# FOREIGN COUNTRIES' EXPERIENCE IN ASSESSING THE FINANCIAL STABILITY OF COMMERCIAL BANKS

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| A B S T R A C T | K E Y W O R D S |
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| The article analyzes and studies the experience of foreign countries in assessing the financial stability of commercial banks. In particular, the advanced foreign experience of the USA, Germany, France, Italy, and the Russian Federation in this regard, as well as the opinions and comments of economists, are analyzed. | Commercial bank, financial stability of banks, assessment of financial stability, CAMELS, PATROL, ORAP rating systems, assessment of bank risks. |

## Introduction

The issue of financial stability of commercial banks and its provision is one of the most pressing issues for all countries. In order to ensure the financial stability of commercial banks, it is necessary, first of all, to pay great attention to the issue of assessing their activities and constantly improve it. This is because the methodology for assessing the financial stability of banks in different countries is different. Therefore, in our article we will try to analyze the experience of foreign countries in assessing the financial stability of commercial banks.

At the current stage of economic development of organizational structures, stress testing is the most widely used system at the international level for assessing the financial stability of commercial banks. The International Monetary Fund defines stress testing as "a method for assessing the sensitivity of a portfolio to significant changes and events in macroeconomic indicators." Stress testing of the financial stability of commercial banks based on various scenarios and forecasting future processes gives good results.

## Analysis of Relevant Literature

The issue of financial stability of commercial banks and its assessment has been studied not only by domestic economists, but also by economists from foreign countries.

In particular, D.Yu. Melnik in his research studies the assessment of financial stability of commercial banks, dividing them into the following groups.[1]

1. Assessment through rating systems (PATROL, ORAP, CAMELS).
2. Ratio analysis system (BAKIS).
3. Complex systems for assessing bank risks (RATE, RAST).

4. Statistical models (FIMS, SAABA).

In turn, E.A. Egorkin additionally adds macroprudential control to this group and includes financial stability indicators and a stress test system.[2]

U.R. Bayram, A.V.Paramonova and S.I.Zikiriyaeva conditionally divide all methods of assessing the financial stability of banks into two groups, local and foreign groups.[3]

Russian economist V. S. Kromonov[4] is a scientist who created a model for assessing the reliability of commercial banks, and developed an integrated index of cumulative indicators of bank reliability based on six criteria of banking activity.

As a result of the above studies, it can be concluded that the issue of assessing the financial stability of commercial banks is constantly improving, it has a dynamic nature, and its methodology will change in the future as economic processes change.

**Research Methodology**

If a certain rating is given to the evaluation of the bank's activity and its financial stability, then the rating system of evaluating these banks will be used. The rating determined as a result of the intervention of the bank's supervisory body and management is the CAMEL rating system. The CAMEL rating system was developed in the USA and has been widely used since 1979.

In 1997, the CAMEL rating system was modified to include the "S" component and is now known as the CAMELS rating system. The main components of the CAMELS rating system are: capital adequacy (C), asset quality (A), management quality (M), operations quality and profitability (E), liquidity (L) and sensitivity to market risks (S). The CAMELS rating system is developed and used by three agencies, the US Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency.

N.V. Nepomnyashchaya and A.V. Dementieva pay special attention to this rating system in their research [5]. They point out in their research that this is a standardized evaluation method, and that the bias of analysts evaluating banks affects the effectiveness of this rating. The CAMELS rating system is currently used in several developed and developing countries, including the Republic of Uzbekistan, in addition to the United States.

Italy has been using the PATROL rating system to assess the financial stability of commercial banks since 1993. It is adapted to the Italian banking market and has many similarities with the US CAMELS rating system.[6] Its main components are the profitability of banks, credit risk, banking activity and liquidity.

The French ORAP rating system, introduced by the French Banking Commission, takes into account the specific characteristics of banks in this country. It identifies the main problems that commercial banks face in assessing their financial stability. The assessment of banks using the ORAP rating is divided into internal and external assessments. The number of components to which grades from 0 to 5 are assigned is 14. After the ratings are assigned, they can be reviewed and changed by supervisory authorities.

Another country that uses its own rating methodology is Germany. Unlike all other ratings, it is extensive, containing 47 coefficients, and was first used in practice in 1997. The acceleration of analysis when using this technique is due to its standardization. However, the process of calculating such coefficients is time-consuming.

If we talk about statistical models, they are based on retrospective analysis. The formation of a statistical model occurs due to data obtained during the analysis of a long period of time. Using this model, it is possible to identify patterns inherent in the work of credit institutions. Among the statistical methods, we can distinguish the method SAABA, created by the French banking commission, and the method FIMS (Financial Institutions Monitoring System), developed in the USA in 1993.[7] In the first case, the technique includes three diagnostic blocks: 1) analysis of bank portfolios; 2) analysis of leadership quality; 3) quality of management, control, profitability and liquidity. The reliability of the bank is assessed according to the results of the analysis of these three blocks. In addition, in this method, 1 is the best result, and 5 means that the bank is on the verge of bankruptcy.[8]

The second method (FIMS) is based on two stages, the first of which is the calculation and analysis of 30 coefficients that allow to determine the current state of the bank. The second stage is a forecast of the probability of bankruptcy for the next 2-3 years, but does not allow to identify areas for improving the situation.[9] In Russia, the methodology developed by the Central Bank of the Russian Federation is used. The assessment is carried out by groups of indicators, including:

1) a group of capital assessment indicators;

2) a group of asset assessment indicators;

3) a group of quality assessment indicators of bank management;

4) a group of profitability assessment indicators;

5) a group of liquidity assessment indicators.

In the work of L.Yu. Piterskaya, it is argued that the decomposition approach, the Dupont method, the Gordon model, the Sharpe model are some of the methods used in countries with developed market economies, but are not used in Russia.[10] Among the reasons for this situation, one can single out the insufficient development of information issues, which is largely related to ensuring cost-benefit analysis. Financial crises, changes in the economy and political events affect the methodology of analysis in industrially developed countries.[11]

**Analysis and Results**

As a result of studying the evaluation of the financial stability of commercial banks, it was found that the level of use of the analyzed database in the experience of foreign countries, the presence and importance of quantitative and qualitative indicators, expert assessment and determination of the rating based on its availability and analytical data. We can see these processes in the table below.

**Table 1 Comparative analysis of methods of foreign countries**

| Evaluation methods | Database for analysis | Quantitative indicators | Quality indicators | Expert evaluation | Таҳлил асосида рейтинг |
|---|---|---|---|---|---|
| CAMELS | Open information of banks in the media | + | + | + | + |
| RATE | Open information of banks according to the results of on-site inspections | + | + | + | - |
| PATROL | Open information of banks according to the results of on-site inspections | + | - | - | + |
| ORAP | Open information of banks according to the results of on-site inspections | + | + | + | + |
| FIMS | Open data of banks | + | - | - | - |
| SAAB | Open data of banks | + | - | - | - |
| BAKIS | Open data of banks | + | - | - | - |

Each of these methods has its advantages and disadvantages, and it can be seen that almost all sources are determined by open bank statements, and some based on the results of on-site verification. Quantitative indicators describe each of the compared methods, but not all of them have qualitative indicators and ratings. We can compare the methods of assessing the financial stability of domestic and foreign banks through the following table.

Table 2 Comparative analysis of methods of assessing the financial stability of commercial banks

| Evaluation methods | Database for analysis | Quantitative indicators | Quality indicators | Expert evaluation | Rating based on analysis |
|---|---|---|---|---|---|
| Kromonova methodology | Accountability | + | - | + | + |
| Expert agency methodology | Accountability | + | - | + | + |
| Kommersant methodology | Open accountability | + | + | - | + |
| CAMELS | Open accountability based on bank information in the media | + | + | + | + |
| RATE | Open information of banks according to the results of on-site inspections | + | - | + | - |
| FIMS | Open accountability | + | - | - | - |
| SAAB | Open accountability | + | - | - | - |
| BAKIS | Open accountability | + | - | - | - |

G.G. Murzagulova, in her research, emphasizes that the use of simplified analysis methods abroad is related to the fact of the historical development of banking activities in each individual country. [12]

**Conclusions and Suggestions**

It is advisable to assess the financial stability of commercial banks, while at the same time improving them, taking into account current changes and risks.

As a result of the analysis, it was found that when assessing the financial stability of commercial banks of foreign countries, they are carried out based on their published financial reporting data, the most widespread component of the analysis is quantitative indicators, and qualitative indicators are often not taken into account.

At the same time, we can see that in recent times, expert assessments have become one of the most relevant issues in assessing the financial stability of commercial banks.

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