# The Significance of Bank Financial Security in Capital Management

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***Abstract*—The article focuses on the role of bank capital and the importance of its sustainable management, which is significant due to the fact that the bank's capital level is taken into account when determining the institution's reliability rating**

***Keywords: financial security, monitoring, bank, capital, management***

## I. INTRODUCTION

In the current legislative framework of various countries, the category of "bank" is represented by a legal entity that accepts deposits, performs settlements, and procedures for issuing loans. The definitions in the theory of banking are different, but the one thing is missing. Banking was founded in the days of Ancient Babylon. In Europe banking institutions were introduced in the 17th century. In the Russian Federation banks have been present since the 18th century. For example, in France since 1984 a distinction between banks has been legislatively presented where there are either banks that have the right to accept deposits for up to two years or banks that do not have similar rights. Also in the history of banking there is a factual event, according to which the British authorities in 1979 attempted to distinguish between banking institutions and other financial and credit organizations by classifying them into ordinary banking institutions and banking institutions that can operate strictly under license [1-3]. There is also a fact, according to which, since the founding of banking and the initial classification of financial and credit institutions, there were some exceptions. Since 1986 the system presented above had to be abandoned, since the functioning of this system was not clearly justified economically and financially. The system also turned out to be inflexible, which can not satisfy the reliability requirements in accordance with the requirements of the Central Bank.

## II. THEORETICAL, EMPIRICAL AND METHODOLOGICAL GROUNDS OF THE RESEARCH

Currently, banking institutions, as well as large financial and credit institutions and financial corporations often perform identical operations. It means that the largest organizations involved in the construction business in the UK or savings companies in the United States directly and on equal terms are competing with banking institutions, while at the same time increasing the scope of their operations to the greatest extent possible. The dominant source of all funds that the bank owns on a legislative basis is the amount of money that the bank raised from enterprises, people and organizations. The main role in this situation, which is performed by banking institutions, is financial intermediation, which focuses on the basic rules: the money that was borrowed must be returned to those from whom these funds were borrowed in the time period specified in the contract, paying off all necessary interest payments stated in the contract.

According to the conditions on the basis of which a banking institution attracts funds from institutions, individuals, banking instruments and legal relations, all obligations of the bank due to the current legislation are divided into urgent, on demand, non-deposit and deposit.

The largest part of all funds attracted by commercial tanks, as a rule, is formed by deposit sources. Deposit sources should include all balances of funds of individuals and legal entities that are on demand accounts, certain period deposits, as well as various funds received by the bank institution from the placed savings and deposit certificates.

Bonds, debt securities, bills, loans received from the Central Bank and other credit organizations, recounts of bank acceptances and bills can be forms of attracting nondepository sources. The structure of bank liabilities directly depends on the quality and quantity of customers, the role of the bank and its place in the system of financial and credit institutions, the ability of the bank to offer products and services that meet the requirements of the time and market. The ability of banking institutions to make payments on obligations to creditors within a clearly defined period and in the entire amount, which is the main condition for the functioning of the management system in the bank, compliance with capital adequacy and liquidity standards of the bank. The possibility of financial liability of the bank to investors depends on compliance with the bank capital adequacy ratio.

Therefore, an important task that should be set for banks is supposed to be the actualization of the financial security of a banking institution in the management of capital. Banks should develop a series of measures that will ensure financial security related to capital management. It should be noted that the responsible persons for the internal bank organization of financial security in the bank institution are the bank managers, and not the General Directorate of the Central Bank of the Russian Federation [4]. Given the financial security of a particular bank, security bodies (entities) should be clearly identified that can prevent a risk situation and take a number of measures of an appropriate orientation on time.

It is proposed to select the bank's capital as the main monitoring object within the framework of financial security, since the bank's efficiency and continuity depend on its quality and quantity. To control the correctness and compliance with the legislation regarding the formation and functioning of capital is necessary for the bank's security services and internal control and audit. The main functions of the security service should be focused on compliance with the material and technical and organizational conditions for the formation of the bank's capital base and its functioning. The structural and logical diagram of bank capital management taking into account financial security is shown in the figure 1.

The main activity of the internal control and audit service should be continuous monitoring of the compliance of operations with current legislation. It is also necessary to control the process of execution of orders, official instructions, errors, staff miscalculations. An important point is to identify the causes of the above facts to see whether they are of malicious intent or random. The actions of the manager for the situations that have occurred should be of a different nature. In the first case, there is supposed to be a trial, in the second, administrative measures and warnings.

A permanent increase in the financial security requirements of a banking institution leads to the need of capital management adapting to the emerging predictable and unforeseen risks, which requires continuous staff development in terms of professional competencies that meet the requirements of the time. It should include effective management consisting of measures that identify the level of potential external threats and internal nature, which is indicated in the figure in the form of feedback from the block financial security to the block of bank capital management.

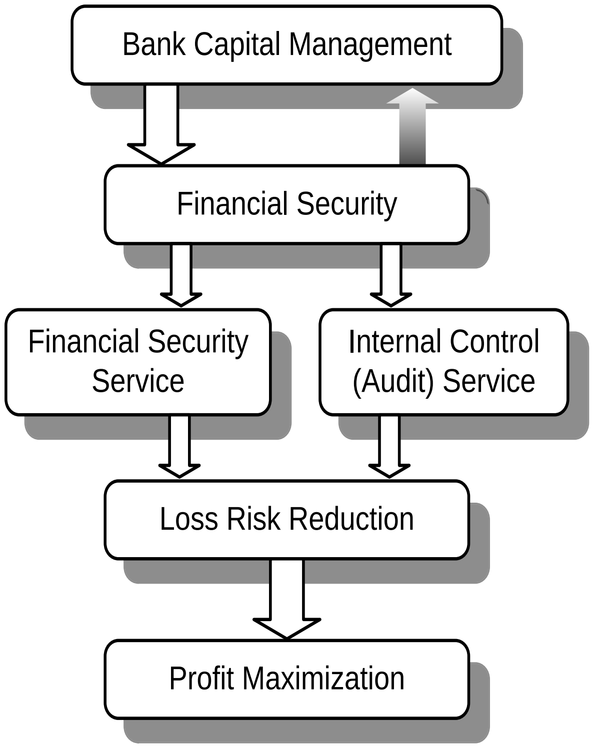


Fig. 1. Mechanism of the bank's financial security ensuring

In addition, we propose protecting the bank's capital management procedure with a forecast of the occurrence of external risks both domestically and internationally, and creating an appropriate database of existing threats. For the most accurate assessment of external threats, it is advisable to supplement the functional responsibilities of the analytical department employees: adjust data for changes in external risk indicators and promptly inform the bank management about possible changes in the results of financial indicators. The most important step in the analysis of financial documents is the exact setting of the goals of the bank's functioning unit. The functioning of a banking institution should be clearly aimed at solving strategic goals, and the security and internal accounting service should take this into account when developing measures related to security. When evaluating the performance of a bank institution, it is necessary, first of all, to establish whether the bank is ready to achieve the originally set goals set by shareholders and managers. Currently, the theory of banking has defined the concepts of equity capital of a banking institution and equity. The concept of equity is more general, includes liabilities that were formed as a result of the functioning of a banking institution. This category includes reserve capital, authorized capital, other funds of a banking institution, reserves that were created by the bank, current year profit and retained bank profit. Bank equity is a value that is determined by the calculation method. This value contains the main components of the bank's own funds, ensuring the implementation of the basic functions. And the elements of funds included in equity should comply with the principles:

- stable break-even operation;
- subordinated attitude to the rights of creditors;

- incomes are not fixed in accruals.

To the equity capital of a bank institution it is necessary to include specially created reserves and funds that are intended to keep and maintain the financial stability of the bank, absorb and neutralize potential and resulting losses. These funds and reserves should be at the disposal of a banking institution throughout the entire period of operation.

Bank capital includes reserve capital, authorized capital, retained earnings of previous years and the current year, reserves from which risks are covered.

The main functions performed by the capital of a banking institution are regulatory, operational and protective.

Own capital of a banking institution (bank capital) is normally consists of contributions from the founders of the bank, part of the bank profit that remains at the disposal of the bank. Property that is received free of charge by a bank institution from legal entities and citizens and emission income associated with placement of a securities bank institution at a price that is higher than their face value are also considered in calculations of bank capital.

## III. Results

The capital of a banking institution protects the interests of depositors of a banking institution and its creditors. Banking assets exceed liabilities by the amount of equity capital. Therefore, shareholders and managers of a banking institution form contributions to capital to create an insurance reserve that helps prevent the loss of money to bank depositors.

Also the capital of a banking institution develops the infrastructure of the bank, facilitates the acquisition of buildings in which branches will be located, additional offices, as well as the acquisition of various property (computers, cars, software, telecommunications equipment, technologies for modern and high-quality processing of information arrays).

Own capital of banking institutions is the dominant indicator characterizing the capabilities and quality level of the activities of banking institutions [5, 6]. Assessing the financial condition of banks, capital adequacy ratio is taken as a basis. The level of the bank’s capital affects the licensing of banks, allows to increase the number of bank services and improve their quality. The bank's capital level is taken into account by the regulator when determining the institution's reliability rating. The most important and informative value in all mandatory economic standards is the capital adequacy ratio, which directly affects the volume of the banking business and the level of profit received by banks.

## IV. Conclusions and Recommendations

In accordance with the foregoing, we believe that the capital management procedure of a banking institution must necessarily include measures aimed at the financial security of the bank.

It is necessary to clearly operate the bank’s security service and internal control (audit) service, which will reduce the likelihood of deliberate and unintentional violations of applicable law, as well as take into account the influence of external factors on the economic security of the bank. With the clear and coordinated functioning of the security and internal control and audit divisions, the banking institution will reduce the risk of losses due to non-compliance with capital requirements, and the main goal of the banking institution's functioning which is the accumulation of profits will be achieved.

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