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THE ROLE OF BANK GUARANTEES IN THE ACTIVITIES OF BUSINESS ENTITIES

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Annotation
This article examines the essence of bank guarantee in detail. Also, the structure of bank guarantees in developed countries and its specific features are discussed in detail on the basis of theoretical and practical data, and scientific proposals on the use of foreign experience in our country have been developed.

Keywords: bank, bank guarantee, tender guarantee, bank guarantee insurance, guarantee agreement.

Introduction

Bank guarantees are a relatively new type of service provided by commercial banks. Business entities using this banking product are mainly used in certain tenders, export and import operations, loans or borrowings. They also use it when they want to buy goods or services without funds or when they want to use the funds for other purposes. In general, it applies to the bank when there is a payment obligation or an obligation to fulfill the order.

Commercial banks provide this service in their credit policy and in accordance with the law. The bank guarantee is issued on a special form in accordance with the guarantee agreement. Guarantee forms are prepared on paper on the basis of an agreement between the Central Bank and the State Production Association "State Sign" on paper provided with a special form of special security marks and delivered by the Central Bank to all branches of the bank.

Guarantee agreements are based on the Statute of the Central Bank of the Republic of Uzbekistan dated May 15, 2012 No. 2364 "On the procedure for issuing bank guarantees by commercial banks"[1] and are concluded in accordance with the "Recommendations for lending agreements" of each commercial bank. These agreements must specify the rights and obligations of the parties, the amount of the guarantee, the amount to be recovered from customers in the event of payment by the bank, the amount of the service fee for the bank guarantee, the order of their payment and other conditions. Commission fees for the issuance of bank guarantees are set and charged on the basis of tariffs for banking services of commercial banks.

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Literature Review

A bank guarantee is one of the ways to ensure the fulfillment of obligations, in which a bank, another credit institution, an insurance organization or other commercial organization (guarantor) issues, at the request of the debtor (principal), a written obligation to pay the creditor (beneficiary) a sum of money upon presentation of a demand for its payment [2].

Independent guarantee - the guarantee of the guarantor bank for the fulfillment of the client's monetary obligations; if the client fails to pay on time, the bank will do it [3].

Let us also consider the opinion of another economist, E.A. Michurina. By its economic nature, an independent guarantee is a tool for transferring credit risk from the beneficiary to the guarantor, expressed in the provision of the so-called guarantee loan to the beneficiary's counterparty - the principal. The operation of issuing an independent guarantee is a credit and insurance service provided by the guarantor to the principal for a fee [4].

So, particular attention should be paid to the tender guarantee. Tender guarantee - a written guarantee issued by the bank for the tender participant. A bank, a credit institution guarantees that such a participant will fulfill its obligations in accordance with the rules of the competition. The tender guarantee helps to avoid the following risks: refusal of the participant to fulfill its obligations to supply or provide services; withdrawal of the proposal participating in the tender; refusal of the party for which the guarantee was issued from signing the contract in case of winning the tender. The tender guarantee not only ensures the fulfillment of the obligations by the winner on the conditions that were announced during the competition, but also creates a barrier for unscrupulous enterprises to deprive the participation of too small enterprises, which cause doubts in the organizer [5].

Analysis and Results

We can understand the bank guarantee from the picture below.

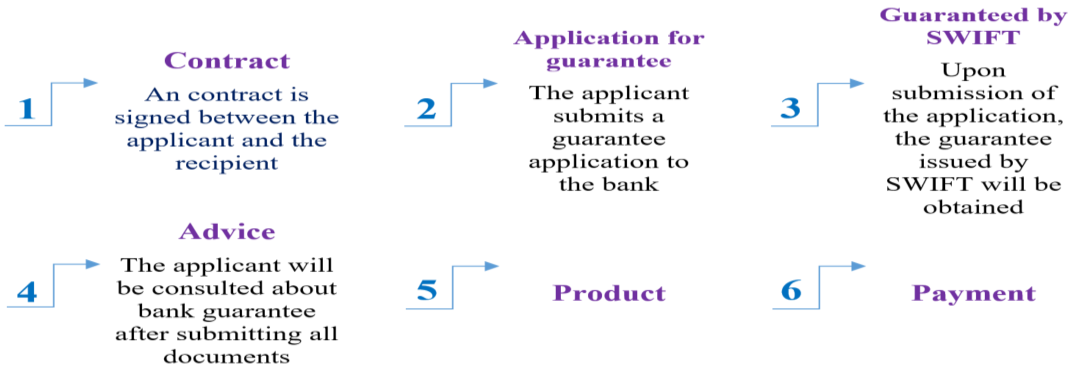

Figure 1. The mechanism of operation of the bank guarantees

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As you know, a bank guarantee is a popular tool for payment and fulfillment of contractual obligations. A bank guarantee is one of the ways to secure the performance of an obligation, in which the bank, at the request of the debtor, gives the creditor a written obligation to pay the amount at the time he so requests. First of all, contract is signed between the applicant and the recipient. Then, the applicant submits a guarantee application to the bank. Secondly, upon submission of the application, the guarantee issued by SWIFT will be obtained. The applicant will be consulted about bank guarantee after submitting all documents. After that, there will be product and payment.

At this point, let's take a look at the current condation of bank guarantees and its ups and downs. According to the Expert RA rating agency, the guarantee portfolio of commercial banks operating in Russia will grow in 2021. Also, the guarantee market will be supported by an increase in the volume of government purchases against the backdrop of a planned increase in spending on the implementation of national projects, a significant part of which is related to the development of road infrastructure. The guarantee business remains one of the most attractive for banks due to the low level of default. Even despite the growth of payments in 2020 to a record level of 0.5%, default on guarantees remains significantly lower than on loans. Due to the stabilization of the economic situation in 2021, the disclosure of guarantees will noticeably decrease relative to 2020, however, it will remain quite high in comparison with 2019, since at the beginning of 2021 the moratorium on bankruptcy of companies from affected industries expired [7].

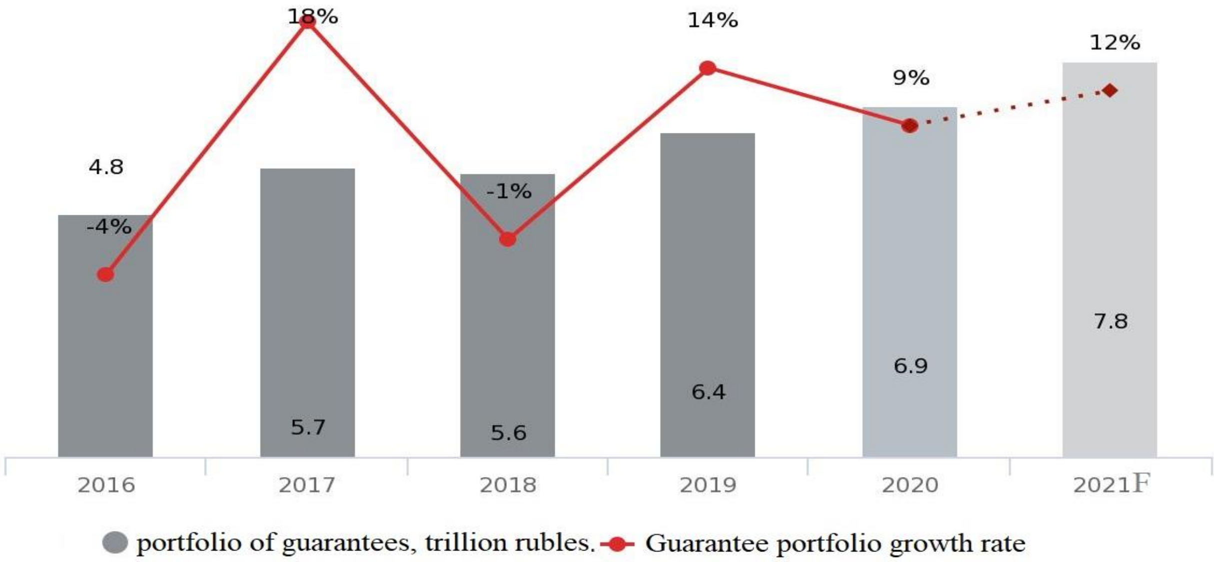

Figure 2. Bank guarantee portfolio growth rate in Russia [7]

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Let's talk about the insurance of guarantees provided by banks. Bank guarantee insurance is an additional way to reduce the risks that may arise between a bank and an organization. This type of insurance is used as collateral for credit, payment, rent and leasing operations. A bank guarantee can be insured as a financial instrument of domestic and international business relations. In this case, the cost of covering the potential risks of the guarantor shall be borne by the insurance company. The bank guarantee agreement is valid under the main agreement between the guarantor (bank or credit institution), the principal (Debtor) and the beneficiary (lender). Bank guarantee insurance is a form of protection against the risks that may arise from the application of a guarantee that can be issued. A bank guarantee insurance contract can be considered as a separate type of guarantee contract, in which the bank is the borrower and, in principle, the insurance company is the guarantor, and the lender is the beneficiary of the guarantee.
Alternatively, there are several different types of bank guarantee insurance for the following purposes:

Figure 3. Types of bank guarantee insurance

The contract of bank guarantee insurance is concluded for a period of several months to 30 years. In this case, the insurance protects the interests of the guarantor bank and ensures that it conducts operations with minimal losses.
There are a number of advantages of bank guarantee insurance, which we will discuss below.

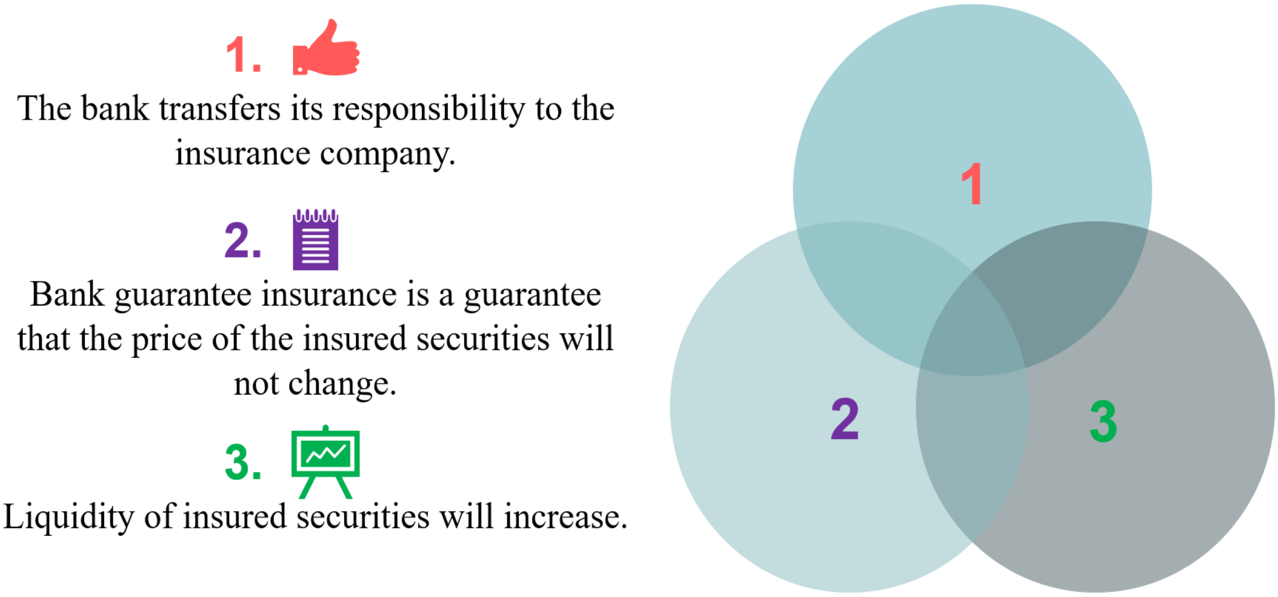

Figure 4. Advantages of bank guarantee insurance

Only large companies can conclude a bank guarantee insurance contract. In all cases, the bank first checks the customer's credit history and financial documents and then makes a decision. If an insurance mechanism is used, a bank guarantee will be more necessary. This document saves not only the bank itself, but also the principal from losing money. In this case, the risks are minimized by the insurance company.

Conclusions

Based on the study of the above theoretical and practical data, the following conclusions and recommendations were developed:

- Bank guarantee is a new banking service provided by banks today;
- The implementation of a number of necessary steps in the registration of a bank guarantee directly reflects the mechanism of operation of the bank guarantee;
- Bank guarantee insurance and its types directly serve to clarify the bank guarantee;
- It was found that bank guarantee insurance has all the necessary advantages.

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