

The Essence, Functions and Role of Banks as Elements of the Banking System

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ABSTRACT

This article reveals the issues regarding the regulation of digital banking.

To date, Internet banking has become an everyday tool for everyday work. Now, before choosing a bank, customers have the opportunity to evaluate both the conditions of the products offered, as well as the functionality and attractiveness of its remote access systems.

KEYWORDS: *Bank, digital banking, legal regulation, digitalization of financial services.*

Banks and the banking system, being a very specific phenomenon, have firmly taken their place in our life and modern society and economy cannot be imagined without them. Having significant economic importance, banks provide the economy with the necessary resources, thereby acquiring a social role. However, in essence, banks are organizations that carry out transactions with cash and their derivatives in order to provide paid financial services to customers and, accordingly, earn money on such banking services.

"The banking system is a set of banks operating in the country, credit institutions and individual economic organizations performing banking operations. In addition, the banking system includes specialized organizations that support the activities of banks and credit institutions: cash settlement and clearing centers, bank audit firms, dealer firms dealing with securities of banks, organizations that provide banks with equipment, information, and personnel."¹

So, according to art.1. The Law of the Republic of Uzbekistan "On Banks and Banking Activities", a bank is a legal entity that is a commercial organization and carries out a set of the following activities defined as banking activities:

- accepting deposits from legal entities and individuals and using accepted funds for lending or investing at its own risk;
- Making payments².

Of course, the formation and development of the credit and banking system, being one of the signs of the implementation of economic reforms, has come a long way, overcoming considerable difficulties in order to appear before us today as a powerful system that significantly affects the level of the national economy.

The banking system of the Republic of Uzbekistan at the moment is a combination of various financial and credit institutions in the country in their interrelation, which operates within the framework of a common monetary mechanism.

The banking system includes the Central Bank, a network of commercial banks and other credit and settlement centers and is one of the most important and integral structures of the market economy, but the development of banks, commodity production and circulation has always been going on in

¹ Money, credit, banks: textbook for universities / edited by G.N. Beloglazova. — M.: Yurayt, 2014. — p. 31.

² The Law of the Republic of Uzbekistan "On Banks and Banking Activities" dated April 25, 1996, No. ZRU-216-I.

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parallel, closely intertwined. At the same time, banks carry out monetary settlements, lend to the economy, act as intermediaries in the redistribution of capital, and thereby significantly increase the overall efficiency of production, contribute to the growth of productivity of public labor. Even if the most important goal of the banking system is to service capital turnover in the process of production and circulation of goods, it also assumes responsibility for ensuring the efficient and uninterrupted functioning of the settlement system in the national economy; accumulation of temporarily free resources in the country; crediting production, circulation of goods and the needs of individuals.

Considering the fact that in the Republic of Uzbekistan, as in many countries, the banking system consists of 2 levels, it is represented by both universal and specialized banks. While the Central Bank is considered the upper level of the system, commercial banks, which are divided into universal and specialized, represent the lower level of the system together with non-bank credit and financial institutions.

The banking system of the Republic of Uzbekistan includes 33 banks, including:

- 12 banks with a state share;
- 15 private banks;
- 5 foreign banks.

As of November 1, 2021, the assets of banks amounted to \$39 billion (419 trillion soums), with 82% accounted for by state-owned banks. The banks' liabilities have reached \$33 billion (352.6 trillion soums), of which 40% are deposits.³

The Central Bank of the Republic of Uzbekistan, being a monetary institution, performs the tasks of the issuing center of the country, the government bank, the main settlement center of the country and the regulatory authorities of the economy.

The Central Bank of the Republic of Uzbekistan, also acting as an intermediary between the state and the economy, carries out its activities reflecting national interests, pursuing a policy not in the interests of a particular region, but in the interests of the entire state as a whole. In this regard, the powers of the Central Bank are considered to be quite extensive and begin with the establishment of rules for settlements in the Republic of Uzbekistan, the release of precious metal bars into circulation and the use of reasoned judgment in licensing the activities of banks before representing the interests of the Republic of Uzbekistan in the central banks of other states and international financial institutions within their powers.

As for commercial banks that operate in accordance with the monetary policy of the Republic of Uzbekistan and regulate the flow of cash flows, their turnover rate, issue, total mass, including the amount of cash in circulation, it should be noted that they have the exclusive right to carry out these banking operations.

Since today the activities of banking institutions are so extensive, the true essence of the concept of banks itself remains not fully defined due to the simultaneous presence of several definitions.

D.Ya. Rodin rightly notes that "traditional types of banking activities have become more complicated, acquired qualitatively new features, and due to the introduction of financial transactions that have no analogues in banking practice before."⁴

³ From the speech of the Deputy Central Bank of the Republic of Uzbekistan Abrorhuji Turdaliev on the banking system of the Republic of Uzbekistan at the II International Financial and Banking Forum of the CIS member states - November 26, 2021.

⁴ Rodin D.Ya. Formation of strategies for sustainable development of commercial banks: theory, methodology, practice. / Abstract of the Candidate of Economic Sciences. Krasnodar, 2012. p. 16.

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For example, a bank can be perceived as an enterprise, or in other words, an independent economic entity that has the rights of a legal entity, and can also produce and sell a product, provide services and act on the principles of self-financing.

On the other hand, the bank can be considered as a trading enterprise, while maintaining its specificity that its activities will differ from the activities of other enterprises. This is due to the fact that unlike other enterprises that are engaged in construction, transport, agriculture or industry, banks operate in the field of exchange.

As a credit enterprise, the bank has recently characterized not the relationship itself between the lender and the borrower regarding the return movement of the loaned value, but just the same acts as one of the subjects of the relationship that accepts one of the opposing parties in a credit transaction or acts as an intermediary.

Being an intermediary that ensures the possibility of carrying out a transaction taking into account supply and demand, the bank differs from an individual lender in that its resources lose their original face, giving the opportunity to choose a loan for every taste with a term, collateral and loan interest.

Even in the XXI century, in the conditions of developed commodity financial markets, the structure of the banking system begins to change and acquire more refined images, creating the ground for the emergence of new types of financial and credit institutions, but the main function of banks still remains the accumulation and storage of temporarily free funds and their transformation into capital.

The next no less important function of banks is the regulation of money turnover, since they act as centers through which the payment turnover of various economic entities passes.⁵

Well, in modern conditions of the development of entrepreneurship, small and medium-sized businesses, lending to enterprises remains very relevant, since its development in a market economy requires significant financial investments that can be obtained through a bank.

Commercial banks occupy a special place in reducing the degree of risk and uncertainty in the economic system by performing such a function as stimulating savings in the economy, acting with the demand for credit resources by mobilizing savings available in the economy and forming sufficiently effective incentives to accumulate funds, which are formed on the basis of a flexible deposit policy of commercial banks.

Acting as intermediaries in payments between separate independent entities, banks also have the right to act as investment institutions, performing intermediary functions in the purchase and sale of securities on the basis of a commission agreement at the expense and on behalf of the client.

As for the acceleration of investment processes to achieve stable economic growth, the place of the banking system in the implementation of various types of financial sector has a significant role.

This role can go in quantitative and qualitative senses, the first of which implies the volume and diversity of the banking product that is presented and sold on the market. The qualitative role is expressed in the work of banks with the opposition of the amount of funds attracted by them, the volume of deposits, the size of securities transactions, forms of settlements, currency transactions, which allow us to assess the scope and directions of banking activities, compare their work by groups, comparing with other countries, and also determine their development in dynamics.

Thus, we can say that modern society and the economy as a whole cannot be imagined without a bank, since they, performing their functions, redistribute resources in the economy, collect free cash on their accounts as deposits, and provide them for temporary use in the form of loans.

⁵Rabadanova D.A. Methods of assessing the effectiveness of banking activities of regional credit organizations // Problems of modern economics. – M. – 2011. – No. 4. – p. 46.

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The banking system itself, including in the Republic of Uzbekistan, is the central system-forming element of any type of economy, on the successful operation of which the efficiency of the functioning of the economy as a whole and economic growth in the country depend.

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