

Role of Compliance-Control in Bank's Economic Security

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Abstract. In the paper have been analysis for definition was given to the English term compliance, which began to acquire special meaning in world practice after the Basel principles on compliance control were written. Function considered compliance control from the position of ensuring the security of the banking system from the risks associated with the loss of business reputation. In conclusion, the authors concluded that the system compliance control is an important element of the corporate governance mechanism aimed at compliance with the law and internal requirements in certain areas of the financial organization.

Keywords: Compliance, control, system, structure, bank, management, legislation, rules, instructions, function

1. INTRODUCTION

Over the last decade, the business world has faced unprecedented changes and challenges, resulting in a slew of compliance regulations. Banks of all sizes are now more concerned than ever about compliance risk management. New banking products, increased government scrutiny and intense focus on compliance requirements bring forth greater risks and a larger set of rules and regulations. Banks are forced to take a fresh look at their compliance practices and the technology infrastructure that supports them and to pursue a broad range of compliance and risk initiatives across the organization. [8]

The term "compliance control" appeared in Central Asia with the advent of the domestic market of subsidiary banks of Western financial structures, for which this function is legally necessary and, therefore, well-formed [1]. In modern Central Asia legislation, the term "compliance" has not yet been uniformly defined, although some issues traditionally attributed to the sphere of compliance control in Western European countries are regulated in Central Asia by special regulatory legal acts. Publicly available materials, including previously published studies by various authors, on the issue of compliance control in the banking system provide several options for defining this term. If you look in the Oxford English Dictionary, then the term compliance (from English compliance - consent, compliance; comes from the verb to comply - comply) is presented as an action in accordance with a request or instruction. In banking, the concept of "compliance control" is very common, where compliance is an integral part of the internal control function, "the purpose of which is to protect the interests of investors, banks and their clients by monitoring compliance by bank employees with the provisions of current legislation, the requirements of supervisory authorities, as well as documents defining the internal policy and procedures of the bank. Compliance control is considered as a principle of doing business by a financial institution in accordance with applicable laws, rules, codes and standards established by the competent authorities, professional associations and internal documents of a financial institution. This definition indicates the special importance of compliance control as a principle of doing business, and also specifies those documents that a financial institution considers to be an important area of activity [2].

2. DEFINITION FOR COMPLIANCE

Compliance (eng. Compliance - consent, compliance; comes from the verb to comply - to perform) - literally means action in accordance with a request or instruction; obedience. Analyzing the collection of definitions, we can formulate an integrated concept of "compliance control" - this is a risk management process aimed at voluntary compliance with state legislation, as well as ethical standards adopted in the field of regulated legal relations and business practices, in order to maintain appropriate rules and standards of conduct in the market, as well as strengthening the image of the company, organization. "Compliance control" is a very broad area and it is characterized by a number of specific areas, such as: anti-money laundering, criminal proceeds, terrorist financing; development of documents and procedures that ensure compliance with current legislation; protection in the field of information flows, countering fraud, countering corruption, establishing ethical standards for the behavior of bank employees, etc.

Compliance control is integrated into the Central Asia banking system by Western colleagues from large companies cooperating with Central Asia organizations in the form of a business custom. This process is initiated by international economic integration. Compliance control in the Republic of Central Asia is being implemented mainly in the financial and banking sector, but is not limited to this area, since at present literally every structure is striving to use the

compliance system in relation to its industry [2]. If you look at the experience of Western companies, here we see the presence of compliance control in almost all industries, such as insurance, financial, credit, manufacturing, trade, and medical organizations. They follow the ideology of compliance, comply with all norms and standards stipulated by this system [3].

3. PRINCIPLES FOR COMPLIANCE-CONTROL

The compliance control system is associated primarily with the globalization of the global financial system, it is aimed at compliance with the internal and external policies of the company, as well as procedures, and is implemented through the creation of favorable business conditions. In turn, individuals working for the organization will act in accordance with both professional and ethical standards.



Fig.1. Compliance control system [6]

Compliance control, first of all, oversees that the company acts in accordance with its own rules, current legislation, code of good conduct and best practice in order to avoid the risk of violation [3].

1. Independence. This principle of implementation of the compliance control function consists of four separate compliance elements that are closely related to each other:
 - the compliance control service should have an official status;
 - compliance control specialist who is responsible for managing the compliance control group and coordinating the management of compliance risks;
 - it is necessary to provide that the members of the compliance control group and the responsible compliance specialist do not have situations of conflicts of interest between the implementation of compliance control and control over the performance of personal functions in the company;
 - compliance control group should have open access to the necessary data and a separate budget for the implementation of compliance functions [3].
2. Official status. The standards governing the function of compliance control must be written in the internal document of the enterprise. The normative act on the compliance control function should contain the following provisions:
 - tasks and functions of the compliance structure;
 - control and responsibilities of compliance specialists;
 - conditions for ensuring the independence of compliance control;
 - the compliance service interacts with other risk control departments, as well as with the service, whose task is to control all the company's activities.

3. The principle of distribution. Compliance control functions are distributed among departments, if provided. When distributing the compliance control functions in the subdivisions, those responsible for performing the compliance control functions are appointed.

4. Clear accountability of employees of the compliance control function. Compliance control specialists working in departments are accountable to the heads of the company's structures and departments. At the same time, they may be accountable to the head of the compliance control group of the entire organization in relation to compliance information. If compliance specialists work in independent structural units of an auxiliary nature (legal department, audit unit, etc.), then their reporting to the head of the organization's compliance service is not required. At the same time, compliance specialists, independent support units, must cooperate with the compliance control manager. The person who manages the compliance function may be a member of the top management structures of a particular bank, in which case the compliance specialist should not manage the business structures of the bank. If the head of the compliance control service is not included in the top management, he must be accountable to one of the top managers who does not have specific official duties in a particular structure.

5. Elimination of conflicts of interest. The independence of a manager or other specialist in the compliance control service may be violated by the presence of a conflict of interest between the employee's normal functions and his compliance duties. Ideally, compliance control representatives should perform functions only in relation to compliance tasks, but this situation may be unacceptable for small banks. It is for such firms that it is necessary to exclude the possibility of a conflict of interest. One of the points that leads to the emergence of a conflict of interest involves the dependence of the remuneration of an employee of the compliance control service on the results and performance indicators of the structural unit in which they implement compliance control functions. At the same time, remuneration depending on the financial results of the bank may take place.

6. Access to any inside information. The compliance control service may, on its own initiative, interact with any bank employees and must have access to any files that are necessary to perform compliance functions. The possibility of unhindered work of compliance specialists should be provided in all departments where compliance risks take place [4]. In the process of solving compliance tasks, specialists get the right to investigate cases of compliance violations (including control of potential compliance violations) with the involvement of internal or external specialists in specific industries. [7]

Performing compliance functions, specialists should have a free opportunity to provide data to representatives of senior management (for this, it is necessary to eliminate the potential risks of threats and condemnation from managers or any other representatives of the bank) [5].

7. Necessary resource provision. The compliance control function should be adequately resourced. The resources provided to the compliance service should provide the ability to effectively monitor and manage compliance risks. One of the important components of compliance resources is the qualifications and experience of compliance specialists, as well as their personality traits. Compliance professionals must be well versed in compliance with laws and regulations and understand their impact on company operations. The level of professional compliance skills of employees of the compliance control function, especially in obtaining timely updates in legislation, should be ensured through education and training [5].

8. Interaction with regulatory and supervisory authorities. A very topical issue for many banks is the task of forming an effective system of cooperation between the compliance control service and all categories of inspection institutions. All banks, without exception, experience certain difficulties when interacting with such bodies.

- the provision of documentation and its interpretation is a rather time-consuming process, and failure to provide information within the specified period entails additional problems;
- in case of disagreement on the essence of a certain document, it is necessary to organize a constructive discussion of controversial issues;
- special experience and qualifications are required in matters of summarizing the results of external audits, especially in those situations where significant violations have been identified.

4. CONCLUSIONS

Thus, "compliance" is a concept that is widespread mainly in the banking sector. It refers to a risk management process aimed at voluntary compliance with state legislation, as well as ethical standards adopted in the field of regulated legal relations and business practices, in order to maintain appropriate rules and standards of conduct in the market, as well as strengthen the image of the bank. The process of functioning of the compliance service is based on the principles of independence, official status, distribution of compliance functions among departments, clear accountability of employees of the compliance control function, elimination of conflicts of interest, access to any internal information, resource provision, interaction with regulatory and supervisory authorities. the strategy and

compliance systems. More specifically, investments in workflow capabilities would allow both compliance and strategy counterparts to collaborate in real time, assign tasks to each other, and leverage common data sources. Ideally, such systems are capable of ingesting compliance-related input such as data regarding future regulatory scenarios, the potential impact of geopolitical events, and the impact of control failures on M&A integration. The systems then can incorporate this knowledge into major scenario-planning or business valuation tools.

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