



Foreign experience in ensuring the financial stability of commercial banks (on the example of ICBC Bank of China)

Bekmurodov Adkham Sharipovich,
Rector of the Academy of Public Administration under the President of the Republic of Uzbekistan,
Doctor of Economics, Professor.
E-mail: adkham.bek@gmail.com

Bozorov Ruslan Khamdamovich,
Associate Professor of the Academy of Public Administration under the President of the Republic of Uzbekistan, Candidate of Economic Sciences
E-mail: ruslanhamdamovich@mail.ru
Tel: +99894-2001212

Khamrakhudzaev Nemathon Yahyokhanovich,
Dean of the Faculty of the Academy of Public Administration under the President of the Republic of Uzbekistan, Candidate of Economic Sciences
E-mail: n.khamrakhudjaev@dba.uz

Inagamova Lola Usmanbekovna,
Associate Professor of the Academy of Public Administration under the President of the Republic of Uzbekistan
E-mail: lolahon8322@mail.ru

1444

Annotation.

The article highlights the urgency of ensuring the financial stability of commercial banks. It also draws relevant conclusions by examining the financial stability practices of ICBC Bank, one of the largest banks in China, as a leading foreign experience in the practice of ensuring the stability of commercial banks.

Keywords: commercial banks, financial stability, bank deposits, bank capital, bank assets, bank liabilities, bank liquidity.

DOI Number: 10.14704/nq.2022.20.5.NQ22534

NeuroQuantology 2022; 20(5):1444-1452

Аннотация. Мақоладатижорат банклари молиявий барқарорлигини таъминлашнингдолзарблиги ёритиб берилган. Шунингдек, тижорат банклари фаолиятининг барқарорлигини таъминлаш амалиёти илғор хориж тажрибаси сифатида

Хитойнинг энг йирик банкларидан бири бўлган ICBC банки молиявий барқарорлигини таъминлаш амалиётини ўрганиб тегишли хулосаларкелтирилган.



Калит сўзлар: тижорат банклари, молиявий барқарорлик, банк депозитлари, банк капитали, банк активлари, банк пассивлари, банк ликвидлиги.

Аннотация. В статье подчеркивается актуальность обеспечения финансовой устойчивости коммерческих банков. Также сделаны соответствующие выводы из исследования финансовой стабильности ICBC Bank, одного из крупнейших банков Китая, как хорошего зарубежного опыта в практике обеспечения стабильности коммерческих банков.

Ключевые слова: коммерческие банки, финансовая устойчивость, банковские депозиты, банковский капитал, активы банка, обязательства банка, ликвидность банка.

Introduction

It is known from history that there have been various crises in the world, and in these crises, first of all, the issue of maintaining the financial stability of commercial banks is one of the priorities of the state's economic policy.

Ensuring the stability of commercial banks is one of the key issues for further reform and development of the banking system of the Republic of Uzbekistan. In particular, in the Action Strategy for the Further Development of the Republic of Uzbekistan, approved by Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. DP-4947, deepening and ensuring the sustainability of the banking system reform, increasing the level of capitalization of banks and strengthening financial stability are recognized as a priority for the development of the country's banking system. This, in turn, necessitates a scientific study of the issue of ensuring the sustainability of commercial banks based on advanced foreign experience.

An in-depth study and analysis of foreign practices for ensuring the financial stability of commercial banks are extremely relevant. This is due to the fact that these analyzes provide an opportunity to develop scientific innovations and

practical proposals aimed at improving the financial stability of banks.

Literature review

Scientists economists have conducted a number of studies of the financial stability of economic entities. However, unlike economic entities, it is obvious that ensuring the financial stability of banks is more important than other entities, mainly due to the fact that commercial banks allocate their borrowed resources at their own peril and risk.

We will try to study in detail the views of various economists, the theoretical foundations for ensuring the financial stability of commercial banks, ensuring the financial stability of commercial banks.

O. Ovchinnikova and A. Bets argue that the financial stability of banks means that banks fulfill their main and emerging functions regardless of external influences (Ovchinnikova O.P., Bets A.Yu., 2006).

According to the above scientists, the financial stability of banks means that banks are able to withstand external influences and, in turn, are able to perform their functions.

S. Urazov believes that the financial stability of banks is the return of banks to a state of equality, a strong position as a result of various negative external factors (Urazov S.A., 2006).

G. Melikyan, on the other hand, determines the need for a twofold approach to determining the financial stability of banks, dividing it into micro and macro levels (Melikyan G.G., 2004). In his opinion, micro-level banks believe in financial stability - in ensuring the continuity of banking activities in fulfilling the goals and objectives of banks under any circumstances related to customers. At the macro level, banks believe that by linking financial stability with various economic entities, the banking system is able to prevent various economic difficulties and ensure the stability of the system.

According to this scientist, the financial stability of banks is assessed by the fact that in any case, banks continue to function.

Yu.G. Veshkin and G.L. Avakyan consider the financial stability of commercial banks as an excess of income over expenses (Veshkin Yu.G., Avakyan G.L., 2018). Estimating the financial

1445



stability of banks based on the income of commercial banks, as well as the payment of dividends in their favor, is somewhat controversial. The reason is that the profitability of a bank is a key indicator in assessing their overall performance, but we believe that in order to determine the financial stability of banks, it is necessary to focus on the resources that make up it.

Shalpanov P.A. characterizes the financial stability of commercial banks as "... the performance of their functions for the transformation of banking resources and effective risk management under the influence of internal and external factors" (Shalpanov P.A., 2014). These views, in turn, do not fully reflect the essence of financial stability. Firstly, the activities of a commercial bank are described in a somewhat narrow framework, and secondly, the author's attitude to the liquidity and solvency of the bank seems to be somewhat vague.

In his study of the financial stability of commercial banks, R.Kh. Bozorov noted that the transformation of funds into securities would increase the profitability of the bank, as well as ensure the liquidity of the bank. At the same time, he believes that the share of funds in banks should not exceed 10% (Bozorov R.Kh., 2018, 2019).

Research Methodology

The main purpose of the study is to draw scientific conclusions for the development of scientific and practical proposals and recommendations based on the results of the analysis of the practice of ensuring the financial stability of commercial banks. The theoretical and methodological basis of this article is general economic literature and scientific articles, studies of economists on the financial stability of commercial banks, interviews with scientists and industry representatives, analysis of their written and oral opinions, expert assessments, observations of processes, economic phenomena and processes. y conclusions, proposals and recommendations based on a systematic approach. In the process of studying the topic, special approaches were used to systematize the financial data of ICBC Bank, such as comparison, aggregation of theoretical and practical materials, as well as system analysis.

Analysis and discussion of results

In our analysis, we study the financial soundness practices of ICBC Bank, one of the largest banks in China (based on annual performance for the period from January 1, 2015 to January 1, 2021), and draw conclusions accordingly.

As mentioned above, the analyzed commercial bank is ICBC (Industrial and Commercial Bank of China), the largest commercial bank in the People's Republic of China. ICBC Bank was founded in 1984 as a state bank, since 2005 it has been operating as a joint-stock commercial bank¹. At the same time, according to The Banker magazine, the Industrial and Commercial Bank of China ranks first in the world in terms of Tier 1 capital². The bank has 449,296 employees, including all branches around the world.

In order to analyze ICBC Bank and its financial soundness practices, we will first look at the composition of the bank's assets and liabilities.

The following table shows the dynamics of changes in the Bank's ICBC assets as of December 31, 2014-2020.

1446

¹Industrial and Commercial Bank of China. Annual report. 2018

²www.thebankerdatabase.com расмий интернет сайты



Table 1
Asset structure of ICBC Bank³

No	Name of assets	2014	2015	2016	2017	2018	2019	2020	Difference
1.	Cash assets	20,9	16,9	17,2	17,1	15,7	14,5	13,8	-7,1
2.	Financial assets for sale	4,1	6,4	5,5	4,1	2,6	2,8	2,2	-1,9
3.	Credits	52,2	52,5	52,9	53,3	54,3	54,2	54,4	2,2
4.	Financial investments	20,0	21,1	20,9	22,2	24,4	25,4	25,8	5,8
5.	Fixed assets	1,0	1,0	1,0	0,9	1,0	1,0	0,9	-0,1
6.	Other assets	1,8	2,2	2,5	2,4	2,0	2,1	2,9	1,1
Total assets		100,0	100,0	100,0	100,0	100,0	100,0	100,0	-

Table 1 shows that loans and financial investments as income-generating assets of ICBC Bank will increase by 2020, which is a positive situation in terms of ensuring the financial stability of banks. Also, given that cash is the main indicator of the bank's liquidity, their decline by 7.1% in the analyzed period has a negative impact on liquidity, but the fact that they are directed to income-generating assets is seen as a positive situation.

The dynamics of the structure of liabilities of ICBC Bank is presented in the table below.

Table 2
Structure of liabilities of ICBC Bank⁴

No	Name of liabilities	2014	2015	2016	2017	2018	2019	2020	Difference
1.	bank funds	10,4	11,9	10,2	7,2	7,1	8,2	9,2	-1,2
2.	REPO	1,8	1,5	2,4	4,0	1,9	0,9	0,9	-0,9
3.	Deposit certificates	0,9	0,8	0,9	1,0	1,2	1,2	1,0	0,1
4.	Client funds	75,5	73,3	73,8	75,0	77,3	76,3	75,4	-0,1
5.	Other obligations	3,9	4,3	4,3	4,6	4,0	4,5	4,8	0,9
6.	Share capital	7,5	8,1	8,2	8,2	8,5	8,9	8,7	1,2
Total liabilities		100,0	100,0	100,0	100,0	100,0	100,0	100,0	-

The liabilities of the Bank's ICBC showed a downward trend in due to other banks and the amount of REPO in the bank, while other indicators increased. It should be noted that the increase in the number of certificates of deposit is a positive sign of an increase in the bank's obligations under securities, as well as an increase in the size of the authorized capital. At the same time, given that the size of the authorized capital in liabilities is 10%, as recommended by the World Bank experts, it is advisable to increase this figure in the future.

The size of the customer's funds indicates that the bank is doing more savings banking.

Next, let's try to analyze the profitability of ICBC Bank. The following figure shows the dynamics of the level of return on assets of ICBC Bank.

³Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.

⁴Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.



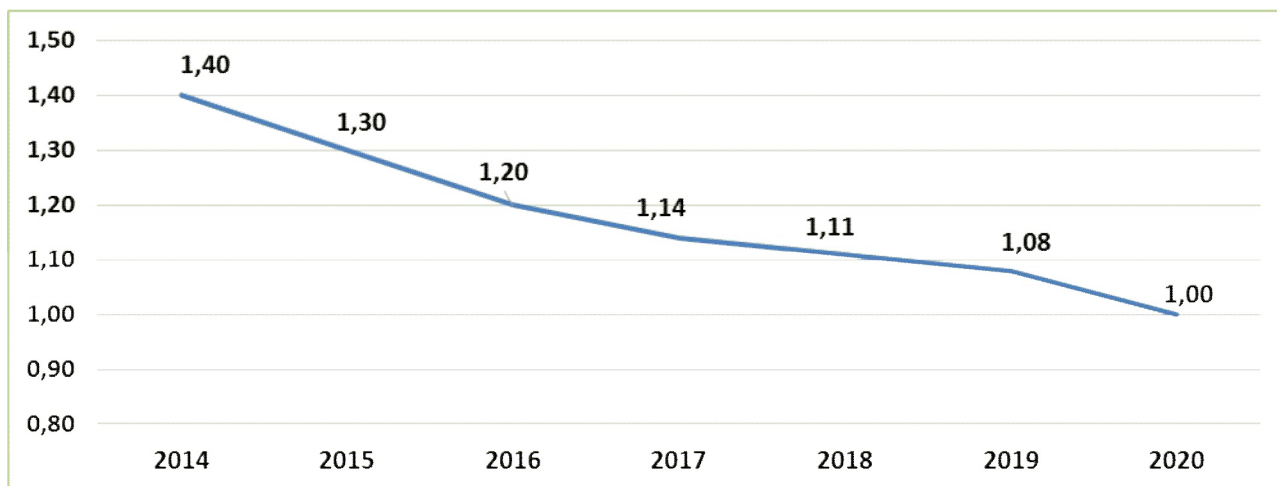


Figure 1. Return on assets of ICBC Bank, in percent⁵

From the data in Figure 1, it is determined that the return on assets of ICBC Bank is not lower than the standard level recommended by the World Bank experts. Although ICBC Bank's asset rate of return is declining in 2014-2020, we can say that the bank is a financially sound bank.

The following figure shows the level of return on equity of ICBC Bank and the dynamics of its change.

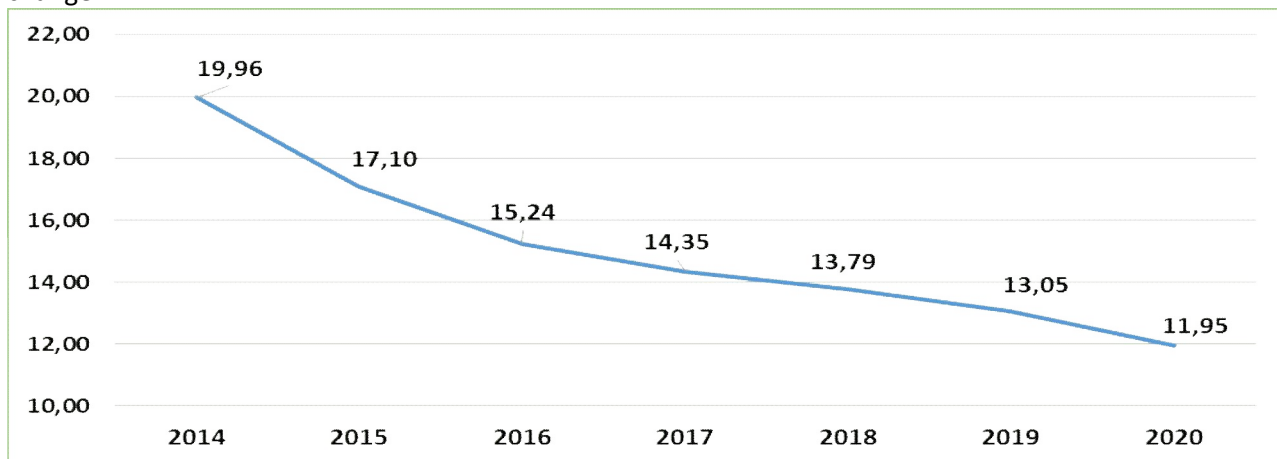


Figure 2. Capital return rate of ICBC Bank, in percent⁶

From the data presented in Figure 2 above, ICBC Bank's return on equity is in line with the return on equity. This suggests that the bank has met two demand benchmarks and is financially sound.

In turn, we will try to analyze the ratio of the amount of reserves created by the bank for loans to the average assets of the bank, as in other banks.

⁵Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.

⁶Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.



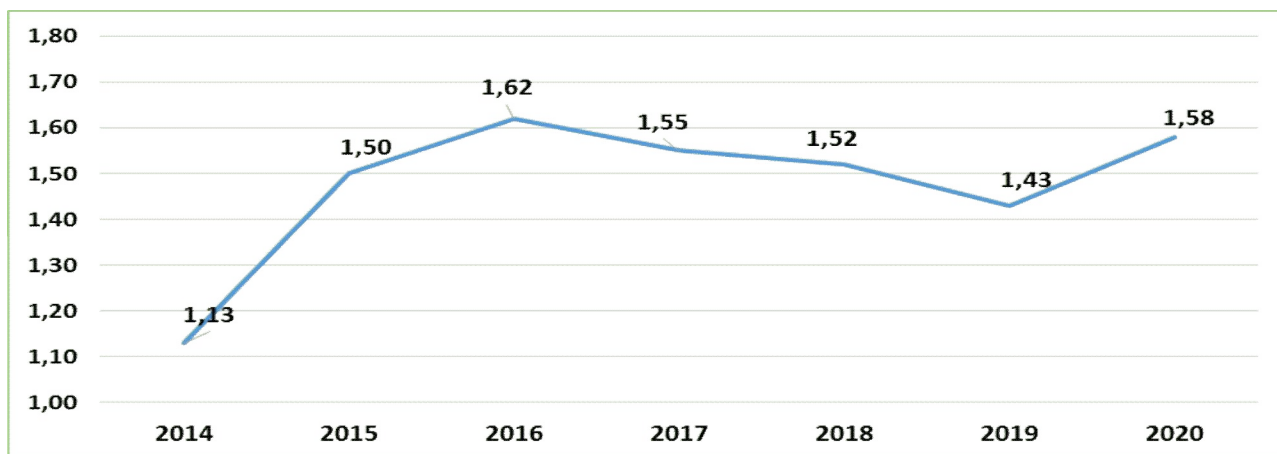
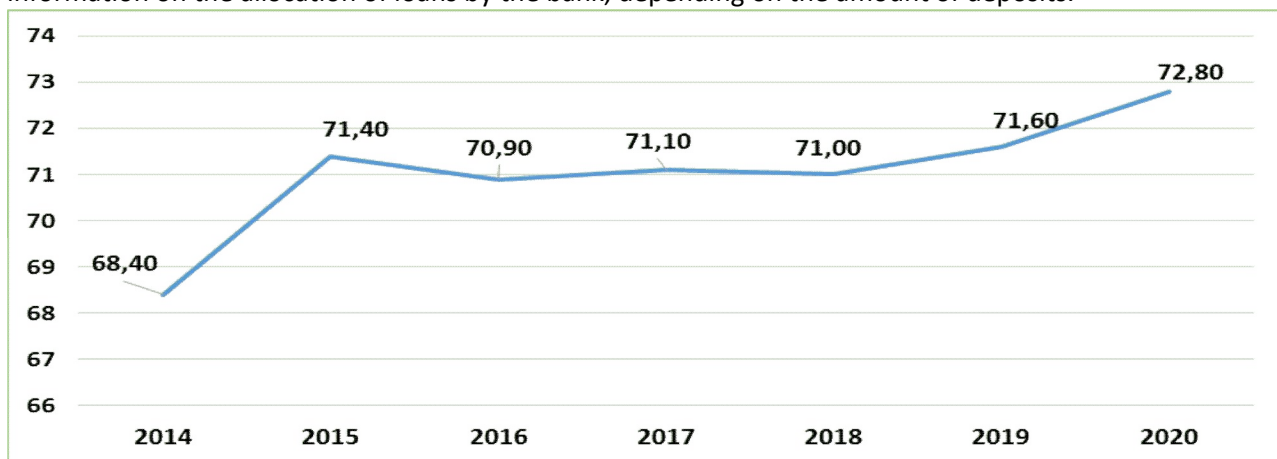


Figure 3. The ratio of the amount of reserves created on loans from ICBC Bank to the average assets of the bank, in percent⁷

From the data in Figure 3 it can be seen that the ratio of reserves created through ICBC bank loans to the average bank assets is 0.5%, according to the recommendations of the World Bank, this indicator is above the norm. This is a negative situation in terms of ensuring the financial stability of banks. In the future ICBC Bank should pay special attention to this indicator and its standards.

In addition to the above indicators, the study of the ratio of ICBC Bank loans to deposits is of great importance. This is due to the fact that it is through this indicator that one can obtain preliminary information on the allocation of loans by the bank, depending on the amount of deposits.



1449

Figure 4. Ratio of ICBC Bank loans to deposits, in percent⁸

According to Figure 4, this indicator was the best in 2014, but in subsequent years it grew by at least four percent. This indicates that the share of loans in recent years has exceeded the share of deposits. Therefore, it is advisable for commercial banks to pay special attention to this indicator and constantly analyze it.

Next, we will now try to analyze the performance indicators of commercial banks. The first of these is the ratio of bank expenses to income.

⁷Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.

⁸Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.



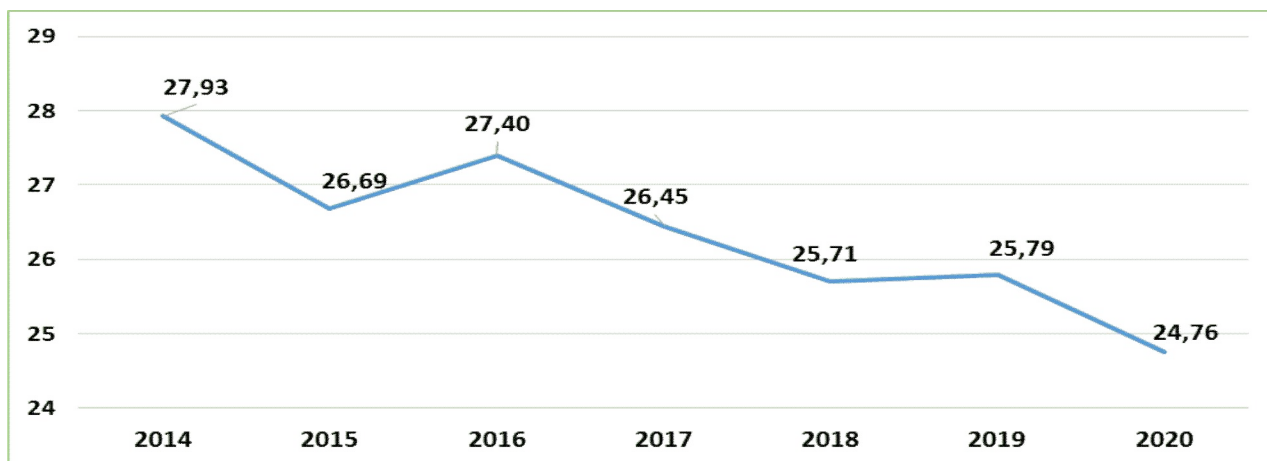


Figure 5. Ratio of expenses of ICBC Bank to income, in percent⁹

Figure 5 shows that the bank's expense-to-income ratio is declining. This is a positive situation in terms of ensuring the financial stability of banks.

Another indicator of the efficiency of commercial banks is the bank's net interest spread. In turn, we will try to analyze this indicator.

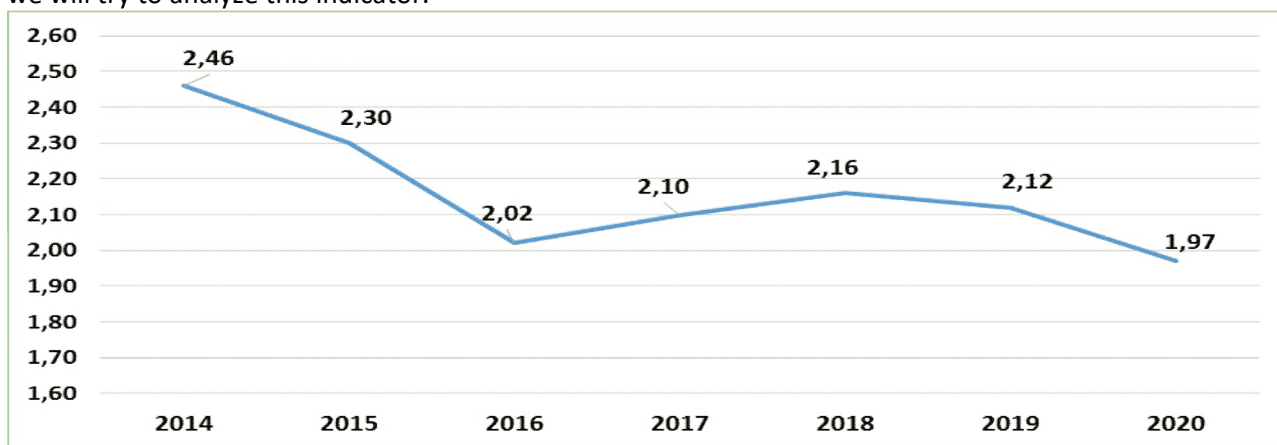


Figure 6. ICBC Bank Net Interest Spread Percentage¹⁰

From this figure, the ICBC bank spread indicator showed a downward trend in 2014-2016, a gradual increase in 2016-2018, a significant decrease in 2020, this is directly assessed by the imbalance of supply and demand in the economy during the pandemic compared to previous years.

At the same time, the gap between loans, which are the main operations of commercial banks, and attracted bank deposits is significant. The following figure shows the trend of a bank's net interest margin.

⁹Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.

¹⁰Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.



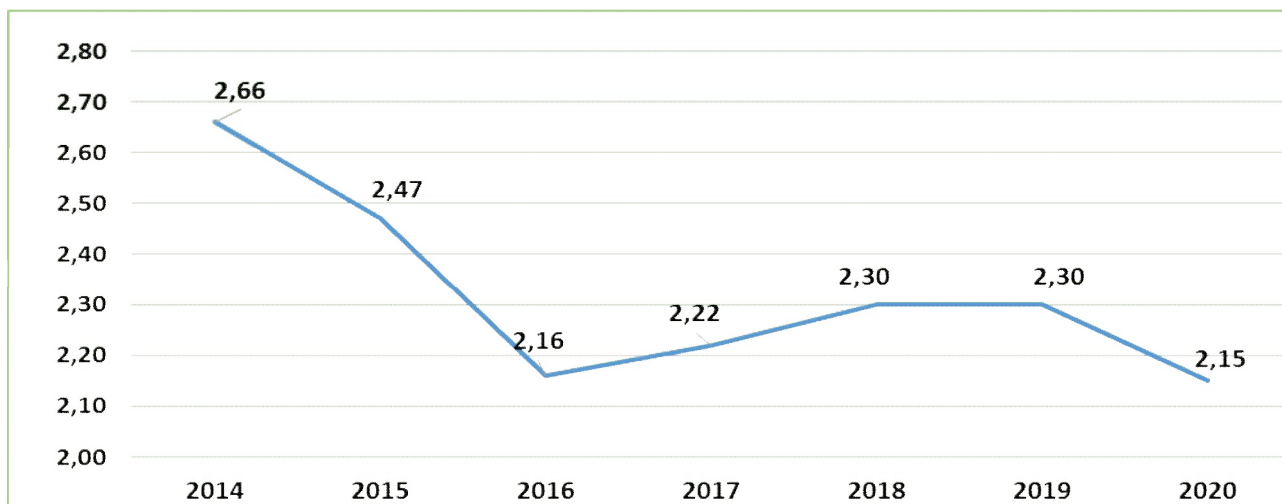


Figure 7. ICBC Bank Net Interest Margin Rate, in percent¹¹

Figure 7 shows the dynamics of the net interest margin of ICBC Bank. According to him, in 2014-2016, this indicator of the bank tends to decrease, as in the case of the bank's net interest spread, but in 2016-2019, the bank's net interest margin tends to increase, as in the case of the net interest spread. However, in 2020 this indicator also decreased significantly, and by 2019 it decreased by 0.15 points. This means that in the future the bank should pay more attention to ensuring financial stability.

Another type of determining the efficiency of a commercial bank is determined by the amount of dividends per one of its common shares. In turn, the dynamics of the size of dividends per 1 ordinary share of ICBC Bank is given.

1451

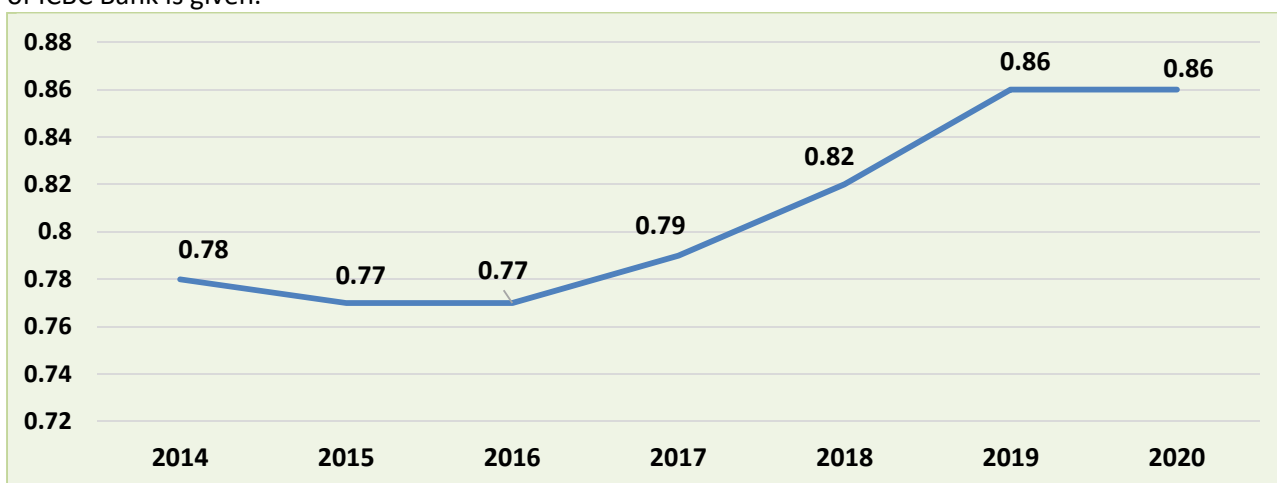


Figure 8. The amount of dividends per 1 ordinary share of ICBC Bank, in yuan¹²

¹¹Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.

¹²Industrial and Commercial Bank of China (Хитой Халқ Республикаси) йиллик ҳисобот маълумотлари асосида муаллиф томонидан тайёрланди.



From the data in Figure 8 it can be seen that the amount of dividends per ordinary share of ICBC Bank 1 in 2016-2020 is small, but the upward trend shows that this is a positive situation in terms of increasing the profitability of the bank and ensuring its financial stability.

Conclusions and offers

As a result of the study, we have formed the following main conclusions:

-A number of studies by economists on the financial stability of enterprises have shown that, unlike enterprises, commercial banks are more important than other entities in ensuring the financial stability of banks, mainly through the placement of borrowed funds at their own peril and risk;

-types of stability of commercial banks are found in any commercial bank, and as a result of his analysis of the interrelated activities of banks, it seems that the most basic, basis of stability among the types of stability is financial stability. Financial stability is defined as the primary and main activity of commercial banks;

- the rate of return on assets of ICBC Bank in 2020 is the minimum level recommended by the experts of the World Bank, i.e. 1%, its rate of return on capital is higher than the level recommended by these experts of 10% (11.95%), which is explained by the fact that it is below the rate recommended experts (10%);

-Among the indicators of financial strength analyzed by ICBC Bank, the amount of potential losses created on loans turned out to be relatively high. It is advisable for the bank to pay attention to this indicator in the future and take it under its control;

- If we consider the situation with some indicators of the financial stability of the bank during the pandemic as an exception, then all other indicators show that the bank is financially stable.

List of used literature

1. et al., B. R. K. (2019). PRACTICE OF ANALYSIS OF FINANCIAL STABILITY INDICATORS OF MAJOR COMMERCIAL BANKS IN UZBEKISTAN. *International Journal of Advanced Science and Technology*, 28(20), 873 - 880. Retrieved from <http://serisc.org/journals/index.php/IJAST/article/view/2966>

2. Bozorov, R.Kh. (2018) "IMPROVEMENT OF ECONOMIC EFFICIENCY OF INVESTMENT PROJECTS IN UZBEKISTAN," *Economics and Innovative Technologies*: Vol. 2018 : No. 5 , Article 26.

Available at:

<https://uzjournals.edu.uz/iqtisodiyot/vol2018/iss5/26>

3. Veshkin Yu.G., Avagyan G.L., (2018) Economic analysis of the activities of a commercial bank: Textbook. M.: Master.

4. Litun O.N. (2002) Banking Restructuring Strategy: Dissertation for the degree of Doctor of Economics, - St. Petersburg, p. 134-135

5. Melikyan G.G. (2007) Topical Issues of Capitalization, Sustainability and Competitiveness of the Russian Banking Sector. URL:<http://www.cbr.ru/publ/moneyandcredit/melikyan.pdf>. XVI-International Banking Congress.

6. Ovchinnikova O.P., Bets A.Yu. (2006) The main directions of ensuring the dynamic stability of the banking system // Finance and credit. No. 22

7. Sattarov O.B. (2018) Improving the methodology for ensuring the sustainability of the banking system of the Republic of Uzbekistan. Abstract of the dissertation for the degree of Doctor of Economic Sciences T.: 14 p.

8. Decree of the President of the Republic of Uzbekistan dated February 7, 2017 "On the Action Strategy for the Further Development of the Republic of Uzbekistan".

9. Urazov S.A. (2006) Sustainability of the banking system: theoretical and methodological aspects // Banking. No. 12.

10. Dyachenko V.P. (1964) Financial and credit dictionary, M.: Finance, p. 315.

1452

