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THEORETICAL BASIS OF INCREASING INVESTMENT ATTRACTIVENESS OF BANKS WITH DIVIDEND POLICY

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ABSTRACT

This article investigates the views of different scientists on the theoretical aspects of dividend policy of bank. In studying the characteristics of dividend policy in increasing investment attractiveness of banks, factors and aspects of dividend policy are analyzed. Based on the conducted analysis, appropriate conclusions and proposals are given.

KEYWORDS: *Dividend, Dividend Payouts, Dividend Policy, Stock Price, Dividend Yield, Investment Attractiveness, Banks.*

INTRODUCTION

Commercial banks are one of the main participants of the financial market in our country. It also appears as the main financing institution in the economy. In such conditions, it is desirable to increase the efficiency of commercial banks, introduce effective corporate management, and encourage them to actively engage not only in the main activities, but also in investment activities. We should emphasize the importance of the dividend policy implemented in commercial banks in ensuring the activity of commercial banks in the stock market and increasing their investment attractiveness. In particular, the rational dividend policy of commercial banks helps to increase the share price of commercial banks in the stock market, attract potential investors, increase investment attractiveness, and develop commercial banks. Therefore, it is important to effectively organize the dividend policy of commercial banks in our national practice.

Literature Review

Commercial banks have the ability to increase their investment attractiveness and capitalization while ensuring their income by paying dividends to shareholders and play an important role in the development of the financial market in this country. These aspects indicate the need to analyze commercial banks in the development of the financial market, as well as to study the dividend policy in increasing the investment attractiveness of commercial banks.

If the level of dividend payments on the shares of commercial banks is significantly low, it indicates that the profit distribution mechanism is not set up correctly. It is necessary to determine the normative ratio between dividend and reinvestment in commercial banks, and it is not a good thing if these two indicators are sharply different from each other. The low dividend payout makes this commercial bank less attractive to potential investors. As a result, this aspect has a negative impact on the level of capitalization of the commercial bank. Establishing a rational dividend policy in commercial banks is important in solving these problems.

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The nature and characteristics of the dividend policy of commercial banks have been studied by many scientists, and we should note that there are similar and different aspects of the dividend policy of commercial banks as well as the dividend policy of other joint-stock companies.

One group of scholars argues that bank managers use dividends to transfer risk from shareholders to depositors and other creditors [1].

Banks can sometimes improve their capitalization by reducing dividend payments or not paying dividends. However, some observers note that for investors and financial analysts, the reduction in dividend payments is interpreted as a negative signal indicating future problems. Such commercial banks sometimes have projects planned, but if the risk is high, only investors with a strong appetite for risk can direct funds. As a result, commercial banks may have problems in attracting capital.

According to K. Imran, M. Usman, M. Nishat, “the profitability of the bank per share, dividend payments in the last year, the ratio and size of the bank's capital are decisive factors in determining the indicators of dividend payments” [2].

The dividend policy of commercial banks is one of the issues that are currently receiving wide attention from economists in the field of corporate finance. In particular, “the lower the tax rates on dividends, the higher the dividend payments in companies” [3]. In this case, we can see that tax rates and the amount of dividend payments in commercial banks are inversely related.

“A significant increase in insured deposits in banks reduces dividend payments compared to banks with less insured deposits” [4]. Because the costs associated with deposit insurance reduce the profit of commercial banks, which in turn affects the volume of dividend payments.

It should also be taken into account that "banks pay dividends to demonstrate their financial potential to financial market participants. Unlike industrial enterprises, which have a low propensity to pay dividends, banks have a high propensity to pay dividends and do not want to reduce them even in the event of a financial crisis” [5]. Therefore, the dividend policy for commercial banks is more important than for joint-stock companies in other sectors in creating a positive image and increasing investment attractiveness.

A number of scholars have pointed out that banks’ dividend policies are strongly influenced by agency conflicts faced by their shareholders and creditors. “Dividend policy depends on the level of these agency conflicts, but the costs of agents play a more decisive role in the company's activity than the company's debts” [6]. Agency conflicts should also be taken into account in commercial banks.

“Commercial banks, as issuers, increase the possibility of efficient placement of additional shares through the payment of constant dividends to shareholders, thereby increasing the capitalization of banks” [7]. Therefore, it is necessary for commercial banks to pay special attention to the dividend policy. The increase in market capitalization, in turn, helps commercial banks to strengthen their position in the market and to perform their activities effectively.

According to Sh. Abdullaeva and A. Omonov, “the fact that commercial banks ended the year with a net profit can be determined by the amount of dividends paid to the bank's shareholders, the amount of funds capitalizing the bank's capital... From the point of view of the bank's shareholders, the funds spent on the purchase of ordinary shares of the bank are for the shareholders is high risk. Because shareholders only receive dividends for common stock. The dividend is paid from the bank's net profit. However, the amount of required mandatory payments and reserves of the bank

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can change dramatically during the financial year" [8]. The level of risk for investors is shown by the indicators of commercial banks, in particular, by dividend payments.

Agreeing with the opinions of the above researchers, we can say that by effectively organizing the dividend policy, commercial banks can positively change the main activities of commercial banks as well as investment activities.

Analysis and results

When studying foreign practice, we can find that a number of factors directly and indirectly affect dividend payment and dividend policy. If we study the practice of Ukraine, dividends are considered in the minority of joint-stock companies in which the state, institutional investors and individuals do not have a controlling stake in the charter capital. The share of such companies in joint stock companies is 13.3%. Minority shareholders cannot cover dividends by increasing the market value of the shares. The main reason for this is the underdevelopment of the Ukrainian stock market. There are very few companies in the country that meet the listing requirements. In 2016-2017, the number of open joint-stock companies in the stock exchange register did not exceed 7. Legal entities that have a controlling interest in the authorized capital usually do not consider dividends as a priority interest. Therefore, we can learn from the experience of Ukraine that the lack of effective implementation of dividend policy by joint-stock companies, including commercial banks, causes the underdevelopment of the stock market, a decrease in investment attractiveness, and dissatisfaction of shareholders, especially minority shareholders.

Today commercial banks in Uzbekistan appear as a financial institution that forms the basis of the corporate sector. Therefore, it is important to increase the efficiency of commercial banks, establish effective corporate management by establishing a reasonable dividend policy, and increase their activity in the capital market.

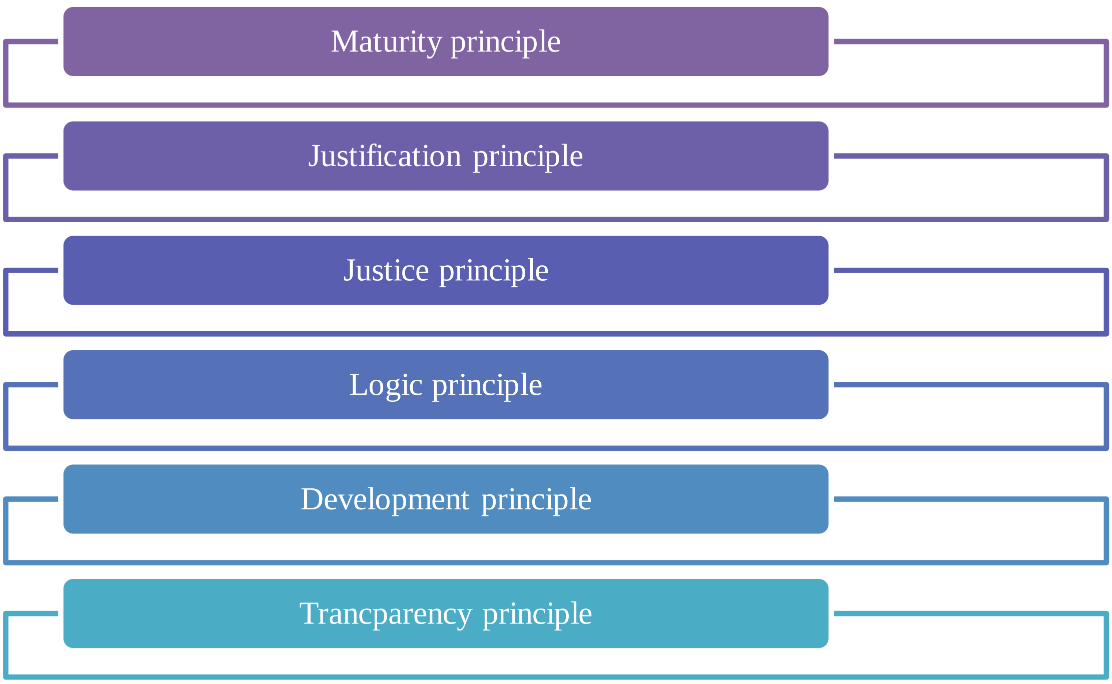

Figure 1. Principles of dividend policy of commercial banks

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The dividend policy of commercial banks in our country is based on the following principles (Fig. 1).

1. The principle of transparency. Through this principle, it is envisaged to follow the disclosure of information on the amount of dividend payments by commercial banks, aspects that should be taken into account when making a decision on the payment of dividends, the responsibilities and obligations of participants in the organization of dividend policy in commercial banks, and so on;

2. The principle of maturity. In this principle, it is understood that there is a fixed period for the payment of dividends by commercial banks and that payments are made within this period;

3. The principle of reasonableness. The principle of reasonableness means making a decision on dividend payments, taking into account the current financial indicators and business plan of commercial banks. When commercial banks have positive financial indicators, the amount of dividend payments and the decision to pay dividends are also taken into account;

4. The principle of justice. In this principle, it is understood that shareholders have equal rights in making decisions on the amount and payment method of dividend payments;

5. The principle of logic. In the implementation of the dividend policy, the existing principles and dividend payment procedures are strictly followed;

6. The principle of development. This principle envisages the improvement of regulations and dividend policies developed to optimize existing procedures in corporate governance when the strategic goals of commercial banks change;

7. The principle of stability. This principle means regular implementation of dividend payments of commercial banks from year to year and taking measures to avoid sharp differences.

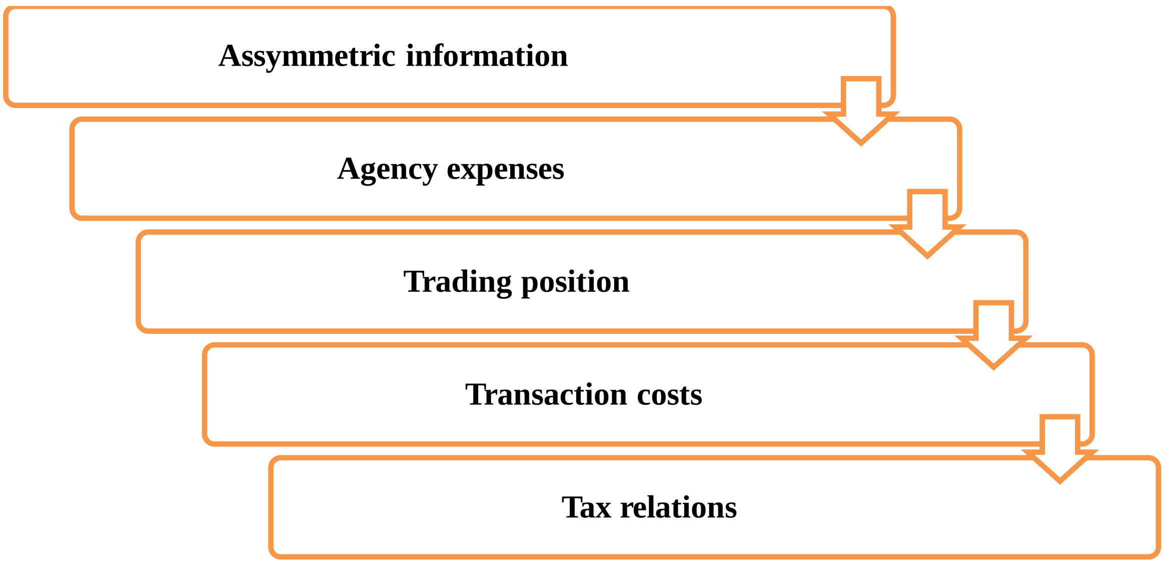

Figure 2. Factors affecting effective implementation of dividend policy

Figure 2 presents the factors affecting the implementation of an effective dividend policy in international practice. In the implementation of dividend policy in commercial banks, it is useful to cover such issues as information asymmetry, agency costs, trading position, transaction costs, and tax relations. Positive resolution of these issues in commercial banks will help to effectively

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organize the dividend policy and thereby increase investment attractiveness in the stock market and improve capital attraction opportunities. In our national practice, it is appropriate for commercial banks to pay attention to the following factors in the development of dividend policy in addition to the factors listed above (Figure 2).

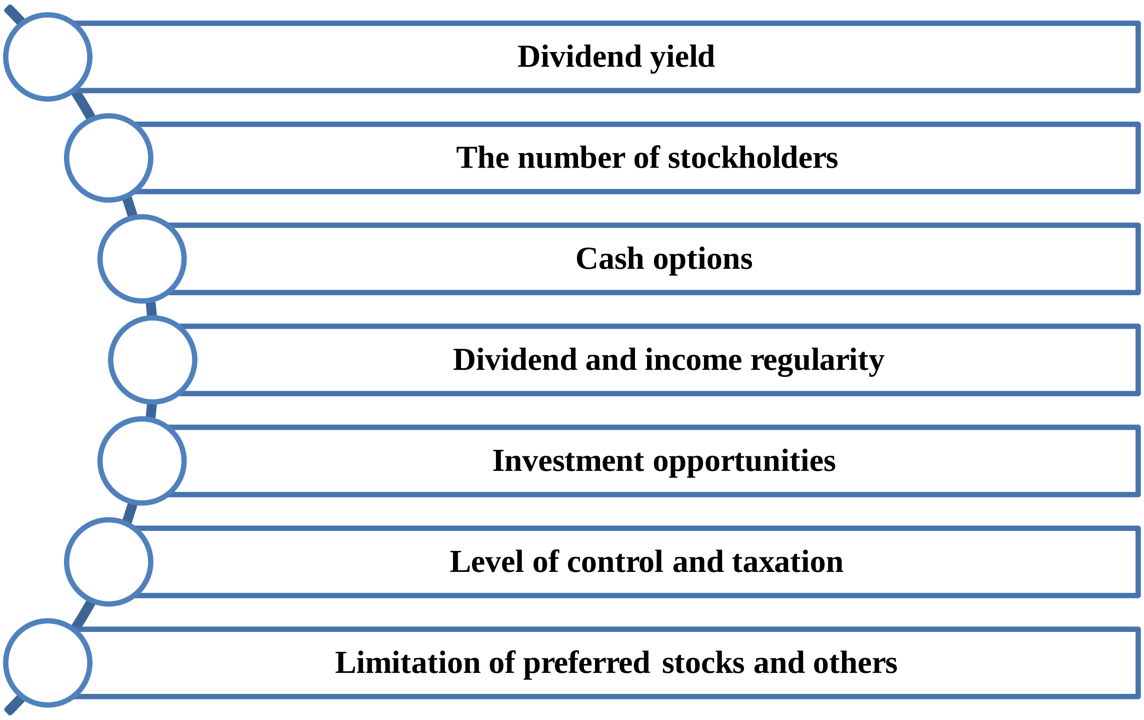

Figure 3. Dividend indicators that should be taken into account when analyzing the dividend policy

Figure 3 shows the dividend indicators that should be taken into account when analyzing the dividend policy of commercial banks. It focuses on profitability, number of shareholders, cash flow opportunities, data signaling, investment opportunities, degree of control, limited preference shares, dividend and income regularity, and tax issues.

Conclusions

Based on the study of specific aspects of dividend payments in companies, the following conclusions were formed.

It is necessary to cover the main aspects in the prevention of many conflicting issues in the development of an effective dividend policy according to the current situation in the market;

Dividend policy decisions must be made at the commercial bank level precisely because different imperfections or factors affect different commercial banks differently. Commercial banks should develop a unique perspective on dividends;

When making dividend policy decisions, managers must consider the relative importance of existing weaknesses or factors and their interactions;

Managers should not consider dividend policy separately from its other financial policies, because in practice, dividend policy is related to investment policy and financial policy;

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Commercial banks should consider additional factors such as characteristics, market characteristics, and existing forms of dividends that substitute cash dividends.

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