bank's regulatory capital;
- the ratio of regulatory capital to the total amount of risk-weighted assets must be at least 13%;
- the ratio of Tier 1 capital to the total amount of risk-weighted assets must be at least 10%;
- the ratio of Tier 1 capital to the total amount of risk-weighted assets must be at least 8%;
- the minimum value of the leverage ratio should be 6% [3].

2. The maximum amount of risk per borrower or group of related borrowers; the maximum amount of risk to related persons of the bank; maximum size of large credit risks:

- the maximum amount of risk per one borrower or a group of related borrowers should not exceed 25% of the Tier 1 bank's capital;
- the maximum amount of risk per one borrower or a group of related borrowers for blank loans should not exceed 5% of the Tier 1 bank's capital;
- the total amount of all major risks cannot exceed of the Tier 1 bank's capital by more than 5 times;
- the maximum amount of risk per person associated with the bank must not exceed 25% of the Tier 1 bank's capital;
- the maximum amount of risk attributable to all persons associated with the bank should not exceed 50% of the Tier 1 bank's capital.

3. The maximum amount of investment; the maximum amount of acquired shares and stocks in the authorized funds (authorized capital) of legal entities:

- the amount of the bank's investments in the authorized capital of a specific legal entity, as well as in other securities of this legal entity, should not exceed 15% of the bank's Tier 1 regulatory capital;
- the size of the bank's investments in the authorized capital and other securities of legal entities should not exceed 50% of the bank's Tier 1 regulatory capital;
- the size of the bank's investments in securities for sale and purchase should not exceed 25% of the bank's Tier 1 regulatory capital.

3. Liquidity ratios:

- instant liquidity ratio must be at least 25%;
- liquidity coverage ratio must be at least 100%;
- the share of highly liquid assets of banks in total assets should be at least 10% at the end of the day;
- the rate of net stable financing must be at least 100%;
- the current liquidity ratio must be at least 30%.

4. Requirements for the classification and assessment of the quality of the bank's assets, the formation of reserves against possible losses on the bank's assets created on the basis of their classification;

5. Requirements for accrual of interest on the bank's assets and crediting them to the bank's income account;

6. Requirements for the acquisition and ownership of real estate and other property;

## 7. Limits of open currency position:

- in foreign currency of any kind;
- total amount of open currency positions;
- total amount of short currency positions;
- the total amount of long currency positions.

Maintaining the standards at a certain level guarantees the bank control over all kinds of risks that it assumes when carrying out financial and economic activities.

## CONCLUSION/RECOMMENDATIONS

When assessing the level of economic security of a commercial bank, the orientation is aimed at providing conditions that will allow it to achieve maximum financial performance. In this regard, attention is paid to the financial security of a commercial bank as an object of influence of threats of criminal encroachment, assessment of the level of protection of the bank from external and internal threats and various destabilizing factors.

Summing up all of the above, we can conclude that the Central Bank exercises constant control over the commercial organizations accountable to it. By controlling their financial condition, the Central Bank monitors the entire set of activities, which allows it to timely make adjustments to the functioning of certain banks and, at the first sign of a deviation in their financial condition from the norm, immediately take appropriate measures to normalize the situation.

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