Transformation of Commercial Banks and Management of their Sustainable Development

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Abstract

The article discusses some of the features of the creation and operation of new commercial banks in the Kyrgyz Republic, as well as their development in the context of a pandemic and the EAEU. The National Bank of the Kyrgyz Republic is the main regulator and supervisory body of banking in the country, which makes decisions on the admission or non-admission of the bank to the domestic banking market. The legislation of Kyrgyzstan establishes a set of requirements and conditions for the creation of a financial and credit organization. In general, new commercial banks in Kyrgyzstan, fulfilling all the requirements and conditions determined by the current legislation, have, taking into account some specifics, equal rights, obligations and opportunities in comparison with the existing banks. The purpose of the research is to reveal the features of opening new banks and to study their further development in the context of integration processes. Description of the scientific and practical significance of the work. In the process of writing, such research methods as synthesis, analysis, statistical data processing were used. The main results of the research work was that banking is a promising and profitable business, despite this it must constantly introduce innovations and meet modern requirements in the context of the integration of the financial and credit system. The value of the study is that for the first time an attempt was made to generalize the process of creating new banks in the Kyrgyz Republic, the features of the transformation of microcredit companies into a commercial bank. This work can be used as a methodological guide for further research in the field of the credit system, the development of regulatory documents in the field of development of the credit system.
Keywords

Credit System, Banking System, Commercial Banks, Bank Establishment, Licensing.

Introduction

One of the most important components of the financial sphere of Kyrgyzstan is the banking system, which, in fact, includes both a structured set of entities related to banking, as well as individual economic organizations, and the interaction of the latter. However, in this case, we are directly interested in the banking sector, defined by the current national legislation at two levels: 1) the National Bank of the Kyrgyz Republic and 2) commercial banks.

In the scientific community, a number of researchers represent the bank as a whole as a financial intermediary that accumulates free financial resources, provides them to various clients for temporary use for a certain fee, conducts mutual settlements and payments between business entities, organizations and individuals, regulates money circulation in the state, including the issue (emission) of cash (Glushkova, 2017; Stoyanova, 2010). Some scholars define a bank as an independent financial and credit legal entity operating on the basis of a license and providing the entire set of financial services permitted by law in order to achieve maximum efficiency and effectiveness at a fixed level of risk (Yuzvovich, 2018). In accordance with the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, Banks and Banking Activities", adopted in 2016 (hereinafter referred to as the Law on the National Bank), a bank is a legal entity, the creation of which is allowed only in organizational and legal form as a joint stock company (open or closed type), which has the right to conduct banking activities on the basis of an appropriate license issued by the National Bank of the Kyrgyz Republic in accordance with the current legislation.

The formation and operation of elements of the banking system in Kyrgyzstan is based on the Law on the National Bank of the Kyrgyz Republic (NBKR), on the provisions of the Civil Code of the Kyrgyz Republic, other laws, as well as regulatory legal acts of the NBKR. At the same time, there is a certain specificity of the creation and functioning of new commercial banks.

Methodology

In the process of writing, such research methods as synthesis, analysis, statistical data processing were used. The analysis method has already been partially implemented in
relation to the issue under study since there are several studies that specifically refer to the private potentials constituting the insurance. However, the problem of fragmented results of these works remains unsolved; therefore, they require further systematization, correction, and generalization.

Materials

In the Kyrgyz Republic, in 2020, there were actually 23 commercial banks operating (including the Bishkek branch of the National Bank of Pakistan) (Table 1).

Table 1 Changes in the structure of the financial sector of Kyrgyzstan for 2014-2020 years

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<td>25</td>
<td>25</td>
<td>23</td>
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<td>Other financial companies</td>
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<td>656</td>
<td>704</td>
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<td>693</td>
<td>631</td>
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<td>including:</td>
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<tr>
<td>Non-bank financial and credit organizations</td>
<td>660</td>
<td>627</td>
<td>673</td>
<td>657</td>
<td>662</td>
<td>628</td>
<td>628</td>
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<td>of them:</td>
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<td>microfinance</td>
<td>215</td>
<td>172</td>
<td>162</td>
<td>150</td>
<td>142</td>
<td>134</td>
<td>134</td>
<td>decreased by 81</td>
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<tr>
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<td>125</td>
<td>116</td>
<td>110</td>
<td>106</td>
<td>92</td>
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<td>decreased by 43</td>
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<tr>
<td>alliances</td>
<td>309</td>
<td>329</td>
<td>394</td>
<td>396</td>
<td>413</td>
<td>374</td>
<td>374</td>
<td>increased by 65</td>
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<tr>
<td>OJSC &quot;FC KS&quot;</td>
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<td>no change</td>
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<tr>
<td>the Bureau</td>
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<td>15</td>
<td>15</td>
<td>decreased by 2</td>
</tr>
<tr>
<td>Investment funds</td>
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<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>no change</td>
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</tbody>
</table>

Compiled according to the National Bank

As can be seen from Table 1, for the period under review 2014-2020. the number of commercial banks has not changed, which is a very good indicator for a small republic. For example, in the Russian Federation at the beginning of 2019 there were 440 commercial banks, which in terms of 1 million people of the population is 3.0 banks, in the Republic of Belarus - 2.5 units. (in Kyrgyzstan, there are almost 4.0 units per 1 million people).

Among the financial and credit organizations that have long been present in the market of the republic, one can note: OJSC "Bakai Bank", OJSC "Dos-Kredobank", OJSC "Commercial Bank Kyrgyzstan", OJSC "Kyrgyzkommertsbank", OJSC "RSK Bank", CJSC Bank of Asia, CJSC Demir Kyrgyz International Bank, CJSC AKB Tolubay, etc. In 2015 CJSC Microcredit Company FINCA received a banking license and was
transformed into CJSC FINCA Bank. In 2016, KyrgyzCredit Bank Open Joint Stock Company was re-registered as Eurasian Savings Bank OJSC. Since September 2019, Keremet Bank OJSC has become the legal successor of the rights, assets and liabilities of Rosinbank OJSC.

The National Bank of the Kyrgyz Republic acts as the main regulator and supervisory body of banking in the country, which decides on the admission or non-admission of the bank to the domestic banking market. The legislation of Kyrgyzstan establishes a set of requirements and conditions for the creation of a financial and credit organization. Further, you can consider the general requirements for the creation procedure, authorized capital, organizational and legal form of the bank, founders and shareholders of a credit institution.

1) Requirements for the Establishment Procedure, Organizational and Legal form and the Authorized Capital of the Bank

As noted earlier, the Law on the National Bank, as well as in accordance with the Regulation on Licensing the Activities of Banks "states that these financial and credit organizations can be created and operate only as open or closed joint stock companies. In accordance with Kyrgyz legislation, a bank acquires the status of a legal entity from the date of state registration of the latter, for which it is necessary to submit a permit from the National Bank of the Kyrgyz Republic to establish a bank. A bank can carry out its activities after issuing a license from the National Bank for the right to conduct banking operations. An Islamic bank or a bank that has an "Islamic window" implements its functions in accordance with the Islamic principles of banking and financing, also on the basis of the congruent license of the National Bank of the Kyrgyz Republic.

A banking license is an official document issued by the National Bank of the Kyrgyz Republic and certifying the right of a financial and credit organization to carry out legal activities (banking operations), in relation to which this licensing has been introduced, which is registered (inalienable) and not transferable to third parties, which has an unlimited period of validity and spreading throughout the territory of the Kyrgyz Republic.

The authorized capital is formed only at the expense of the founders (shareholders) in the national currency of Kyrgyzstan (som). At the same time, for the finance included in the authorized capital, there should be no obligations to return to third parties. According to the Resolution of the Board of the National Bank of the Kyrgyz Republic "On the minimum amount of the authorized and own (regulatory) capital of commercial banks" for
newly organized commercial banks (incorporating the requirement for the capital of branches of foreign banks), the minimum amount of the authorized capital must be at least 600 million soms. For operating commercial banks (including branches of foreign banks), the minimum amount of the authorized capital and the subsequent terms of its formation are determined as follows:

- before July 1, 2016 - 400 million soms
- before July 1, 2017 - 500 million soms
- by July 1, 2018 - 600 million soms

Banking legislation also establishes an economic standard for new commercial banks for the minimum amount of equity (regulatory) capital, equal to not less than the minimum size of the authorized capital determined by the National Bank of the Kyrgyz Republic.

2) Requirements for the Founders and Shareholders of the Bank

The founders (shareholders) of the bank can be:

- Individuals (residents and non-residents of the Kyrgyz Republic).
- Legal entities (residents and non-residents of the Kyrgyz Republic).
- The Government of the Kyrgyz Republic represented by the authorized body.

The founders (shareholders) of a financial and credit organization, acting as significant participants in the latter, must have a satisfactory financial condition and fulfill their tax obligations and payments equivalent to them. Legal entities as founders (shareholders) must be registered in the manner prescribed by law and function for at least one year. The regulation on licensing the activities of banks defines the range of entities that cannot be founders (shareholders) of a bank, including:

- Legal entities registered in offshore zones or having affiliates registered in offshore zones as participants, or individuals residing in offshore zones, or being shareholders (participants) of legal entities registered in offshore zones, the list of which is determined by the National Bank of the Kyrgyz Republic.

1. Legal entities and individuals who have been subject to international sanctions adopted by the UN Security Council.
2. Legal entities and individuals who did not provide adequate information about their activities and financial condition, did not confirm the legality of the origin of the funds used to purchase the bank's shares, etc.
All banking institutions in Kyrgyzstan are universal by type of activity, i.e. combining various types of banking activities. To obtain a license that gives the right to carry out banking operations, it is legally required to provide information and documents on the implementation of such requirements as:

- Availability of a certificate of state registration.
- Certificate of full payment of the minimum authorized capital.
- The presence of a business plan, governing bodies, organizational structure, appropriate premises and equipment, etc.
- Submission of materials on adherence to all standards and requirements of the National Bank of the Kyrgyz Republic for capital after the start of the implementation of its functions.
- The existence of an internal control system, various protection measures, as well as property insurance.
- Payment of the entrance fee to the Deposit Protection Fund.
- Payment for a license, etc.

As a rule, a licensed bank carries out the following operations in national and / or foreign currency:

1. Attraction on contractual terms of deposits (deposits) on its own behalf.
2. Carrying out credit operations.
3. Opening and maintaining accounts of individuals and legal entities.
4. Issue, payment, purchase, acceptance, storage and confirmation of payment documents (bills of exchange, checks, letters of credit and other documents), including payment and credit cards.
5. Operations with debt securities (issue and placement).
7. Making money transfers from clients, including without opening an account.
8. Carrying out operations with precious metals (only banking gold, silver, platinum and coins made of these high-purity metals), etc.

The National Bank of Kyrgyzstan presented a register of licenses as of January 2020, where the commercial banks possessing the latter are also indicated (Table 2).
### Table 2: Register of licenses of commercial banks in Kyrgyzstan as of January 2020

<table>
<thead>
<tr>
<th>License register</th>
<th>List of commercial banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) A license for the right to carry out banking operations in national and/or foreign currency</td>
<td>OJSC &quot;Aiyl Bank&quot;; JSC RK &quot;AMANBANK&quot;; OJSC &quot;Bai-Tushum Bank&quot;; OJSC &quot;Dos-Kredobank&quot; (there are restrictions); OJSC &quot;Eurasian Savings Bank&quot;; OJSC &quot;Capital Bank&quot;; OJSC &quot;Keremet Bank&quot;; OJSC &quot;Commercial Bank Kyrgyzstan&quot;; OJSC &quot;Kyrgyzkommertsbank&quot;; Optima Bank&quot; OJSC; JSC “RSK Bank&quot;; FinanceCreditBank OJSC; OJSC &quot;Halyk Bank Kyrgyzstan&quot;; CJSC &quot;Bank of Asia&quot;; CJSC &quot;Companion Bank&quot;; CJSC &quot;Demir Kyrgyz International Bank&quot;; CJSC &quot;Kyrgyz Investment and Credit Bank&quot;; CJSC &quot;Kyrgyz-Swiss Bank&quot;; CJSC JSCB &quot;Tolubay&quot; (there are restrictions); CJSC &quot;FINCA Bank&quot;; CJSC &quot;EcoIslamicBank&quot;; Bishkek Branch of the National Bank of Pakistan</td>
</tr>
<tr>
<td>2) Permission for the right to conduct operations with precious metals</td>
<td>OJSC &quot;Kyrgyzkommertsbank&quot; (there are restrictions); OJSC &quot;Commercial Bank Kyrgyzstan&quot; (there are restrictions); CJSC &quot;Kyrgyz-Swiss Bank&quot; (there are restrictions); OJSC &quot;Capital Bank&quot; (there are restrictions); CJSC JSCB &quot;Tolubay&quot; (there are restrictions); JSC &quot;RSK Bank&quot; (there are restrictions); EcoIslamicBank CJSC (there are restrictions); Bank of Asia CJSC (restrictions apply); OJSC &quot;Bakai Bank&quot; (there are restrictions); Aiyl Bank OJSC (there are restrictions)</td>
</tr>
</tbody>
</table>
| 3) Permission for the right to issue electronic money | OJSC "Aiyl Bank"; OJSC "Bakai Bank"; OJSC "Bai-Tushum Bank"; OJSC "Dos-Kredobank"; OJSC "Commercial Bank Kyrgyzstan" (there are not included operations); CJSC "Bank of Asia" (there are not included transactions); CJSC "Companion Bank"; CJSC "Kyrgyz Investment and Credit Bank"; CJSC "FINCA Bank"

Compiled according to the National Bank

In general, newly created commercial banks in Kyrgyzstan, fulfilling all the requirements and conditions determined by the current legislation, receive, taking into account some specifics, equal rights, obligations and opportunities, in comparison with the already operating financial and credit organizations. At the same time, it is quite difficult for new banks to compete with similar organizations that have been operating for many years with well-established connections with the clients they serve. Therefore, the initial orientation of the newly created commercial banks is directed, first of all, towards newly formed economic entities that are interested in banking services of a settlement and deposit-credit nature. This orientation also has its downside in the form of an increase in the degree of risk of banking operations. For example, for the newly created commercial bank CJSC FINCA Bank, the deposit base is less developed than for those financial and credit institutions that have been present on the market for a long time. Potential clients try to place their funds in those commercial banks that have already established themselves and are positioned as reliable, even if new credit institutions offer more attractive conditions. In the conditions of the formed client wishes, the new bank is faced with the need for large expenditures on marketing tools in order to form its positive image and gain competitiveness.

In the assets of commercial banks, the largest part is occupied by the maintenance of settlement accounts and loans provided to individuals and legal entities (in 2020 - 57.6%
of total assets), and in liabilities - deposits (deposits) of customers placed in these financial and credit institutions (in 2020 year - 71.3%). It should be noted that the participation of the bank in the deposit protection system is mandatory. In this regard, the Law of the Kyrgyz Republic "On the Protection of Bank Deposits (Deposits)" stipulates that newly created commercial banks, in addition to the so-called "transitional" banks, must make an entrance fee to the Deposit Protection Fund in the amount of 1% of the minimum authorized capital requirement, defined for new banks conducting operations to receive term deposits from legal entities and individuals and housing savings credit companies, respectively. Payment of this entry fee must occur after obtaining permission from the National Bank of the Kyrgyz Republic and before issuing a license. In the future, such contributions are paid in the manner and amount established for operating banks - 0.2% of the total deposit base of the financial and credit institution.

Note that the development of integration processes also affect the conduct of the banking business. The accession of the Kyrgyz Republic to the EAEU prompted the financial and credit system to make changes and adjustments to its activities. Having entered the union, the financial and credit system must compete with such large countries with a sufficiently strong credit system that are part of this union. Next, we will consider the main credit and deposit operations of individuals in these countries, which will allow us to talk about the scale of further development of the credit system of the Kyrgyz Republic.

Figure 1 Dynamics of lending to individuals in the EAEU countries, USD million
Compiled according to https://clck.ru/UigqM
As the analysis of data on lending to individuals shows, the following trend can be traced: in 2020, in the EAEU as a whole, there is a decrease in lending by 1.7% compared to 2019, which is associated with a pandemic. This trend can be traced in Armenia - 13.5%, Kazakhstan - 17.1%, Belarus - 13.6%, Russia - 0.2%, Kyrgyzstan - 14.2%. Before the pandemic, there has been steady growth in all countries. (fig. 1)

The same picture can be observed for deposit operations. In general, in the EAEU, it decreased by 6.2%, Armenia - 4.8%, Belarus - 23.7%, Russia - 6.4%, Kyrgyzstan - 2.7%. In Kazakhstan alone, there was an increase of 6.6%, amounting to USD 25639.8 thousand in 2020. (Fig. 2) Note that in terms of the scale of operations, Kyrgyzstan is in last place among the EAEU countries.

Conclusion

The pandemic has made adjustments to the activities of many banks, affecting their financial results and performance. Therefore, the creation of a new bank and its entry into the international market seems to be a laborious and lengthy process that determines significant costs and the implementation of a whole range of measures, standards and requirements set by the National Bank of the Kyrgyz Republic. At the same time, banking is a promising and profitable business, with efficient and effective management of which these costs are recouped. Moreover, the Kyrgyz state should strive to create favorable
conditions for increasing the investment attractiveness of the national banking sector, as well as introducing banking innovative technologies.

References


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