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THE IMPORTANCE OF USING FINANCIAL INSTITUTIONS IN DEVELOPING FINANCIAL RELATIONSHIPS

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Abstract: *This article shows the importance and necessity of financial institutions in the development of financial relations, their positive influence on the activities of legal entities and individuals, their tasks and their role in the development of the country's economy.*

Keywords: *financial institution, financial relationship, financial transformation, mediation, investment fund.*

INTRODUCTION:

Today, it requires further development of financial activities of economic entities and effective and rational use of their temporarily free funds. Financial institutions form the supply of credit and investment resources, and their consumers form the demand for them. Implementation of such supply and demand is carried out by financial intermediaries who have a wide range of opportunities to meet the investment and financial needs of economic entities. The market mechanism for mobilizing credit and investment resources and their efficient distribution presupposes the existence of a developed infrastructure in the form of various institutions. Acting as a financial intermediary, these institutions collect personal savings of households and organizations into credit and investment capital, which are then placed among consumers of credit and investment resources.

Financial institutions operate in order to satisfy mutual interests between legal entities and individuals. Elucidating and improving the importance of financial institutions in the development of financial relations between them is an urgent issue of today.

Analysis of literature on the topic

Until today, many economists-scientists have been thinking about the economic nature of financial institutions. In the 20th century, scientists such as O. Williamson, J. Stiglitz, R. Hodgson, R. Simon, U. Mitchell began to study the activities of financial institutions, first of all, as separate subjects of the national economy. I. Lavrushin said that financial institutions are organizations that regulate the circulation of money and financial resources in cash and non-cash form.[1].

V.V. Kovalev interprets the role of financial intermediaries as follows: "By attracting free funds of economic entities, they provide funds on their behalf to other persons who need funds under certain conditions."[2].

The investment character of intermediaries is noted by V. Sharp, a classic of economics, as financial intermediaries are "institutional investors". [3].

In 1781, Alexander Hamilton wrote about the financial institutions that contributed to economic development: "Banks are the most wonderful machinery that ever appeared on earth." [4].

Research methodology

Methods such as induction and deduction, time and space, analysis and synthesis, and logical analysis were used in the research process.

Analys and results

The activity of financial institutions is related to the lack of funds for many entities to accumulate funds, save them from current consumption and use them for business purposes. At the same time, by using financial instruments and providing services in the financial market, financial institutions are designed to minimize transaction costs in the economy. A financial institution is a legal entity that provides one or more financial services in accordance with current legislation.

Financial institutions perform the following functions:

1. Saving financial resources.
2. Intercession.
3. Financial transformation (change of term),
4. Transfer of risk.
5. Organization of currency operations.
6. Assistance to liquidity.
7. Organization of operations to change the organizational and legal forms of companies (open and private operations).

The emergence of the function of saving financial resources is predetermined by the need to collect targeted funds for their later use (targeted investments or consumption). Of course, funds can be collected without resorting to the help of financial institutions, but this is not very profitable and risky.

It is the main function of financial institutions and logically complements the function of savings, because by collecting accumulated funds and having to repay them, the financial institution must use them, which generates income. It will be enough not only to pay depositors, but also to get your own income. Thus, the funds are transferred from the depositor to the borrower, and the process of money transfer itself is accompanied by the emergence of obligations to return and pay them (Chart 1).

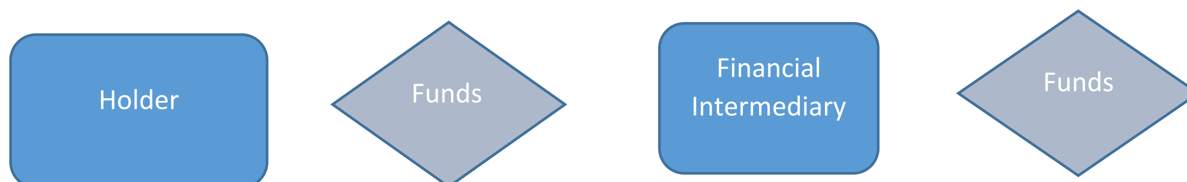

Chart-1. Financial intermediation

The financial intermediary, after receiving funds, undertakes to return them under certain conditions. In turn, funds received in a certain combination are given by a financial intermediary to a certain borrower, as well as under the obligation to return them with payment. Depending on the financial instruments used, repayment can be done indirectly through capital market mechanisms. Financial intermediation is useful for many reasons.

Financial transformation means that short-term (financial) assets and liabilities can be transformed into long-term assets. This is achieved, in particular, by the collection of loans secured by the credit institution with relatively homogeneous assets and the issuance of securities and general collateral, through securities of assets. There can also be an opposite option - "short debt, long debt". For example, a company needs investments, but cannot attract the required amount of funds on a long-

term basis. Then he gives short-term loans and invests them in a long-term project; this requires periodic extensions of short-term loans, as well as assurance of the sufficiency of current income to pay interest and principal on the short-term loan. Of course, the risk of raising interest rates is high here. Renewability of short-term funding sources is needed

Most financial operations are risky, so when they are carried out, there is always a desire to avoid risk or reduce its level. This is achieved in various ways, in particular, by obtaining a guarantee and collateral, transferring part of the risk to a financial intermediary.

In the modern economy, most of the companies are related to currency transactions to one degree or another. In the conditions of a developed market economy, these operations are predetermined by the company's desire to enter international markets for goods and production factors. In a developing economy, there are other reasons for foreign exchange transactions - forming joint ventures, finding a foreign investor, opening a foreign office, buying new equipment from abroad, etc. The majority of such transactions are registered through financial institutions.

Any company needs cash (in this case, we're talking about cash on hand and cash on hand), but how much it should be is a controversial issue. Since current activities (including cash inflows and outflows) cannot be accurately determined, there is always the problem of creating a safe reserve of cash, for example, when payables are due, but the debtor's money, which the company considers, has not been transferred to the account. The simplest option to insure against such a collision - the formation of cash reserves is not useful, because money that does not move not only does not generate income, but on the contrary causes losses (for example, due to inflation). Therefore, investing in highly liquid financial products offered by financial institutions, such as stocks, short-term liabilities, is the wisest choice.

Financial institutions include banks, insurance and investment companies, brokerage and exchange firms, investment funds, interstate financial credit organizations, etc.(Chart-2).

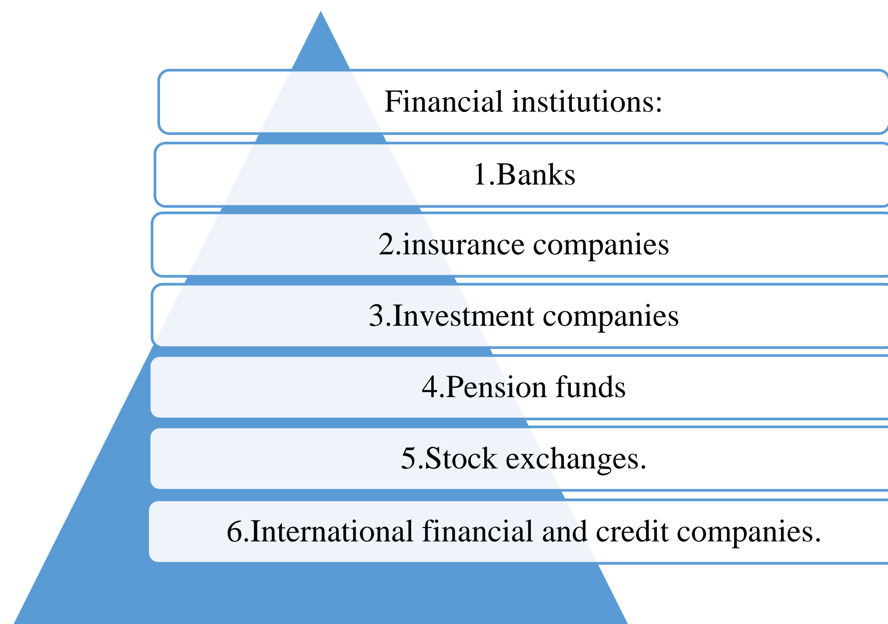

Chart-2. Compositions of financial institutions

Commercial banks – provide loans to business entities and organizations for leasing enterprises, institutions, organizations, services, loans and other credit resources. related to trust (trust operations), giving guarantees and securities and other obligations. Maintenance of consulting services, etc.

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Insurance companies – are financial intermediaries that make payments to their clients in the event of certain insured events specified in the insurance policy. Policyholders pay insurance premiums to the insurance company in return for an obligation to pay a specified amount in the event of certain future events, which is the premium paid by the insurance company to the insurance company under the insurance contract.

When concluding an insurance contract, insurance companies assume the risks of the policyholders and receive insurance premiums, receiving payment for the risks they assume. Insurance premiums are used to buy bonds, shares.

Investment companies – are mutual investment institutions that receive funds from investors and invest them in a portfolio of securities. Investment companies and financial institutions participate in the market by placing their shares and investment certificates. Investment companies invest in securities of many issuers in order to maximize portfolio diversification and reduce investment risk as part of an inverse strategy.

Investment banks and investment banking firms – are institutions that provide and accompany investment processes in the capital market.

The activity of investment banks is related to providing services to issuers and investors and financing promising sectors of the economy.

International financial and credit organizations are organizations based mainly on interstate agreements for the purpose of controlling financial relations between countries in order to stabilize the world economy. The emergence of such institutions was caused by the growth of globalization in the world and the formation of instability in the currency and financial markets. The beginning of their formation mainly began after the end of the Second World War. Of course, today international financial and credit organizations play a huge role in the development of cooperation in the field of financial relations between countries, one of the main international financial institutions is the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development.

Stock exchange - an exchange where securities and other financial instruments are traded; one of the levers of the financial market that serves the movement of money capital. An important link of the market infrastructure, it performs regular and organized activities on securities (government bonds, shares and bonds of enterprises, bank credit notes, commercial bills), foreign exchange trading.

Conclusions and suggestions

In short, financial institutions are an integral part of any country and the world. The activity of financial institutions is regulated by the financial legislation of each individual country. Of course, the economic policy aimed at ensuring continuous macro-economic stability of our country, high rates of economic growth, consistent implementation of structural changes, as well as gradual modernization of the economy, its basic and social infrastructures. strategy is related to the activity of financial institutions. In order to further develop the activities of financial institutions in the country, it is advisable to implement the following.

- Creating conditions for financial institutions to operate freely;
- To further improve the activity of financial institutions and strengthen them with the necessary normative legal documents;
- Improvement of relations between economic entities and financial institutions;
- Simplification of relations between individuals and financial institutions (make it understandable to the people);
- Reduction of interest rates of services provided by banks.

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