Asset and Liability Management by the Modern Banks of Uzbekistan

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ABSTRACT

The article reveals the essence and importance of managing the assets and liabilities of a commercial bank, provides a comparative analysis of the definitions of management from the point of view of various economists. The structure of assets and liabilities of a commercial bank is analyzed, conclusions are drawn and proposals are made to increase liquidity and reduce risk in asset and liability management.

Keywords: asset management, liability management, balance sheet structure, liquidity, risk, GAP analysis, liabilities, interest rate risk

Asset and liability management of commercial banks has been an integral part of banking activities for several decades. The problems of asset and liability management to a greater or lesser extent include, for example, achieving a certain level of profit, minimizing or limiting risks (mainly interest and liquidity), resource planning and/or forming a certain balance sheet structure of banks. The use of methods and tools for asset and liability management that are most appropriate to specific conditions allows commercial banks to timely and effectively solve various strategic tasks. Over time, in response to significant changes in the financial markets, the priority of tasks within the framework of the implementation of asset and liability management of commercial banks also changed. As a result, the concepts of asset and liability management of commercial banks were changed, supplemented with new methods and tools. Asset and liability management1 of commercial banks is an integral part of banking business for decades. The problems of asset and liability management to a greater or lesser extent include, for example, achieving a certain level of profit, minimizing or limiting risks (mainly interest and liquidity), resource planning and/or forming a certain balance sheet structure of banks. Using of methods and tools for asset and liability management that are most appropriate to specific conditions allows commercial banks to timely and effectively solve various strategic tasks.

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In the financial management system, the effective management of assets and liabilities of a commercial bank is one of the most important areas.

The concept of asset and liability management originated in the 1960s in the United States. During this period, the main problem of management came down to such a distribution of assets that would ensure the liquidity of a commercial bank, and would also allow you to get the maximum income; it follows that the emphasis was on asset management[1].

Joint asset-liability management serves as a tool for the bank to provide protection and guarantee for attracted funds in the form of loans and deposits from recurring seasonal fluctuations and fluctuations in business cycles. Also, the joint management of assets and liabilities allows you to protect funds for the formation of asset portfolios that allow you to realize the goals of the bank.

Let's consider the interpretation of the concept of "assets and liabilities management of commercial banks". A lot of works of domestic and foreign authors are devoted to the study of this concept. American scientist-economist Peter S. Rose believed that, in its essence, asset and liability management is the formation of strategies and the implementation of such activities that make it possible to make the structure of the bank's balance sheet as laid down in the strategic programs of the bank. P.Rose also believes that asset and liability management is nothing more than imbalance management in order to reduce interest rate risk and optimize income and ensure the solvency of the bank[2].

Other authors under the concept of "assets and liabilities management" mean the process of formation and subsequent regulation of such a structure of assets and liabilities of the bank's balance sheet, which ensures the achievement of certain strategies and goals of financial management[3].

The common elements of the above definitions are, first of all, that asset and liability management is a process. This process consists in changing (regulating) the structure of the bank's balance sheet in order to achieve certain goals. However, without a clear allocation of tasks and goals, as well as the conditions for their implementation, the definition of asset and liability management cannot be complete. Moreover, in modern economic literature, the management of assets and liabilities is most often determined precisely by goals and objectives.

The definition given by O.I. Lavrushin combines all the above opinions, calling asset and liability management the process of forming and regulating the structure of assets and liabilities of the bank's balance sheet in such a way that certain strategies and goals of financial management are achieved[4].

An analysis of the study of foreign authors showed that over time, foreign authors gave asset management a narrower and more specific concept.

Domestic economist S.M. Ilyasov gives the following definition: "The process of asset and liability management is aimed at attracting the maximum allowable amount of resources (own and borrowed funds) and placing them in the most profitable assets with a level of liquidity and a limited level of risk." In the definition of S. M. Ilyasov, attention is paid to the level of liquidity and risk, which means that by managing these factors, it is possible to increase the bank's income[5].

The purpose of asset and liability management in a bank is to measure the degree of risk and manage this risk. The main focus is on the risk of a decrease in net interest income and a drop in profitability.

Asset and liability management has a direct impact on the structure and liquidity of a bank's assets and liabilities, as well as their sensitivity to fluctuations in interest rates. Within the framework of asset-liability management, it is planned to develop a comprehensive policy in the field of financial management. Particular attention is paid to ensuring the maximum possible flexibility and profitability of the bank's loan and investment portfolios.

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Основные статьи бухгалтерского баланса банка[6]

Активы	Пассивы
Кассовая наличность	Депозиты до востребования
К получению из ЦБРУ	Срочные депозиты
К получению из других банков	К оплате в ЦБРУ
Драгоценные металлы, монеты	К оплате в другие банки
Инвестиции	Уставный капитал
Ценные бумаги	Добавленный капитал
Кредиты и лизинговые операции	Резервный капитал

Asset and liability management aims to achieve a balance between risk and return that would be acceptable to the bank. As competition intensifies, inflationary pressures on profits rise, interest rates become more volatile, and the interest and relevance of asset and liability management intensifies every day.

The asset and liability management process aims to attract the maximum allowable amount of resources and place them in the maximum profitable assets with a certain level of liquidity and a limited level of risk.At the same time, the bank's management is aimed at maximizing the current value of assets and optimizing the final financial results.

To do this, the bank's management takes into account the impact on the final efficiency of the bank's activities of the following cash flows:

• interest income on all types of issued loans and securities,

• change in the market value of securities portfolios,

• payment of interest on all types of attracted funds of the bank,

• net inflow (outflow) of new funds,

• change in the value of assets due to their unscheduled sale to cover current liabilities.

The assets and liabilities of a commercial bank are closely related to each other. Operating in the credit markets, making transactions with securities, serving their customers, banks constantly keep their liabilities under control, monitoring the availability of free resources, the maturity of deposits, and the cost of attracted capital. If the rate of cash flow drops, the bank has to revise its active operations management policy, refuse profitable offers, repay part of the loans issued, sell securities, etc.

Bank assets are objects of property having a monetary value and belonging to the bank. The main sources of funds for the formation of assets: the bank's own capital and funds of depositors, interbank loans, the issue of bank bonds. The increase in the bank's assets occurs due to active operations: lending, investment operations, other operations of the bank to place its own and borrowed funds. An important quality of a bank's assets is making a profit.

The bank's assets include: cash, loans, investments, securities, real estate and others. The bank's assets are reflected in the assets of the bank's balance sheet.

A bank's liabilities reflect the sources of funds that the bank uses in its operations. There are two main sources of bank resources: bank owners (shareholders); depositors and other creditors. The funds owned by the bank's shareholders are called the bank's own funds (own capital), and those of depositors and other creditors are called borrowed (or borrowed) funds.

Own funds (own capital) of a commercial bank include its authorized and additional capital, as well as a reserve fund and retained earnings. Own funds form the basis of the activities of a commercial bank. They are formed at the time of the bank's creation and gradually increase in the course of its activities.

Asset and liability management as a concept used in banking originated in the United States in the 1960s and refers primarily to managing the level of risk when interest rates rise or fall. Until that time, financial managers

[6] The table was compiled by the author based on the balance sheets of commercial banks

used separate methods for managing assets, liabilities, and spreads.

This was due to the fact that in the 1940s and 1950s banks had an abundance of cheap sources of financing in the form of demand deposits and savings deposits. Therefore, the main management problem was to distribute assets in such a way that would ensure the liquidity of a commercial bank and maximize income, therefore, emphasis was placed on asset management. At the same time, the main directions of asset management consisted of two options: the method of the general fund of funds (the method of distributing assets) and the method of converting assets (the method of separating the sources of funds).

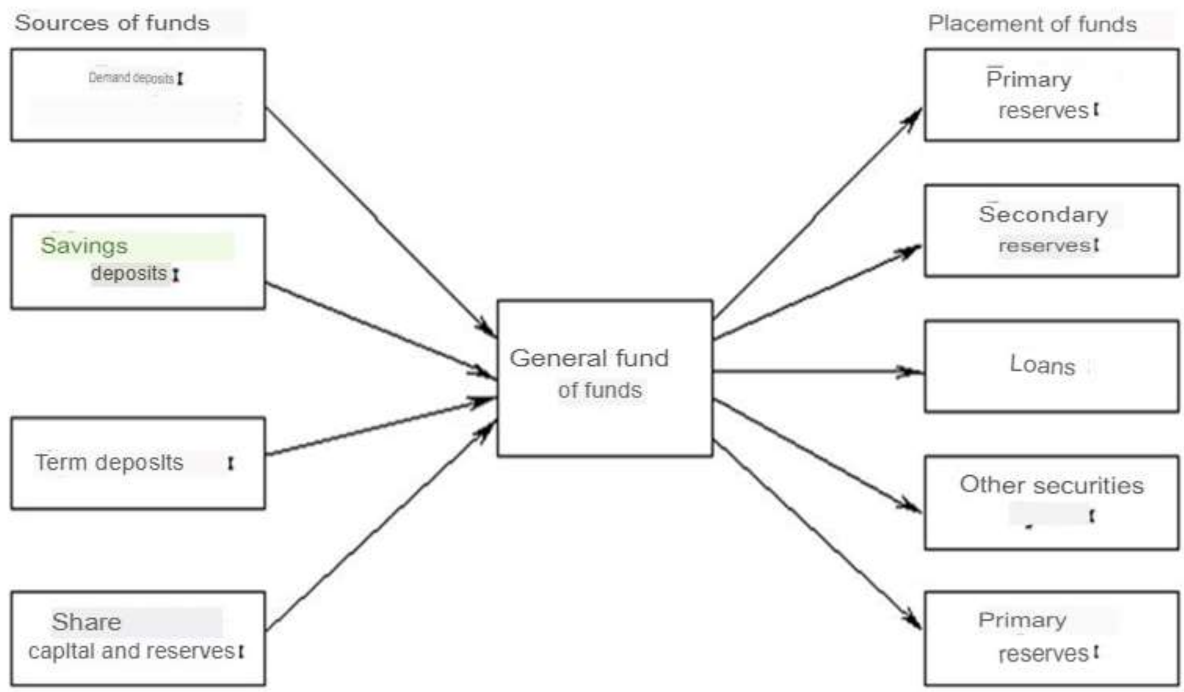

Figure 4. Common fund method

The common fund method is most applicable in a stable environment, as its successful use depends on the following conditions:

- relatively small variation in interest rates;

- the composition of the bank's liabilities remains fairly stable and is easy to predict;

- most of the attracted funds consist of interest-free termless deposits, which, as a rule, are represented by balances on the accounts of legal entities and individuals.

With the simultaneous fulfillment of these three conditions, the top managers of the bank could consider the passive side of the balance sheet as a given value and pay more attention to the bank's assets.

In the pooled fund model, it does not matter from which source the funds come from for a particular active operation. This model is focused on asset management and does not take into account the structure of funds raised. Therefore, it is not effective enough to control the quality indicators of the balance sheet assets, in particular, the liquidity of the bank.

Another method of asset management is the method of asset allocation or the method of conversion of funds is to compare the terms and amounts of assets and liabilities.

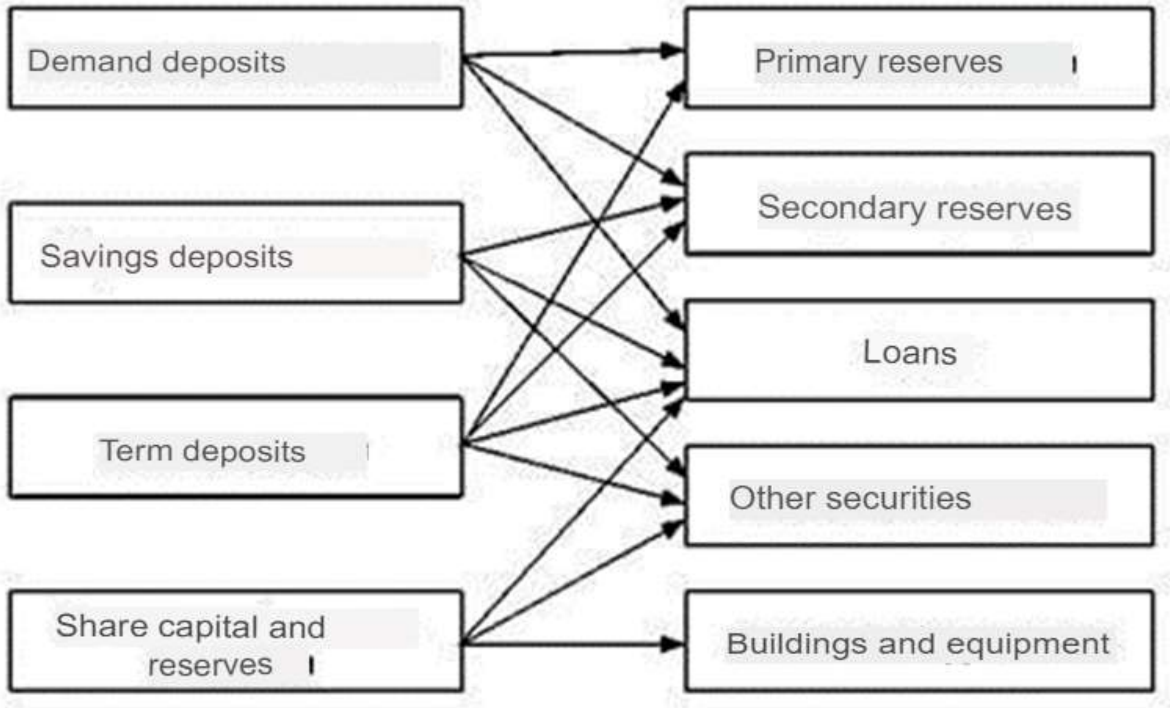

Figure 5. Asset allocation method[7]

This method assumes that, depending on the type of funds raised, not only the norms for their reservation in liquid assets should be determined, but specific methods and terms for placing these resources.

This approach is more in line with the requirements of a market economy based on a strict differentiation of entrepreneurial activity and financial responsibility for the results of work. The authorized capital should be used to create the capital property of the bank, demand deposits - for fast assets, time and savings deposits - for long-term loans and investments in hard-to-sell securities, etc.

The method of funds conversion is related to the fact that it increases the responsibility of each division and management of the bank for the effectiveness of decisions made and the effectiveness of relevant operations.

In addition, using this method, you can introduce flexible incentive systems for individual employees and departments of the bank for achieving high performance. Such systems are used in most banks of foreign countries and in recent years in domestic banking practice and have confirmed a high degree of usefulness.

The work of commercial banks is carried out in conditions of constantly changing conjuncture of commodity and money markets. This requires flexible management of the active operations of banks. The purpose of such management is to achieve the necessary profit and profitability. Based on this, commercial banks must constantly develop and implement methods of asset management that are adequate to the state of the economy.

Recently, in addition to the above methods of asset management, commercial banks have been developing and applying economic and mathematical management models that make it possible to manage assets and liabilities more finely. This method - balanced asset and liability management, is based on the application of a portfolio approach to liquidity management through the simultaneous coordinated management of the bank's assets and liabilities.

In the 60-70s of the last century, significant changes were observed in the ways of managing the structure of assets and liabilities. Faced with rapidly rising interest rates and intense competition for funds, bankers began to focus on finding new sources of funds, as well as monitoring the structure and

[7] Maramygin M. S., Suplakov D. A. Bank liquidity risk management // Manager. 2012

value of deposits and non-deposit liabilities.

As a result of the innovations, a liability management strategy was developed. Its purpose was to establish control over the sources of the bank's funds, similar to control over assets. The main control lever was prices, including the interest rate, and other conditions that the bank offered to depositors and creditors in order to ensure the desired volume, structure and costs of funds.

Faced with increased demand for credit, the bank could simply increase the offered rate on money market deposits and borrowings compared to competitors and obtain additional funds. The development of liability management techniques and the simultaneous increase in risk and interest rate volatility eventually gave rise to an approach called the fund (liability) management strategy that currently dominates banking. This is a much more balanced approach to asset or liability management, and highlights the following key objectives:

- in order to achieve the bank's long-term and short-term goals, its management should, to the maximum extent possible, control the volume, structure, profit or costs of both assets and liabilities;
- control of the bank's management over assets should be coordinated with control over liabilities in such a way that the management of assets and liabilities is characterized by internal unity.
- efficient coordination will help to maximize the difference (spread) between the bank's income on assets and the costs of issued liabilities;
- costs and income refer to both sides of the balance - both active and passive. The policy of the bank should be designed in such a way as to maximize income and minimize the cost of banking services, both in terms of assets and liabilities.

Thus, the traditional view that all bank income comes from loans and investments has given way to the understanding that the bank sells a whole package of financial services - loans, savings, consulting, etc., the price of each of which should cover the costs of the bank for its provision. Currently, banks view their portfolios of assets and liabilities as a whole, which determines the role of the total portfolio of the bank in achieving its overall goals - high profits and an acceptable level of risks.

Joint asset-liability management provides the bank with the tools to protect attracted funds in the form of deposits and loans from the impact of fluctuations in business cycles and seasonal fluctuations, as well as funds for the formation of asset portfolios that ensure the implementation of the bank's goals. Asset and liability management is also considered as a bank's actions aimed at optimizing the structure of assets and liabilities in terms of their urgency, quality, differentiation and price characteristics, as well as at preventing losses in the course of activities.

The target results of asset and liability management are:

• protection of shareholders and investors;

• maintaining liquidity at a level sufficient to cover all the needs of cash flows with the possibility of profitable placement of excess liquidity;

• profit from currency trading within risk limits;

• maintaining sufficient capital to cover any business risks;

• optimizing the evaluation of products and services in order to ensure the rational management of assets and liabilities and maximize the bank's income.The main tasks of asset and liability management are:

• management of short- and long-term liquidity of the bank;

• maintaining and increasing the bank's profitability;

• management of capital adequacy and structure, bank costs, especially those not related to interest payment, asset quality.

There is an extremely complex relationship between active and passive operations. If the cost of resources increases, then there is a reduction in the bank margin, a decrease in profits, which entails the need to search for new areas of capital investment to improve the financial condition of the bank. To prevent and prevent a threat to the solvency of the bank, it is necessary to clearly coordinate all areas of banking activity. Thus, the analysis of the bank's liabilities is an analysis of the bank's resources, and the analysis of the asset is an analysis of the directions for using these resources: how much, for how much, for what and to whom.

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