



## **International Practice of Deposit Policy Development and Implementation in Commercial Banks**

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**Abstract:** *The current state of the deposit policy of commercial banks of our country was analyzed in this article. During the analysis the peculiarities of systemic development of factors influencing on the process of deposit policy implementation were investigated. Also the conditions and opportunities of using of information systems and other directions of international best practice for improving the deposit policy of commercial banks were assessed. Based on the total conclusions on the organization of the system of targeted using of instruments for the development of deposit policy of commercial banks, scientific proposals and practical recommendations were developed to increase the level of capitalization and deposit base of commercial banks, to direct the strategy and tactics of deposit activity of commercial banks to strengthen their financial stability and reliability.*

**Keywords:** *deposit, deposit policy, deposit portfolio, deposit transactions, accounts payable, capitalization level, deposit base, state assets, investment resources, refinancing rate.*

### **Enter**

Many scientific researches are being conducted on the development of bank deposit policy in world practice. In particular, to provide innovative deposit services through bank departments operating in the Smart-banking system, to ensure the compatibility and integrity of the deposit policy with strategic programs for the development of the banking system, to improve the methodology of developing the deposit policy and the instruments for its implementation. problems associated with have been thoroughly researched. The fact that the issues of forward looking approach in determining the final, intermediate and operational goals of the deposit policy as a component of the development strategy of the bank in the formation of the deposit policy are neglected in the research carried out today, the need to activate the research in this regard causes.

In this article, we will consider the foreign experience in the development of deposit policy on the example of US commercial banks.

The total amount of money that can be invested or saved in the US is limited for a specific district or region, so commercial banks resort to a management strategy called liability management. In a broad sense, this strategy involves obtaining funds from other financial institutions to meet the demands of customers for high-quality loans and to fulfill the reserve requirements of banks. In a narrow sense, liability management is one of the methods of managing the bank's liquidity.

US banks will attract the necessary funds for the implementation of these goals in the following ways:

borrowing from the domestic market of federal funds and the market of Euro currencies;  
sale of short-term capital market certificates of deposit to clients;  
loans from the regional Federal Reserve Bank;  
concluding an agreement with individuals and legal entities on the purchase back of excess funds for a certain period of time;  
issuing promissory notes through a branch that is part of the holding company.

The federal funds market is the source of domestic credit for US banks. These funds are deposits held in Federal Reserve banks. Commercial banks may build up non-profitable excess reserves as a result of unexpected deposit flows or loan declines. Therefore, some banks that have them give them to other banks that need funds in a short time to restore the necessary amount of reserves or to invest them in assets.

As we know, in 1991 in the USA, "On improving the operation of the Federal Deposit Insurance Corporation" was adopted. With this law, the Federal Deposit Insurance Corporation received 30 billion rubles from the Ministry of Finance for a period of 15 years. was allowed to take a loan in the amount of dollars. Also, the Federal Deposit Insurance Corporation received 45 bln. got the right to receive a loan in the amount of up to USD.

The emergence of the deposit insurance system helped to protect the deposits and transaction accounts of small investors, as well as to stabilize the banking system. It is fair to provide guarantees for the return of deposits to small investors (individuals and legal entities). Because for small investors, the price of information about the solvency of credit organizations is much higher than for large ones. Due to the lack of information of small investors, sometimes they tend to withdraw their deposits quickly regardless of their financial situation.

### **Analysis of literature on the topic**

Based on the above considerations, as well as the methodology developed by L. von Bertalanffy, S. Beer, J. van Gig, R. Akoff, S. Optner and other scientists[2], who are famous representatives of the field of systematic research, commercial banks deposit we will try to determine the structural elements of the policy. In our opinion, these structural elements are:

1. Defining the goal. First of all, it is necessary to determine why it is necessary to develop and implement a deposit policy within the framework of the development strategy of the bank. In this case, the main attention should be focused on determining the goal of improving or optimizing the deposit policy.
2. To identify the problems that prevent the achievement of the goal and the factors that caused them. Most of the factors forming the desired problem occur in the external environment of banking activity. As part of the influence of external environmental factors, some of the problems are reflected in one way or another in the internal environment of the bank. Based on this, it is appropriate to use the principle of "producer-product" proposed by the well-known American scientist E.A.Singer, instead of being limited to the principle of "cause and effect" in determining and evaluating the factors causing the problem.
3. To determine the means and mechanisms that ensure the achievement of the goal. All problems that arise in the process of development, implementation and improvement of the deposit policy have a fundamental, i.e., theoretical and methodological nature. In-depth study of the theoretical and methodological foundations of the deposit policy takes priority in the selection of appropriate tools and mechanisms.
4. Development of a program to achieve the goal. This program essentially consists of a set of activities for the implementation of the deposit policy and a "roadmap" for their implementation.
5. Development of types and procedures of operations carried out within the framework of the deposit policy implementation program. In this, the main attention should be focused on

compliance with legal norms, legal documents, as well as compliance of quality management with the requirements of ISO 9000:2015.

6. Development of a monitoring and control system in the implementation of operations and procedures. If monitoring and control functions are concentrated at the discretion of the bank's separate bodies, it is not necessary to develop a special internal bank document on the implementation of these functions.
7. To evaluate the level and effectiveness of the requirements for the deposit policy in the development strategy of the bank, and to develop a system of encouraging (or punishing) the activities of employees directly and indirectly related to this direction.

In our article, we will try to identify the main trends in the banking system of the Republic of Kazakhstan, which is considered one of the strategic partners of our country, by analyzing the activity of deposits of individuals and legal entities, as well as the current state of implementation of the deposit policy by Xalq Bank, which is the largest bank of the country.

### Research methodology

This article analyzes the current state of deposit policy implementation by commercial banks and identifies factors affecting the stability of the bank's resource base. Scientific abstraction, expert assessment, induction and deduction, comparison, systematic analysis methods were used in the analysis process.

### Analysis and results

According to the National Bank of the Republic of Kazakhstan,

By the end of 2018, 28 commercial banks and 7 organizations engaged in special types of banking operations were operating in the Republic. During 2017, 5 commercial banks ended their activities. Among them. During this period, "Kazinvestbank", "Delta Bank" and "Kazakh Bank" ceased their activities based on the decision of the relevant courts, while the licenses for conducting the activities of "Bank Astana" and "Eksimbank Kazakhstan" JSCs were returned by the National Bank. obtained [3].

**Table 1. Aggregate balance sheet dynamics of commercial banks of the Republic of Kazakhstan [4], (millions of tenge)**

Indicators	01.01.2015 year	01.01.2016 year	01.01.2017 year	01.01.2018 year	01.01.2019 year
Total balance	18 239 255	23 784 427	25 561 157	24 220 516	25 240 959
Year-end USD/coin exchange rate	182,35	339,47	333,29	332,33	384,20
Total balance denominated in US dollars	100 023	70 063	76 693	72 881	65 697
Loans and leases allocated to customers	10 360 923	13 764 673	13 662 143	11 034 734	11 632 369
Weight of credit transactions, %	56,8	57,9	53,4	45,5	46,1
Obligations to customers	11 430 551	15 829 587	17 471 404	16 779 346	17 164 724
Term savings	272 278	432 201	261 517	145 665	140 654
Total deposits	11 702 829	16 261 788	17 732 921	16 925 011	17 305 378
Weight of deposits, %	64,2	68,4	69,4	69,9	68,6
Ratio between deposits	112,9	118,1	129,8	153,4	148,8

and loans, %					
Total bank capital	2 359 682	2 494 486	2 844 859	3 091 036	3 017 554
Balance sheet weight of bank capital,%	12,9	10,8	11,2	12,7	11,9
Marketable securities	1 215 103	2 100 933	1 778 127	1 321 077	1 665 143

It can be seen from the table that by the end of 2018, the total balance in the banking sector of the Republic of Kazakhstan amounted to 25,240,959 million tenge, or 65,697 million U.S. dollars based on the exchange rate of the coin against the U.S. dollar at the end of the year. The total balance of banks increased by 7,001,704 million tenge or 138.4% compared to 2014. However, the balance expressed in US dollars decreased by 34,326 million US dollars compared to 2014.

During the period of analysis, the amount of deposits of individuals and legal entities attracted in national and foreign currency showed a tendency to increase. In particular, the volume of deposits attracted to the banking sector in 2014 was 11,702,829 million tenge, while at the end of 2018, the balance of deposit accounts was 17,305,378 million tenge. Accordingly, the weight of deposits in the aggregate balance increased from 64.2 percent in 2014 to 68.6 percent by 2018. The volume of deposits in foreign currency in the deposit portfolio of commercial banks had a tendency to increase. In particular, by the end of 2018, the weight of deposits of legal entities opened in US dollars amounted to 49.3 percent, which increased by 5.5 percentage points compared to 2017.

First, the fact that almost half of the attracted deposits are in US dollars has led to an increase in the level of dollarization in the deposit portfolio of the banking sector. This is mainly happening within the influence of macroeconomic factors (decrease in the national currency rate, inflationary expectations of the population and business entities, to some extent the influence of the Berliner effect (noted by the American scientist Joseph Sh. Berliner), etc.). In fact, it can cause serious risks in the banking system. In addition, the increase in the level of dollarization of deposits reduces the effectiveness of the interest channel, the transmission mechanism of the monetary policy implemented by central banks, while reducing the amount of money in the national currency. The increase in the level of dollarization of these deposits is reflected in the weakening of the effect of the refinancing rate (accounting rate) of the central bank on the interest rates set for deposits and loans;

secondly, the decrease of the inflation rate in Kazakhstan since 2017 (4.59% in 2014, 7.54% in 2015, 14.32% in 2016, 7.76% in 2017 and 7.01% in 2018), as well as , the reduction of the base rate of the National Bank introduced in 2015 (the refinancing rate at the end of 2014 was 12%, the base rate at the end of 2015 was 16%, 12% in 2016, 10.25% in 2017, 9.25% in 2018) of national currency deposits did not increase the level of attractiveness. The lack of stability in the national exchange rate, as well as the high level of fluctuations in the global economy (in particular, the rate of return of the strategic portfolio of the National Bank was -0.37 percent due to the increase in the base rate by the FZT in 2018) for the population and business entities in foreign currency remains a factor that increases attention. In this case, it is appropriate to implement effective systematic measures to strengthen trust in central banks, increase the efficiency of the interest channel of the monetary policy transmission mechanism, ensure the stability of the national currency rate, and develop the financial market;

In our opinion, the analysis of the assessment of the situation in the banking sector of Kazakhstan should be continued with a dynamic analysis of the situation that has arisen regarding the conduct of the deposit policy in a separate commercial bank. 647 service centers as the object of analysis, JSC, which has a 37.8 percent share in the deposit market, including 42.2 percent of time deposits and 42.2 percent of demand deposits. People's Bank of Kazakhstan" (hereinafter JSC "People's Bank") was acquired.

By the end of 2018, it increased to 1,065,646 million tenge. But the amount of private capital equivalent to US dollars is 2,606 million. It decreased from USD to USD 2,774 million.



In the bank's resource base, debt securities put into circulation along with deposits took the third place and amounted to 900,791 million tenge as of January 1, 2019. This indicator was equal to 311,009 million tenge in 2015. Debt funds attracted from internal and external sources (taking into account the balance of funds in representative accounts of partner banks) increased from 107,192 million tenge in 2015 to 168,379 million tenge in 2018. But their weight in the bank balance (1.9 percent in 2018) is not significant. However, their interest rates look very attractive. In 2018, interest rates on borrowed funds were in the annual range of 2-7 percent.

In our opinion, it is appropriate to analyze the structural structure of the bank's deposit portfolio before making certain conclusions about the current state of deposit policy in JSC Xalq Bank.

**Table 2. Dynamics of the structural structure of JSC "Khalq Bank" deposits in 2015-2018 [7], (million coins)**

Indicators	01.01.2015 year	01.01.2016 year	01.01.2017 year	01.01.2018 year	01.01.2019 year
Fixed deposits total	1 145 475	2 145 442	2 738 125	4 397 857	4 292 662
including					
- natural persons	764 935	1 276 609	1 470 536	2 691 886	2 918 070
- legal entities	380 810	868 833	1 267 589	1 705 971	1 374 592
Total current deposits	702 468	898 289	1 062 537	1 733 893	2 234 268
including					
- natural persons	173 264	196 821	244 912	413 363	477 520
- legal entities	529 204	701 468	837 625	1 321 530	1 756 748
Total deposits	1 848 213	3 043 731	3 820 662	6 131 750	6 526 930

From the data of Table 3, it can be seen that in the deposit portfolio of JSC "Khalq Bank" term deposits of legal entities and individuals occupy the main place and have a constant growth trend. In particular, at the end of 2014, the total volume of term deposits was 1,145,475 million tenge, of which deposits of individuals made up 764,935 million tenge (66.7 percent), by 2019, the volume of this type of deposits was 4,292,662 million. 2,918,070 million tang (67.9 percent) of term deposits of individuals. At the end of 2018, the share of time deposits in total deposits was equal to 65.8% and increased by 3.9 percentage points compared to 2014.

Based on the results of the above analysis, it is possible to note the following factors characteristic of the banking system of Kazakhstan and individual banks:

- the increase in the level of "dollarization" of deposits accumulated in the banking sector, being one of the factors reducing the effectiveness of the monetary policy of the central bank, as well as increasing the level of global and currency risks that cannot be controlled by commercial banks. At the moment, the lack of certain stability in the exchange rate of the national currency against the main foreign currencies leads to priority being given to foreign currencies by the population and business entities when choosing a deposit currency;
- the increase in the weight of term deposits in the composition of deposits indicates the level of confidence of the population and business entities in the banking system. The increase in the volume of time deposits opened in commercial banks has a positive effect on the state of financial stability, expanding the crediting capabilities of banks. At the same time, the increase in the ratio between deposits and loans reduces external factors. This, in turn, has a positive significance in the implementation of national economic development programs.

### Conclusions and suggestions.

In developing the deposit strategy of commercial banks and implementing it, it is important to observe the indicators describing the stability of the deposit base of commercial banks.

Commercial banks of the Republic of Uzbekistan should take the following actions in order to attract idle funds to deposit operations and further strengthen the resource base of banks:

- ✓ In order to eliminate the disproportions that have arisen in the bank's deposit policy due to giving priority to time deposits, as well as to increase their weight in the resource base by attracting customers' free money to the bank's plastic cards, it is necessary to abandon the practice of giving priority to separately received deposits in the deposit policy, as well as introducing a mechanism for maintaining the balance between them, and creating a system of "internal financial circulation" when making payments using plastic cards.
- ✓ to significantly increase the amount of deposits attracted from legal entities and individuals;
- ✓ taking steps to gradually ensure the participation of foreign investors in the authorized capital of all commercial banks established in the form of joint-stock companies;
- ✓ attraction of free funds of the population and business entities to long-term deposits and development of innovative deposit programs;

The analysis of the deposit portfolio of the commercial banks of the CIS countries shows that there is an increasing trend of "dollarization" of deposits and the absence of certain stability in the exchange rate of the national currency against the main foreign currencies, as well as foreign currencies are given priority when choosing a deposit currency by the population and business entities;

the increase in the level of dollarization of deposits reduces the effectiveness of the interest channel of the transmission mechanism of the monetary policy implemented by the Central Bank, reducing the amount of money in the national currency. This negative situation is reflected in the weakening of the effect of the refinancing rate of the Central Bank on the interest rates set for deposits and loans;

as a result of the research conducted in the direction of improving the deposit policy of commercial banks, a number of problems in the field were identified and a complex of scientific proposals and practical recommendations was developed to eliminate them. In particular, the absence of an integral connection between the deposit policy and the tasks defined in the strategy for the development of banking activities, the absence of combined services in the internal bank regulatory documents on the implementation of the deposit policy, shortcomings in the introduction of innovative deposit types that are considered relevant in the era of the coronavirus pandemic into banking activities, Problems such as the lack of full use of securities circulation opportunities in strengthening the deposit base of banks have a negative impact on the effectiveness of the deposit policy conducted by banks. In addition to proposals for eliminating the mentioned problems, a new structural structure of the deposit policy and a mechanism for its practical implementation have been developed. In addition, in order to evaluate the effectiveness of the deposit policy, a system of indicators aimed at ensuring the stability of funds kept in deposit accounts is proposed.

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