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## THE BANKING MODEL OF THE FINANCIAL MARKET, ITS CHARACTERISTICS, AND DIVIDEND RELATIONS

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### Abstract

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**Keywords:** *a model of the financial market, euro continental model, banks insider activity, dividends, dividend policy.*

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*This article discusses the euro continental (banking) model of the financial market, its features, the possibilities of applying the banking model in the financial market of the country, as well as the role of the relationship of dividends in this model.*

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### INTRODUCTION

The country is carrying out large-scale reforms aimed at ensuring economic growth, increasing competitiveness, deepening the process of modernization and diversification of the economy, and creating favorable conditions for attracting investment, especially in the basic and structural components of the economy. "At the same time, further reduction of state involvement in the economy, development of the stock market, and creation of a healthy competitive environment are the basis for an active investment policy, fast and sustainable development of all spheres of society and the state. At the same time, the concentration of state asset management, anti-monopoly regulation, and securities market regulation functions within a single state body have led to an accumulation of systemic problems..."<sup>1</sup>. The accumulation of systemic problems, the growing needs of the real sector of the economy, and the deepening of social change have led to further development and improvement of the financial market, including the formation of new segments, expanding the range of tools used, creating and developing new financial institutions. Ensuring transparency requires the involvement of foreign investors and the general public and the modernization of regulatory documents. Indeed, the State Program for the Implementation of the Development Strategy of New Uzbekistan for 2022-2026 states "to determine the measures to be taken in 2023 to ensure the implementation of the capital market development program for 2021-2023. In this case, the emphasis is on the development of capital market infrastructure"<sup>2</sup>, which shows the importance of the topic we are studying.

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<sup>1</sup> Decree of the President of the Republic of Uzbekistan No. PF-5630 of January 14, 2019. <https://lex.uz/docs/-4160392>

<sup>2</sup> Decree of the President of the Republic of Uzbekistan "On the Development Strategy of New Uzbekistan for 2022-2026", No. PF-60 dated 28.01.2022.

## MATERIALS AND METHODS

The models of the financial market and the scientific and methodological aspects of their use have been studied by many foreign and Uzbek scholars, including O. Grabbe, E.J. Dollana, Ross, Stephen A, Eugene Brigham F., Ehrhardt Michael C., V.V. Uglinskaya, M.G. Khorunjin, Mishkin, S. Frederic, I. Butikov, M. Khamidulin, S.E. Elmirzayev, Vahobov AV, Khajibakiyev Sh.H., Muminov N.G. and so on. The works of D. Gross, who studied the development trends of the European capital market based on comparative statistical research, Doerig<sup>3</sup>, who analyzed several features of the continental model of the financial market and universal types of banking institutions, J. Soros, who identified some modern trends in world financial markets, also of particular importance are studies devoted to the analysis of the world financial, monetary system and financial markets of foreign countries, as well as certain aspects of the problems associated with international and national capital markets of such scientists as M.Yu.Alekseev, V.F.Jelezova, L.N.Krasavina, V.T.Musatov, V.M.Usoskin, G.P.Chernikov, V.N.Shenaev and others.

The research used economic-statistical, monographic research, comparative analysis, sample observation, comparisons, and other research methods to examine the methodological aspects of studying the possibility of using the banking model of the financial market in the national capital market.

## RESULTS AND DISCUSSION

It is known that financial markets emerged as a mechanism of interaction between investors (depositors) and users of capital through the banking system. Over time, the institutional structure of financial markets has changed, bringing together new financial institutions and instruments. The efficiency of interaction between investors and issuers depends primarily on the state of financial instruments and institutions in use, organizational and technological conditions, the level of development of legislation in the financial system, and the role of regulators. The ability of financial markets to attract capital is primarily determined by their institutional structure. In general, the financial market model is a type of market organization, depending on the role of different financial intermediaries and the importance of different methods of financing the economy<sup>4</sup>. In other words, a financial market model is a type of market organization that depends on different ways of financing the economy and the importance of the role of different financial intermediaries. The current global practice distinguishes between Anglo-American (non-banking), Euro-continental (banking), Islamic and mixed (hybrid) financial market models.

The Eurocontinental (German, insider, bank) model of financial market organization focuses on the banking system. This type of financial market is based on universal commercial banks that hold core funds in deposits and participate in these banks as buyers of shares and bonds of companies. This financial market model is widespread in continental Europe (especially in Germany). The main aspects of this model are as follows (Table 1):

- Commercial banks act as financial intermediaries (brokers, dealers);
- Debt financing of companies through lending mechanisms prevails;
- A large share of the property is in the hands of a group of individuals, with a high share of state and large corporate structures - "stakeholder capitalism";

<sup>3</sup> Doerig Hans-Ulrich (Dr.) Universalbank Bank Typus der Futur Vorwärts- und Überlebensstrategien für Europas Finanzdienstleister. - Verlag Paul Haupt Bern, 1997.

<sup>4</sup> Элмирзаев С.Э., Шеркузиёва Н.А. Молия бозори моделлари ва уларда дивидендлар билан боғлиқ муносабатлар. // "Молия" илмий журнали. №2, 5-15 бетлар, 2019 йил.

- Additional placement of securities will be of a closed nature;
- Control packages and vertical participation are of great importance in the structure of share capital;
- A small number of retail shareholders (less than 1% of the capital) and collective investment institutions in the property structure that represent their interests.

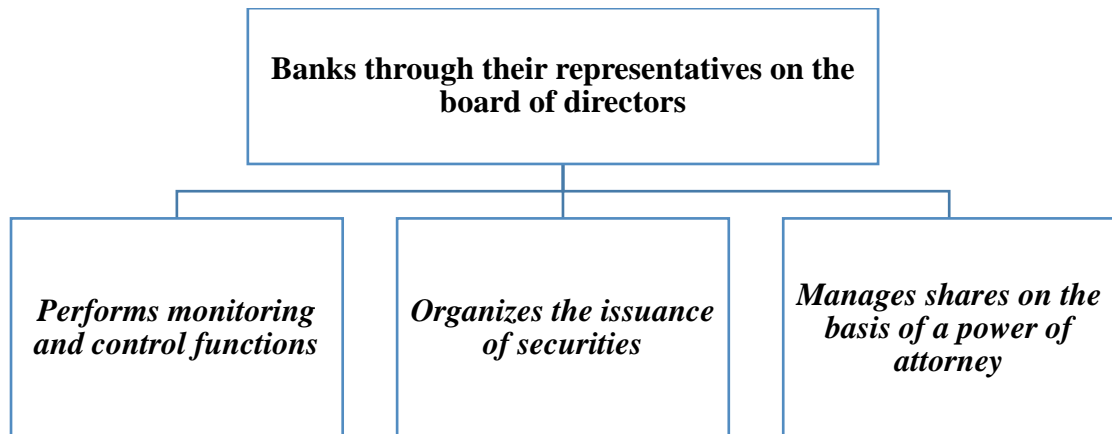
*Table 1.***Features of the Euro-continental (banking) model<sup>5</sup>**

<b>Countries</b>	Germany, France, Belgium
<b>Source of investment</b>	The main source of investment in bank loans
<b>Stock market instruments</b>	The stock market is similarly developed, but the ratio of stock market turnover and capitalization to GDP is lower than in countries based on the Anglo-American model. The size of the bond market is much smaller than the volume of commercial loans. Another aspect is the relative simplicity of financial products.
<b>Stock market institutions</b>	In the stock market, large banks are often involved as traders, and as a rule, they are universal and can carry out all types of transactions. If we look at the role of collective investment institutions (investment funds) in the market, we can see that their place is less than the Anglo-American model.
<b>Property structure</b>	In the German model, the share capital of corporations is more consolidated. The share of small investors and their collective investment institutions is not so high, while the majority of property owners are large majority investors. The majority of portfolio holders typically include government agencies and large banking groups.
<b>Actions and distribution of dividends requiring shareholder consent</b>	This model requires the consent of shareholders in the distribution of income, ratification of decisions of the Board of Directors, financial matters, restructuring, and selection of governing bodies.

This model is characterized by the fact that the relationships between corporations are coordinated by all stakeholders - shareholders, financial structures, employees, and the state. In Germany in particular, shareholder capital is much more centralized than in several other countries. There is a practice of several large legal entities - banks and corporations - mutually owning the share capital. Financial institutions control up to 70 percent of the shares. The role of external shareholders and individual investors is minimal.

They exercise control and supervisory functions through their representatives on the banks' boards of directors, organize the issue of securities, and manage shares by proxy. This aspect is the main feature of the German model (Figure 1)

<sup>5</sup> Элмирзаев С.Э., Шеркузиева Н.А. Молия бозори моделлари ва уларда дивидендлар билан боғлиқ муносабатлар. // “Молия” илмий журнали. №2, 5-15 бетлар, 2019 йил.



**Figure 1. Bank participation in the Euro continental (German) model <sup>6</sup>**

Due to the low level of development of the capital market, banks are considered to be the main source of external financing for corporations. Most shareholders buy shares through banks that also act as depositories. Based on the materials of corporations, banks send their proposals and recommendations for the development of corporate activities to shareholders. If the Shareholders have no objections to the proposals and recommendations, the banks will vote on the issue in their opinion. Therefore, in the management of corporations, banks take economic and moral responsibility.

In the German model, the board of directors consists of a bicameral body, a supervisory board consisting of independent directors, and an executive body consisting of managers. There is a clear division of functions, powers, and responsibilities between them. The tracking function is separated from the decision-making function.

The existence of a bicameral board of directors does not guarantee the protection of the interests of outsiders, so the board is often seen as a body subordinate to the chairman of the board, who acts as an advisor, rather than as a supervisor. In Germany, the main purpose of the board of directors is not to protect the interests of individual groups of shareholders, but to increase the competitiveness of the corporation as a whole.

The structure and number of members of the council are determined by law, not by the charter of the corporation. According to him, the number of members of the supervisory board should be 20 people, and the number of its members should not be changed. Bank representatives can be its members. In small corporations with less than 500 shareholders, the general supervisory board is elected by the shareholders. In medium-sized corporations with 500 to 2,000 shareholders, one-third of the members of the supervisory board are elected, and in large corporations with more than 2,000 shareholders, half (ten out of 20) are elected by shareholders. The remaining members of the council are elected from the labor collective and trade union organizations. That is, "half of the members of the supervisory board are made up of employees,"<sup>7</sup> and this approach allows for a balance of interests.

The Supervisory Board appoints members of the Executive Board for a five-year term, but the contract may be terminated earlier. The executive body is directly responsible for the overall activities of the corporation and approves corporate reports, large capital investments, strategic decisions, and acquisitions or acquisitions of assets. Such decisions

<sup>6</sup> Bob Tricker. Corporate governance: principles, policies and practices. – UK.: Oxford university press, 2012. – P. 157.

<sup>7</sup> Bob Tricker. Corporate governance: principles, policies and practices. – UK.: Oxford university press, 2012. – P. 157.

are regulated by law. The executive board (board), in turn, consists of managers and is accountable to the supervisory board.

The German model is also characterized by insiders, effective control of company managers, highly stable internal and external relations, relatively low risk of bankruptcy, and low probability of various conflicts. Therefore, priority is given to the long-term development of companies. Another feature is that the knowledge and skills of these professionals, especially managers, are very high. Although the financial market in Uzbekistan prioritizes financing from banks, it should be noted that there are some differences. The main features of this model are as follows:

- commercial banks act as financial intermediaries (broker, dealer, underwriter);
- long-term financing of companies through lending mechanisms prevails;
- A large share of ownership is concentrated in the hands of groups. The share of state and large corporate structures is high;
- the composition of share capital is based on a controlling stake and vertical participation;
- Small shareholders with up to one percent of capital are in short supply, and the activities of collective investment institutions play an important role in the activities of small investors.

At the same time, with the beginning of the creation of the financial market in Uzbekistan, a unique model has been formed, in which both banks and non-bank organizations - investment institutions can work on an equal footing. Banks are credit institutions that are part of the organizational structure of the financial market, collecting, accumulating temporarily accumulated funds of individuals and legal entities, accumulating (accumulated) funds on their behalf. perform the functions of making payments on a repayable, timely basis and making payments on behalf of customers. At the same time, banks must in practice have the appropriate license to carry out certain types of activities of investment institutions in the securities market, as defined by law. In this case, licensing is carried out by the body responsible for regulating the securities market.

The Republic of Uzbekistan has a two-tier banking system, the first of which is the Central Bank, which acts as a “banker” of the government regulating the activities of other banks and is a “bank of banks” that regulates money circulation. The second is commercial banks, which provide credit accounting services to businesses. These are banks that carry passive (related to the formation of their resources), active (related to the placement of resources), and intermediary (non-credit) operations. As a result of our research, we have studied the stages of formation and development of the banking system in Uzbekistan, which can be described in the table below, which consists of five stages.

*Table 2.*

### **Stages of formation and development of the banking system in Uzbekistan<sup>8</sup>**

Phase 1	1991-1994 years	A two-tier banking system has emerged, and the first legal basis for the banking system has been created.
Phase 2	1995-1996 years	The introduction of the national currency, the soum, has played an important role in the formation of an independent banking system and the economy of Uzbekistan in general.
Phase 3	1997-1998 years	Necessary measures have been taken to stimulate the inflow of private capital in the banking sector

<sup>8</sup> Prepared by the author based on data from the Central Bank of the Republic of Uzbekistan.

		and to ensure that the country's banks operate by the Basel recommendations.
Phase 4	1999-2000 years	With the further liberalization of foreign exchange policy, a mechanism for trading foreign currencies in the over-the-counter foreign exchange market was introduced.
Phase 5	The period after the 2001 year	Improving the financial stability of banks and expanding the range of financial services in the domestic market, ensuring the activity of Uzbek banks in the international capital market have become important tasks of banking.

In the analysis of the activities of banks in the financial market, we consider it expedient to study the composition of the assets of commercial banks. Therefore, according to Yu. Morozkin and Ye. Svistunova, in the context of dynamic changes in the stock market, the formation of an optimal securities portfolio is not always enough. In this case, the commercial bank will need to develop an improved strategy for the formation of the securities portfolio. Management allows you to make adjustments to the securities portfolio based on the monitoring of one or another factor, which allows you to conclude the situation in the stock market. This allows you to make modern and clear decisions on investment strategies and portfolio structure<sup>9</sup>.

In developed countries and several developing countries, commercial banks have extensive experience in improving the quality of asset portfolios. In particular, by ensuring the quality of banks' loan portfolios, it has become possible to ensure the stability of income and achieve normal levels of liquidity. The securities portfolio of commercial banks also plays an important role in increasing the return on bank assets. If we analyze the composition of the assets of commercial banks of the Republic of Uzbekistan in the course of our research, we can see that loans account for a relatively high share of the total assets of commercial banks. This is due to the high role of commercial banks in lending to the economy and the low level of development of their investment transactions in securities.

*Table 3.*

**The structure of assets of commercial banks of the Republic of Uzbekistan<sup>10</sup>, as a percentage of the total**

<b>Asset structure</b>	<b>2017.01.01</b>	<b>2018.01.01</b>	<b>2019.01.01</b>	<b>2020.01.01</b>	<b>2021.01.01</b>	<b>2022.01.01</b>
Cash on hand	1,6	2,9	2,5	2,4	2,7	2,4
Central Bank Funds	14,2	8,9	5,3	5,4	5,1	7,1
Funds in other banks	12,9	15,0	9,3	9,4	9,5	8,6
Investments and other securities	3,1	2,5	2,0	1,4	3,0	4,7

<sup>9</sup> Морозкин Ю.Н., Свистунова Е.С. Управление портфелем ценных бумаг в коммерческом банке//Вестник Челябинского государственного университета. – Челябинск, 2011. – №6. – С. 138.

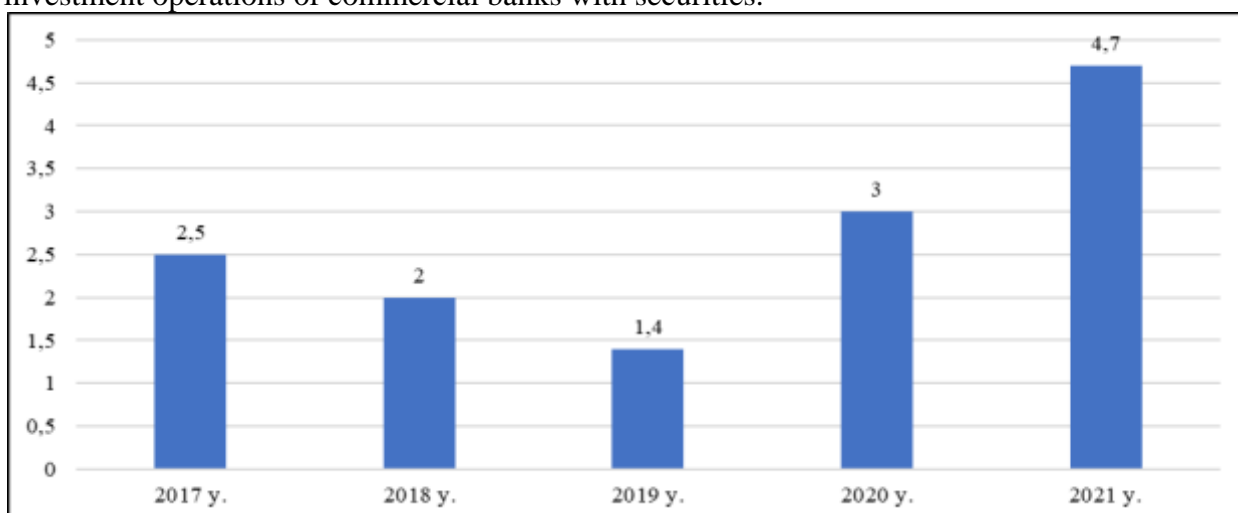
<sup>10</sup> The table is based on the website [www.cbu.uz](http://www.cbu.uz) (Central Bank of the Republic of Uzbekistan).

Credit flows	61,9	65,1	76,8	76,1	73,8	71,1
Basic tools	2,1	1,4	1,6	2,1	2,3	2,5
Other assets	4,2	4,2	2,4	3,2	3,6	3,6
Assets - total	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

The data in Table 3 show that in 2017-2020, the share of cash and securities investments in the Central Bank in the gross assets of commercial banks of the country decreased. However, between 2021 and 2022, banks' investment and other securities assets increased. It should be noted that the main reason for this is the ongoing privatization process in the capital market of our country. At the same time, the decrease in the share of cash in the total assets of commercial banks in the analyzed periods is explained by the increase in the share of loans in gross assets in these periods and is a positive factor in improving the quality of asset portfolios.

It should be noted that the active operations of commercial banks in the country with securities are underdeveloped. This is reflected in the fact that commercial banks have a small share of investments in securities in gross assets.

In particular, the figure above shows an analysis of the share of investments in securities in the total assets of commercial banks of the Republic of Uzbekistan. At the same time, Figure 2 shows that investments in securities account for a very small share of the total assets of commercial banks in the country. This indicates the underdevelopment of investment operations of commercial banks with securities.



**Figure 2. Share of investments in securities in the total assets of commercial banks of the Republic of Uzbekistan<sup>11</sup>, in percent.**

President of the Republic of Uzbekistan September 2, 2017 Decree PF-5177 "On Priority Measures to Liberalize Foreign Exchange Policy" sets the task of developing the government securities market<sup>12</sup>. This can give a strong impetus to the development of securities investment operations of commercial banks in the country. As of January 1,

<sup>11</sup>The image was created by the author on the basis of the website [www.cbu.uz](http://www.cbu.uz) (Central Bank of the Republic of Uzbekistan).

<sup>12</sup> Decree of the President of the Republic of Uzbekistan No. PF-5177 of September 2, 2017 "On priority measures to liberalize the exchange rate" // Collection of Legislation of the Republic of Uzbekistan. - Tashkent, 2017. - №36 (796). - p.55.

2021, the share of investments in securities in the assets of commercial banks of the Republic of Uzbekistan was only 4.7%. However, in developed countries, this figure is 35-40%.

### CONCLUSION

As a result of our analysis, we have formed the following conclusions. We know that financial market models use a variety of banking instruments and securities as a source of funding. According to our analysis, the volume of banking instruments in the capital market of our country is large. In particular, when we analyzed the current state of banks' asset portfolios, we saw that loans accounted for a relatively high share of the total assets of commercial banks. This is due to the high role of commercial banks in lending to the economy and the low level of development of their investment transactions in securities.

At the same time, it should be noted that the low level of diversification of the securities portfolio of commercial banks does not allow them to reduce the level of risks associated with securities transactions. However, it should be noted that the pace of development of the banking system of Uzbekistan reflects the high growth dynamics of the country's economy, and the volume and volume of operations carried out by commercial banks show a significant growth trend from year to year. In this regard, we can conclude that in the future the volume of services provided by commercial banks by financial institutions in Uzbekistan is expected to increase. In the course of the research, we can highlight the following issues related to the activities of commercial banks:

- the risk of transformation in commercial banks of the country has deepened;
- The negative impact on the practice of lending to investment projects of commercial banks of the Republic of Uzbekistan as a result of the rate of depreciation of the national currency and high-interest rates on investment loans;
- Problems related to the timely repayment of loans issued by commercial banks of the Republic of Uzbekistan to finance investment projects;
- Decreasing the real value of investments of commercial banks in securities due to inflation and devaluation. In our opinion, the effective solution to these problems is of particular importance for the further development of the financial market of our country.

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