

**IMPROVING THE EFFICIENCY OF
COMMONWEALTH OF INDEPENDENT
STATES BANKS IN UTILIZING THE
POTENTIAL OF SECURITIES IN
CONDITIONS OF ELIMINATING THE
EFFECT OF GLOBAL FINANCIAL CRISIS**

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Abstract: Article is dedicated to unleashing the potential of securities used by banks of CIS in the post-crisis period for the purposes of restructuring of capital, to strengthen its resource base and improve liquidity.

Principally new requirements for activities of banking sector in conditions of decreasing and easing the consequences of global financial crisis demand from commercial banks totally new changes in their attitude to the issue of usage of available financial resources. In connection with this, further successful functioning of commercial banks in countries of CIS becomes practically impossible without skillful utilization of the huge potential of securities, which may have a positive impact on strengthening of their capital structure, increase the level of liquidity and profitability of the banking.

Global financial crisis made many banks to ponder over their issuer strategy by focusing on search for alternative sources of widening and strengthening resource base taking into account increase in the level of capitalization and capacity to survive in the fight for free financial resources of economic subjects and savings of the population. The governments of many countries of the world efficiently assisted in the increase in the level of capitalization of banking institutions.

In conditions of insufficient level of capitalization, acute shortage of own working capital among majority of banks, the market for securities becomes one of the few real ways of solving the problems of raising funds for development of the banking and innovative development of enterprises. On the other hand, world experience convincingly confirms that during post crisis period banking institutions must not only learn to use a huge potential of securities but also take an active part in the processes of trust recovery of legal and physical entities towards stock exchange, acting in it as reliable issuers, large institutional investors and experienced investment intermediaries.

Internal factors, influencing the increase in the level of capital provision to the banking inside the country include such factors as inflation, peculiarities of investment policy conducted by the government, character of regulations governing the issuing activities of banks, the level of their interest in widening the scale of additional issues, offering of shares and etc.

Thus, constantly rising of a role of banks' capital as well as skillful revelation of the potential of its main functions that play important role in ensuring sustainable development of bank institutes, demanded the formation of clear issuing policy in each of them directed at the buildup of the level of capital intensity and support for necessary level of capital provision for banks.

Taking into account complexity and labor intensiveness of the process of organization of additional issue in the CIS countries, bodies of banking supervision must constantly enhance the system of incentives for issuing activities of commercial banks. Another efficient measure for the buildup of resource base of commercial banks might become the practice of usage of options which give the right for existing shareholders to buy the amount of share in the bank which doesn't infringe their representation in the capital of banks. Besides that, it is necessary to stimulate the work on creation of issuing and underwriting syndicates in the CIS which are capable, on commercial basis, assist the banks in additional issues of shares and other securities.

In order to restore the trust of potential investors, commercial banks of CIS must quickly adopt the secrets of modern investment business, organization of a wide advertising campaign in special economic publications as well as mass media. With this purpose there is a need to develop in the countries of CIS in the nearest future the institute of market-makers on the account of usage of the potential of a well-known international investment institutes, which are capable on professional basis to be engaged in developing of their image as well as to deliver various services related to securities.

One of the additional efficient forms of ensuring financial sustainability and increasing the level of capital provision for commercial banks during post crisis period is the activity aimed at introduction into banking practice of the CIS countries of the procedures of mergers and acquisitions (M&A) of joint stock bank institutions. Merger procedures allow their participants existence under the same structure and functioning independently simultaneously, dividing the spheres of influence and preserving similar authorities over management of banking.

Along with widening of the scale of usage of instruments of equity financing, many banks widened the array of issue and offering of debt securities. Issue of debt facilitated the mobilization of borrowed financing means for the needs of innovational development of clients of banks and settlement of non-payment problems, which was positively reflected in their image among market participants. The advantage of the debt securities for investors is that they express the obligation of the issuer to return invested money on time, thus ensuring the guaranteed level of profitability.

Central place among debt instruments issued by banks belongs to banking certificates. The advantage of banking certificates for banks is their simplicity of organization of the issue because they don't require the issue of prospectus and could be issued as the funds in the accounts of clients are accumulated. Besides that, they may efficiently become supplement resource base of commercial banks because the average residue on the bank accounts is usually on the permanent level. For the owners of bank certificates - the clients of commercial banks, the advantage of having a bank certificate is in the simplicity of usage and reliability of return. Moreover, they may fulfill for investors additional functions as an efficient instrument able to confirm solvency as well as become a gift or inheritance.

The next best option for banks would be bonds which also have a number of important advantages for banks in comparison with shares and other types of securities giving ownership rights. For instance, compared to shares the advantage of bonds for banks is in the fact that their issue doesn't result in dilution for owners and loss of control over banking institution. The main advantage of bank bonds for investors is higher level of safety of investment stemming from absence of risk of repayment of invested funds unlike in case with shares. This instrument also provides many banks with possibility to use additional services.

The most popular instrument during the post crisis periods in the past were so called coupon bonds, medium term and long term bank bonds as well as convertible bonds converted into shares at the will of their owners. The issue of coupon bonds attracted the attention of small investors because they allow compensation of inflationary increases and replenishment in the situation of shortage in working capital. Issue of medium term bank bonds attracted attention of medium private and large conservative investors with free finance but unwilling to take on big investment risks connected with owning bank shares. Their issue is advantageous for commercial bank because this allows access to "medium and long money", the demand for which is constantly growing on the side of various categories of subjects of economic activity.

In conditions of elimination of consequences of global financial crisis one of the most important criteria of efficiency of usage of the potential of securities became promotion of their investment activities. Commercial banks that do not have competitive and capable investment strategy and do not possess a strong team of specialists in this area turned out to be incapable to wither competition in the market of banking services. Furthermore, if during the pre-crisis period the main direction of the activities of banks were lending activities, currently, the main focus is switching to the ability to build and conduct careful investment policy on the account of shrewd use of investment potential of securities. The shift of focus from lending activities to investment activities is conditioned by the global trend to universal approach to the banking activities. This trend is connected with the problem of decrease in the bank margins due to permanent decrease in the level of deposit rates and impossibility of the balanced growth of lending rates. The fundamental ability of securities to bring to their owners higher and stable profit in the longer term perspective, provided banks use correct approach to their investment qualities, becomes a foundation of the qualitatively new attitude of banks towards investment management.

Commercial banks of CIS countries need to use in their investment activities such widely accepted in world practice financial instruments as cumulative shares, convertible or project bonds, opening of saving and investment accounts payments on which are not fixed beforehand but take place on principles of division of profit received after their utilization between a bank and clients.

Increase in efficiency of intermediary operations of banks in the stock exchange market is very important for realization of the potential of securities. It is vital to develop this direction of activities of banks in the countries of CIS because majority of categories of the main participants of developed and developing markets of securities do not have experience of working with this financial instrument. Moreover, many of them do not consider operations with them as their main activity or the object of entrepreneurial efforts. Therefore, they prefer to outsource this activity to the professional participants of stock exchange market for whom this activity is the main function with which their familiar with and which is the main source of receiving income.

Commercial banks are to the contrary have a lot of experience in conducting their own issuing and investment transactions with which their engaged to support the due level of capitalization and to ensure profitability and liquidity of the banking. Furthermore, one should not forget that rendering intermediary services requires having the whole complex of necessary conditions including having access to information on the state of various segments of foreign exchange market, constantly updated databases of analytical data as well as qualified specialists in the area of stock market industry. Majority of the investment institutes active in the territory of CIS due to their inexperience and limited financial possibilities cannot provide the main participants of the of the securities market with such an array and ensure the same quantity of services as commercial banks.

The main advantages of commercial banks acting as intermediaries for issuers – enterprises from CIS countries are related to the fact that they are capable not only render assistance in originating ideas for a new issue, work out business-plans for an issue, offering of securities, and their registration, but conduct wide spectrum of accompanying services on servicing their circulation, including traditional banking security.

Conclusion

Post-crisis period requires countries of CIS the re-orientation to the qualitatively new strategy in movement towards the market, based on creation of clearly expressed corporate basis of organization of enterprises of the fundamental branches of the national economies. It also demands the creation of integrated corporate structures in the form of financial-industrial groups, holding companies and other associations of conglomerate type established by way of integration of industrial and financial capital and functioning on the basis of issues of shareholding capital, via consolidation through the exchange with shares and other forms of financial engineering. Active role in creation and functioning of the above mentioned highly integrated corporate structures must belong to commercial banks capable to act in them as the most reliable issuers as well as the largest investor and professional operator.

The commercial banks themselves should be interested in using the results of their professional activities in the securities market due to the fact that this gives an opportunity to earn additional profit

for their main activities in the financial market and improve their image in the eyes of participants of this market.

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