

ONLINE BANKING AND IMPROVEMENT OF DEVELOPMENT DIRECTIONS OF BANKS IN AZERBAIJAN IN MODERN WORLD

E.M. Sadigov, Ph.D. in Economics, associate professor,

E.H. Eyvazli, doctorant, 2nd year,

Azerbaijan state university of economics, Baku

Actions and activities related to the online banking system in Azerbaijan and the direction of their development in modern times were affected by electronics, digital development trends, as well as Internet and mobile banking. Information is provided on the need to accelerate the digitalization process during the pandemic and the steps taken by the state along this path, about the problems that may arise, and how to fix these problems. At present, it is necessary to continue improving the efficiency of bank management, increasing the transparency of information on the financial condition of banks, including improving the methodology for assessing the quality of bank management by state bodies.

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Online banking is improving in all fields of economy in many countries of the world in modern world. Banks, which do not have any branch in any geographical area, are operating in developed countries, as well as in some of developing ones. Conduction of decision-making in banking field by analysis mechanisms, algorithms applied to the computers, has also spread enough. Innovations of online banking to entrepreneurship facilities, physical entities, banks, and in general, the whole economy are considered as advantages of it.

There are two main reasons for strengthening online banking in Azerbaijan, one of them is an environment of competitiveness, another one is increase in state support and demands for digitalization. Acceptance of necessity of electronicization by both public and private sectors and taking relevant steps in this direction are one of main purposes. However, regular maintenance of risks under control, as well as elimination of certain barriers for digitalization are very significant besides increase of speed. In the current period, implementation of payments are not realized directly in some banks, but after conduction of manual or semi-automatically checks within bank. One of main reasons for it is implementation of control measures on several transactions, especially washing dirty money and realization of payments only after it.

Online banking has specific risky sides as well. Severe competitiveness in this field will promote application of new electronic products in the banking field. Rapid digitalization coming from both competitiveness and other demands may lead to presentation of more risky products in the banking field. As a result of it, banks may face very sharp danger for information safety. Taking necessary measures for prevention of cyber dangers in the banking field is not an issue which can be resolved within a short period of time, in reality.

Trends of electronicization, digital progress have strengthened in the Republic of Azerbaijan over the recent period, especially starting from 2018. Major part of banks operating in our country have switched to internet and online banking quickly and Order of President "On State Program for expansion of digital payment in the Republic of Azerbaijan in 2018-2020" dated September 26, 2018, was confirmed for further expansion of scope of use of digital payments and measures considered

in the document are implemented by Central Bank and relevant public bodies. As a result, internet banking was suggested by 27 of 30 banks operating in our country in 2018, while mobile banking services by 25 of them. As scope and impact of digital payment systems increase, several changes are being observed in banking services. Expansion of online banking pushes banks to change traditional banking approach and to form new operational models.

According to information as of July 1, 2019, number of payment cards along the country increased by 14,7% in comparison with the corresponding period of 2018, exceeded 7 million. Number of POS terminals installed by banks in the first half of 2019, was 63,396, of which 25,747 were contactless POS terminals. As compared to the same period of 2018, number of POS terminals increased by 23.5% (4,904). Volume of transactions via the payment cards in the mentioned period made up AZN 9 bln. 532 mln. In the first half of 2019, cashless transactions via payment cards made up 20%, which was 59% more in comparison with the relevant period of 2018. Restrictions regarding COVID-19 pandemic since 2020 promoted digital transformation process in all directions especially. Currently, banks offer traditional services- management of accounts, transfer of funds, payments, etc. through online banking services. Main successes achieved in this direction over the recent five years are following:

- Presentation of online banking services by all banks of the country;
- Creation an opportunity for implementation of different communal and other payments via online banking services by integrating Government Payment Portal or other portals;
- Establishment of an opportunity to open an online account in banks in accordance with requirements of legislation;
- Conduction of major part of circulation of transactions in different banks through online banking (hesitating between 10-60%);
- Increase in cashless payment circulation in large volume;
- Presentation of opportunity of joining VAT refund projects to two banks and successful application of the project in these banks.

Adoption of a new strategy regarding digital payments in the country is considered in coming period and its initial draft has been developed. I think, obtaining bank services via online banking systems in the short-period strategic period will be on average 50% over the country. At the same time, digitalization processes, which are both supported by state and made inevitable by competitive and pandemic condition, will accelerate and it will cause decrease of “shadow economy” much more, physical and legal entities’ use of banking services. After provision of these issues, the next step will already be establishment of a bank which does not have a branch. I think that banks without branches- banks which deliver service in online regime only will be created (or a part of current banks will be transformed to this form) in Azerbaijan during coming 10 years, as level of digitalization increases, banking sector will further contribute to the country economy.

In the end, it can be concluded that quick improvement of online banking in our country today is satisfactory. However, risks and barriers for the next period should be absolutely taken into consideration by accepting current realities. During such kind of approach, online progress will yield positive results in coming future and most services in the banking sector will continue the path of transformation into a service, regulated by not people, but technology, and controlled by algorithms in computers more quickly.

Banks conducting very important functions in economic life now are organizations which are parts of composition of modern economic system. Improvement and diversification of economic activity has caused increase in number of banks and their specialization. By lending their savings to those who need credit, people not only prevent monetary passivity, but also

create economic activity by creating money. From this point of view, banks are not coincidental commercial organizations, are organizations which deliver public services and impact economic activity via these services significantly. We can say that it is one of the most important structures of the financial system in the modern world for banking sector. A bank is an enterprise or organization that accepts and lends money with interest, registers credit transactions, ensures the security of monetary documents, and carries out entrepreneurial activities outside of its own activities. The method of relating the credit system to economic relations (here primarily banks) as a subject is based on the functions it performs. In modern economic literature, these functions are divided into five groups as a rule:

- Provision of accounting and payment;
- Transformation of assets;
- Management of risks;
- Development of information flows and monitoring of debtors;
- Process of relocation of capital (resources).

It should be noted that drastic changes have been observed in functions of both banks and their main rivals - financial institutions, broker firms and insurance companies over recent decades. Financial companies presented by us are trying to approach banks in terms of their services. At the same time, banks deliver broker and insurance services and place their funds in shared investment funds. Objective basis of implementation of banking services by financial institutions is avoiding regulation of severe legislation in different degrees. [1] A special stage of development of banking work has been middle of the 19th century. Namely during the period, several European countries (especially Belgium and France) switched from the phase without risk to active lending of industrial and trade enterprises. [2] Although a term of financial mediators can not conduct accounting of loans as it is assessed by governments and economists, can also be used to refer to social benefit banks created by providing stimulus to large economies. Savings are applied regarding application of terms for the significant weight of the bank in the financial sector, political factors which are necessary for system's continuation its activity robustly, sensitive approach to performance, income and sustainability issues of banks, appropriate work. [3] Banking system describes structure of bank society acting in different fields and their connections with one another. Sometimes the system and communication exist without intervention of state voluntarily. Sometimes state establish a system on basis of laws and regulates relations among different banks. There are many bodies operating as moderators among capital market and banks as a result of financial regulation. As a result, financial markets are deepening. Deepening of financial situation can be determined with rate of funds in financial sector to real sector.

Directions of resolve of activity problems of banks and increase in effectiveness in Azerbaijan

One of serious problems of banking system of Azerbaijan is high level of risk and low level of adequacy of bank capital. Central Bank always pays great attention to both level of different credit organizations and current problems in the level of total banking system, especially problems of management of risks, which are becoming more complex as time passes. One of serious results of crisis trends caused by sharp decrease in oil prices on world market has been realization of a part of risks, gathered during intensive economic growth and credit expansion. Thus, level of loan risks in banking sector has been high. First of all, this was manifested in a decrease in the quality of assets, an increase in overdue debts, including a sharp increase in the specific weight of hopeless and problem loans in the bank's total loan portfolio. As the danger of crisis increases, several banks

especially the latest entrepreneurs (shareholders and insiders) faced high concentration of high loan risks on business loans given to customers. It has been main reason for aggravation of their financial situation. It should be noted within the framework of the management of risks in banks and application of adequacy of capital banking system of the country has switched from Basel-I, which is an international standard for assessment of capital adequacy of banking system of the country, to Basel-II, which is more complex in terms of assessment of capital adequacy.

Accounting methodology.

Both of these documents define the minimum requirements for the bank's capital. But, primarily, it is a simple and general method of calculating adequacy for banks. The second option involves more sophisticated assessment methods that allow banks to meet capital adequacy requirements in accordance with their risk management systems. This allows them to choose different pricing policies and manage returns in line with the risks that banks take. One of the main distinguishing features of Basel-I is taking into consideration all types of bank risks, as well as operational risk which is little studied in experience of Azerbaijan banks, while assessing adequacy of bank's capital. [4] Another problem of the banking system of Azerbaijan is the imperfection of the legislative framework in the field of banking, banking supervision and regulation. In modern times, the role of the supervisory body as a means of identifying the problems of the country's banking system is increasing. Thus, effectiveness of control function of state body regulating bank activity is an important factor is provision of sustainability of banks, banking sector, and country economy in total. Financial Markets Control Chamber has been conducting direct control on activity of banks of the Republic of Azerbaijan since 2015. Central Bank acts in this process as a regulator mostly. Note that the experience is applied in several countries, passes through transformation process, such as Russia, Kazakhstan, and others. But in these countries, after a certain period, these functions were returned to the main regulatory body, that is, the central banks of those countries. This was due to the need for central banks to move from formal control methods to more efficient and capacious control methods. This experience is specific for banking systems of developed countries and related to application of international standards on capital adequacy and increase in effectiveness of control on banking activity. The transition to the principles of "Comprehensive and effective control" took place with the development of the banking system and its need for radical transformation in accordance with the principles of "formal control". We think that application of this or that control regime on Azerbaijan's banking system and application of any principles can be realized by using curator institution as a mediator among banks and regulative bodies. It is clear that the number of banks opened to curatorship institutions will be small at the initial stage, and relations between curators and bank managers will be complicated. As a result, the application process of the curatorial institutions will require the development and implementation of the appropriate legal framework, as well as a certain amount of time. Problem of quality of banking management in Azerbaijan's banking sector is very topical now. Dynamic development of banking system of the country makes necessary formation of corporative management system meeting international demands of banking business. Increase of effectiveness of banking management, increase of transparency of information about financial situation of bank, as well as improvement of assessment methodology of banking management quality by public bodies controlling banking activity should be continued now.

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СОВЕРШЕНСТВОВАНИЕ ОНЛАЙН БАНКОВСКОЙ СИСТЕМЫ И НАПРАВЛЕНИЯ РАЗВИТИЯ БАНКОВ АЗЕРБАЙДЖАНА В СОВРЕМЕННОЕ ВРЕМЯ

Действия и мероприятия, связанные с онлайн банковской системой в Азербайджане и направления их развития в современное время, были затронуты электроника, тенденции цифрового развития, а также интернет и мобильный банкинг. Приведена информация о необходимости ускорения процесса цифровизации в период пандемии и шагах, предпринятых государством на этом пути, о проблемах, которые могут возникнуть, и о способах устранения этих проблем. В настоящее время следует продолжить повышение эффективности управления банками повышение прозрачности информации о финансовом состоянии банков, в том числе совершенствование методики оценки качества управления банками государственных органов.

Ключевые слова: Азербайджан, финансы, цифровой банкинг, платежная система.