



REGULATORY AND LEGAL FRAMEWORK FOR THE DEVELOPMENT OF FINANCIAL SERVICES OF NON-BANK CREDIT INSTITUTIONS IN UZBEKISTAN

Raimov Khurshid Mukhtorovich

Independent researcher at Tashkent State University of Economics
raimovxurshid870@gmail.com

| Article history: | | Abstract: |
|------------------|----------------------------|---|
| Received: | 6 th April 2024 | This article describes the methodological aspects and regulatory framework for improving the quality of financial services of non-bank credit institutions in Uzbekistan. The author's approaches and proposals to overcome them are also presented, as well as existing problems related to the prospect that non-bank credit institutions will contribute to economic development by providing access to financing for those who cannot receive it from traditional banks, and that entrepreneurship support, which is becoming important in the development of small and medium-sized businesses, It will serve to create jobs and improve the lives of the population |
| Accepted: | 7 th May 2024 | |

Keywords: foreign countries, non-bank credit organizations, Microfinance, services of non-bank credit organizations, margin, loan, deposit, interest income and expenses, interest-free income and expenses.

INTRODUCTION. In recent years, a number of measures aimed at increasing the popularity of financial services and satisfying the population's need for basic financial services have been implemented in our country. In particular, in order to create favorable conditions for the further development of the field of microfinancing, the decision of the head of our state dated July 23, 2019 "On measures to increase the popularity of microfinance services" No. PQ-4400 was adopted. In accordance with this decision, the range of services provided by non-bank credit organizations has been expanded and the volume of microfinance services has been increased. Also, non-bank credit organizations do not have the right to: "direct production, insurance, as well as trade activities, excluding microfinance organizations providing services related to Islamic financing and other activities not provided for in this Law; to attract deposits (deposits) from individuals and legal entities; from participants (shareholders) who are natural persons, to attract debt funds in an amount that exceeds the amount of the contribution to the charter fund (authorized capital) or the nominal value of the shares owned by them, excluding the attraction of debt funds in the form of bonds" [1].

One of the main features of non-bank credit organizations is that they cannot accept deposits from the public, which is different from banks. However, the role of non-bank credit organizations in the economy is very important. They offer a variety of financial products and services that can meet the needs of individuals, businesses and other sectors of the economy.

At the same time, measures to protect the rights of consumers of services of non-bank credit organizations are being strengthened. In particular, at the legislative level, the requirements to prohibit unilateral changes or additions to the information of non-bank credit organizations about the services they provide, the terms of contracts, as well as the financial transactions of consumers non-disclosure obligations are being developed.

ANALYSIS OF LITERATURE ON THE TOPIC. In the process of globalization, the theoretical and practical issues of the experience of foreign countries in improving the quality of financial services of non-bank credit organizations are one of the topical topics widely studied by foreign economists.

In this regard, Enrico Perotti is an Italian economist specializing in research on financial institutions, including non-bank credit institutions. Highlights of his research:

The role of non-bank credit institutions in the financial system: Enrico Percoco examined how non-bank credit organizations interact with banks and other financial institutions and how they occupy a place in the financial system as a whole. Regulation of non-bank credit organizations: His research includes analysis of the functions and regulation of non-bank financial institutions, which is important in ensuring the stability of the financial system. Also, his research examines the conditions of credit provided by non-bank credit organizations and their credit markets. including the analysis of trade [2].

American economist Douglas W. Diamond is the author of important studies in the field of finance and



banking, and his work provides valuable scientific information about non-bank credit institutions and their role in the financial system. In particular, he studied how non-bank credit organizations operate, what services they provide and what risks they may face, as well as systemic risks associated with the activities of non-bank credit organizations [3].

The well-known American economist Ross Levin specializes in research on financial institutions and their role in capitalist development. His research covers various aspects of the financial system and may also apply to non-bank credit organizations. Highlights of his research include: innovation in the non-banking financial sector and its impact on the development of financial markets and services, and how non-banking financial institutions can increase access to finance for the wider population. He also considered the importance of non-bank credit organizations in supporting microfinance and young business development [4].

The research of the well-known French economist Jean-Charles Roche analyzed the role and effectiveness of the regulation of non-bank credit organizations, as well as financial control issues and compliance measures [5].

American economist Douglas Arnold studied the role of non-bank credit organizations in the financial system and their impact on the economy. Douglas Arnold has conducted extensive research to understand how non-bank lenders can improve access to credit for small businesses and low-income households. He found out that these organizations play an important role in providing financial services to people who do not have access to traditional banks. Also, after studying the impact of non-bank credit institutions on economic growth, it was concluded that the development of such organizations helps to increase the possibility of obtaining loans for enterprises and the rapid development of small business.

Douglas Arnold actively helped to create a favorable environment for the development of non-bank credit organizations. He believed that the state should support their activities and create conditions for the growth of this industry. He also emphasized the importance of regulating and controlling non-bank credit organizations in order to prevent possible risks and fraud. In general, Douglas Arnold's research helped to expand the understanding of the role of non-bank credit institutions in the financial system and increase awareness of the importance of their development in economic growth [6].

Richard Scott Baker is an economics professor at Stanford University who has conducted research on the behavior of non-bank credit institutions, their competitiveness and role in the credit market. Richard

Scott Baker has a different approach to non-bank credit organizations. He recognizes that these organizations play an important role in the modern economy by providing access to credit to those who may be repaid by traditional banks.

Baker calls for more regulation of non-bank lenders to protect consumer interests and ensure the stability of the financial system. In addition, it emphasizes the need to develop alternative options for the use of financial services for those who are refused these services by traditional banks. Baker also points to the problem of high interest rates associated with non-bank lending institutions. It proposes stricter rules on interest rates and loan terms to protect consumers from abuse by these institutions [7].

Non-bank credit organizations play an important role in supporting economic development by expanding financial opportunities to society. Through their various services, they can support sustainable economic development and help increase financing opportunities for various segments of society.

RESEARCH METHODOLOGY. In the preparation of this article, a comparative and critical analysis of the formality of regulatory and legal documents, used literature and Internet information, scientific and theoretical views of economists on the subject was made. Systematic analysis, generalization, abstract-logical thinking, and statistical methods were used during the study of the topic.

ANALYSIS AND RESULTS. Within the framework of the implementation of the Decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" No. PF-5992, with the support of the World Bank, taking into account the best foreign experience, generally recognized norms and standards, 16 of 2022 In April, Law No. 765 of the President of the Republic of Uzbekistan "On Non-Bank Credit Organizations and Microfinancing Activities" was adopted.

In accordance with the law, the types of non-bank credit organizations, the list of provided services, the requirements for the organization of non-bank credit organizations, including the organizational and legal form, founders, executives, authorized capital, as well as the procedure for coordinating and controlling their activities, were developed. replacing the existing licensing processes with the account registration procedure of non-bank credit organizations, the list of documents required for account registration, their review and the procedure for making relevant decisions are being determined. At the same time, it was determined that the activity of the pawnshop will be carried out after sending a notification about the start of its activity to the Central Bank.



In addition, based on the law, a mechanism of proportional regulation and control of the activities of non-bank credit organizations based on the risk of their activities is introduced, as well as the powers of the Central Bank to perform its functions in this direction are defined.

At the same time, measures to protect the rights of consumers of services of non-bank credit organizations have been strengthened in the provisions provided by the law. In particular, at the legislative level, obligations of non-bank credit organizations not to disclose information about the services they provide, prohibition of unilateral changes or additions to the terms of contracts, as well as information about financial transactions of consumers have been established.

Own funds of non-bank credit organizations, loans from banks, grants, as well as borrowed funds from their participants (shareholders) are sources of funds related to the activities of non-bank credit organizations.

In case of compliance with established prudential regulations, microfinance organizations, as well as mortgage refinancing organizations, have the right to carry out the activities of mortgage refinancing organizations at the expense of the following funds, in addition to the specified funds:

- funds received from placement of corporate bonds;
- Funds of the State budget and state funds of the Republic of Uzbekistan;
- loan funds of international financial institutions, foreign governmental financial organizations, non-governmental non-profit organizations, including foreign non-governmental non-profit organizations;
- loan funds received from legal entities, including foreign legal entities;
- funds received from the placement of securities in accordance with Islamic financing - for microfinance organizations;
- funds received from the placement of mortgage securities - for mortgage refinancing organizations.

Non-bank credit organizations may establish associations and other associations for the purpose of protecting their common interests and implementing joint programs, if their organization does not conflict with legal requirements.

Associations and other associations of non-bank credit organizations shall notify the Central Bank of this within ten days after their registration by the authorized state body or a decision on liquidation.

Table 1.

Sources of funds for the activities of non-bank credit organizations ¹

| № | Sources of funds |
|----|--|
| 1. | Funds received from placement of corporate bonds |
| 2. | Funds of the State budget and state funds of the Republic of Uzbekistan |
| 3. | Debt funds of international financial institutions, foreign governmental financial organizations, non-governmental non-profit organizations, including foreign non-governmental non-profit organizations |
| 4. | Loans received from legal entities, including foreign legal entities |
| 5. | Funds received from the placement of securities in accordance with Islamic financing - for microfinance organizations |
| 6. | Funds received from the placement of mortgage securities - for mortgage refinancing organizations |

Non-bank credit organizations may establish associations and other associations for the purpose of protecting their common interests and implementing joint programs, if their organization does not conflict with legal requirements. Associations and other associations of non-bank credit organizations shall notify the Central Bank of this within ten days after their registration by the authorized state body or a decision on liquidation.

Legal and natural persons who are residents and non-residents of the Republic of Uzbekistan can be the founders and participants (shareholders) of a non-bank credit organization.

The following persons may not directly or indirectly own shares in the authorized fund (authorized capital) of a non-bank credit organization:

- natural persons who are residents of a country or territory that provides a preferential tax regime and (or) does not provide for the disclosure of the identity of the beneficial owner and the provision of information on financial transactions and (or) living in this country or territory;
- legal entities registered in a country or territory that provides a preferential tax regime and (or) does not provide for the disclosure of the identity of the beneficiary owner and the provision of information on financial transactions, or is a resident of this country or territory, lives in it or legal entities with a member of the registered management body;
- persons recognized as bankrupt;
- political parties, trade unions, religious organizations;
- state bodies, with the exception of cases provided for by law;

¹ Author's creation



• Other non-bank credit organizations operating in the territory of the Republic of Uzbekistan.

A person who owns a share in the authorized fund (authorized capital) of a non-bank credit organization through another person he controls is a person who indirectly owns a share in the authorized fund (authorized capital) of a non-bank credit organization. Control is an interaction between individuals that meets one of the following criteria:

• ownership by a person of a dominant share in the authorized fund (authorized capital) of a legal entity;

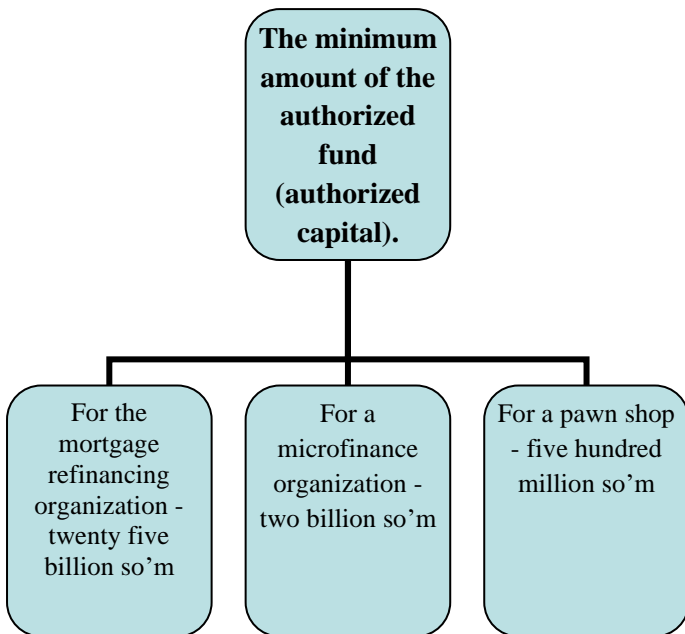


Figure 1. The amount of the authorized fund of the non-bank credit organization ²

The activity of a microfinance organization or a mortgage refinancing organization is carried out after the account is registered by entering the relevant information about it into the register of organizations performing the activities of a microfinance organization or into the register of mortgage refinancing organizations.

Pawnshop activity is carried out after confirmation by the Central Bank of the notification of the commencement of pawnshop activity. Confirmation of the receipt of the notice is made by entering the pawnshop in the register of pawnshops.

The pawnbroker must ensure compliance of the cash rooms with the requirements of the Central Bank before sending the notification about the start of its activity. Instead of fulfilling this requirement, the

• the right of a person who is a participant (shareholder) to appoint or replace the majority of members of the management bodies of this legal entity;

• the ability of a person to influence the activity of a legal entity in accordance with the contract concluded with it and (or) the provisions of its charter.

A natural person who directly or indirectly owns or controls a legal entity is the beneficial owner of the legal entity.

pawnshop has the right to provide a comprehensive insurance policy for its activities.

A microfinance organization is obliged to ensure their integrity, integrity and security while carrying out activities with cash and valuables.

The activity of a microfinance organization, mortgage refinancing organization, which is carried out before they are registered, as well as the activity of a pawnshop, which is carried out before the Central Bank confirms the notification of the commencement of pawnshop activity, is considered illegal. The income received as a result of such activity is withdrawn to the State budget of the Republic of Uzbekistan.

State regulation and control of the activities of non-bank credit organizations is carried out by the Central Bank.

In order to regulate the activities of non-bank credit organizations, the Central Bank defines the following:

- the procedure for passing the authorization and notification procedures;
- minimum requirements for ensuring information security and cyber security of non-bank credit organizations;
- requirements for cash rooms of pawnshops;
- a special legal regime for testing new financial operations, technologies and services by non-bank credit organizations in a controlled limited environment (area of coverage, trial period, number and (or) volume of services and operations, number of consumers, etc.) ("regulatory sandbox");
- the procedure for performing the tasks of payment agent (subagent) or agent of banks, insurance and other financial organizations by microfinance organizations;
- procedure for providing services related to Islamic financing by microfinance organizations;
- requirements for classification and assessment of the quality of assets of microfinance organizations and mortgage refinancing organizations, formation of reserves against possible losses on assets based on their classification;

² Author's creation



- minimum requirements for the activities of microfinance organizations and pawnshops when interacting with consumers of their services;
- together with a specially authorized state body, determines internal control rules for combating money laundering, terrorist financing, and the financing of proliferation of weapons of mass destruction.

CONCLUSIONS AND SUGGESTIONS. In our opinion, non-bank credit organizations can improve the efficiency of the retail payment system by increasing competition, providing new or improved payment options, and providing payment services to people who previously did not have access to them.

At the same time, the participation of non-bank credit organizations in payments can lead to high risks in the retail payment system. In this regard, the issues of standardization and operational compatibility of the internal control system over non-bank credit organizations are of great importance in order to respond to the changes taking place in the modern retail payments market in the conditions of wide use of banking innovations.

Communication between banks and non-bank credit organizations about changes in their regulatory and control tools, common ideas about the nature of risks arising from the use of new, more complex business technologies. Agreements to address differences in achievement and regulatory approaches are essential.

The proposed classification of non-bank credit organizations defines only a general basis and requires detailed improvement and adaptation based on the characteristics of the domestic payment services market. It is appropriate to consider the use of foreign experience of classification and regulation of non-bank credit organizations compared to similar organizations in our national economy.

REFERENCES

1. Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025"
2. Decision PQ-4400 of the President of the Republic of Uzbekistan dated July 23, 2019 "On measures to increase the popularity of microfinance services"
3. Levine R. Finance and growth: theory and evidence //Handbook of economic growth. – 2005. – T. 1. – С. 865-934.
4. Claessens S., Perotti E. Finance and inequality: Channels and evidence //Journal of comparative Economics. – 2007. – T. 35. – №. 4. – С. 748-773.
5. DW Diamond. Monitoring and reputation: The choice between bank loans and directly placed debt - Journal of political Economy, 1991 y.
6. Роше Ж. А. Н. Ш. Почему так много банковских кризисов? //Проблемы теории и практики управления. – 2005. – №. 2. – С. 27-31.
7. Arnold D. "Небанковские кредитные организации: особенности создания и деятельности" Общество и право. – 2014. – №. 1 (47). – С. 304-305.
8. Competition in the markets of non-bank financial services / Ed. by . Richard Scott Baker. – М., 2002.
9. <https://ptsmi.co.id/non-bank-financial-institutions-in-indonesia>