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RISKS OF A COMMERCIAL BANK AND ITS MANAGEMENT METHODS

Egamova Mahfurat Esanovna
Associate Professor of the Department of Banking at
Tashkent State University of Economics

Abstract

Banking risk management is related to how a credit institution determines the risks it faces. Consistent optimal management and further classification of banking risks is very important for risk management, as ambiguity can lead to confusing reporting and management of banking risks. This article examines and studies different sources of the concept of "banking risk" and their classification, as well as methods of banking risk management. When considering banking risks, we have developed a specific classification based on various criteria.

Keywords. Risk, management, classification, banking, systematization, attribute, group.

Introduction

The effective functioning of the banking system or individual commercial banks, which are important sectors of the economy, will serve to further develop our economy and increase the efficiency of using monetary resources. However, excessive risk in pursuit of high returns and widespread use of speculative practices can negatively affect the stability of not only an individual bank, but also the entire banking system. Since banks' activities are always associated with risks, one of the urgent tasks is to accurately assess risks, optimize the use of insurance instruments, and generally form a risk management system in accordance with modern requirements. In order to further deepen reforms and modernize the economy in the country, commercial banks are facing important tasks. According to the president, "commercial banks should have sufficient capital, be financially stable, in short, they should become large investment institutions" [1]. Strict compliance with the requirements imposed by the President on the country's banks requires each bank to develop effective management strategies, inparticular, to take measures to improve the risk management system.

LITERARY REVIEW

The issues of improving the risk management system in banks have been studied and discussed by a number of foreign and domestic scientists.

In the definition of F.According to J. Knight, risk is a measurable uncertainty. The scientist also notes that there are two types of income: income under contract, or rent; as well as residual income or profit. If there is uncertainty, it is impossible to determine which part of the income belongs to one type or another.

One of the main sources of uncertainty is F.Knight considers the improvement of production processes, organizational methods, etc., noting that the degree of predictability increases if new knowledge arises as a result of purposeful reflection, research and experimentation [2].

Another foreign academic, economist Joel Bessis, argues that risk management in the banking sector refers to the entire set of risk management processes, as well as models that allow banks to apply risk-based policies and methods. They cover all the management methods and tools needed to measure, monitor, and control risk. The range of models and processes covers all risks: credit risk, market risk, interest rate risk, liquidity risk and operational risk, if we talk only about the main areas. Broadly speaking, risk means any uncertainty that can lead to losses. Bessis argues that risk is a risk-based policy. The practice pursues a common goal: to improve the risk profile and profitability of the banking portfolio [3].

In the monograph devoted to the classification of banking risks and their optimization by the author E.V.Ioda, when considering risk as an economic category, it is argued that risk as a multifaceted concept is common in many social and natural sciences. Each of the sciences has its own goals and methods for studying risk. Therefore, various aspects of this phenomenon are distinguished: philosophical, socio-psychological, economic, legal, biomedical, etc. The concept of "economic risk" has an abstract nature, since it does not exist objectively in nature, i.e. regardless of human consciousness, however, its essence is intuitively understandable to every person with at least some experience in the economic life of society.

In particular, the role of risk in the economic life of society is determined by the fact that people who have negative economic experience in the past try to avoid similar situations in the future[4].

Domestic economists such as Sh.Z.Abdullayeva in her dissertation research on "Diversification of the loan portfolio of commercial banks in the context of banking risks" states "... in developed and developing countries, special attention is paid to reducing credit risks, improving methods and mechanisms for objective assessment of customer creditworthiness, reforming lending practices into a profitability strategy optimal for the bank the introduction of modern banking services and products to increase financial stability and lending potential of banks. Taking into account the experience of advanced foreign countries and the strategic goals of the banking system, the scientific foundations of such problems as reducing credit risks are being investigated ..."[5].

K.A.Mukhamedzhanov argues that the most typical risk for banking is credit risk. The historical concept of "Credit risk" arose in an inextricable connection with the category of "credit". Indeed, the basis of credit risk is a loan, the essence of which is the transfer by the lender of the borrowed value to the borrower for use on the principles of repayment, payment, urgency and security. Consequently, in the economic literature, it is traditional to define credit risk as the possibility of losses due to non-repayment of a loan and interest on it [6].

Based on the above-mentioned studies, we can conclude that at the moment the formation of optimal risk management is an urgent topic.

RESEARCH METHODOLOGY

The research used methods of statistical grouping, a systematic approach, analysis, synthesis, comparison, comparative analysis and econometric analysis. The improvement of the risk management system in banks serves to ensure the financial stability of banks through early detection of risks in the banking sector and their effective management.

ANALYSIS AND RESULTS

There are many operations that play an important role in risk management, and the diversity and high intensity of individual areas of the bank's methodological, organizational, technical, and financial activities are inextricably linked to the risks that arise in the banking sector.

It is important to develop, implement and monitor certain areas of the bank's risk management activities to ensure its sustainability, and to make changes to the bank's organizational structure for this purpose. In our opinion, these issues can be solved in two ways.:

1. Risk management according to the instructions of the bank's divisions and committees (deposit, settlement, credit, securities, etc.), as well as divisions servicing the bank's internal organizational work (personnel, legal, administrative and economic departments, etc.)
2. The bank's divisions and committees will be established, specializing in managing various risk elements. The status, functions and role of risk management in the bank's organizational structure should be defined and separated theoretically (in different schools of banking management) and in practice.

In particular, in order to develop risk management activities in the organizational structure of the bank, the control department, the department of creditworthiness and economic analysis of clients, the department of credit analysis, the department of problem loans, the Department of deposit insurance, the Department of supervision and audit, the group and other similar elements should improve their current performance.

Individual risk management units, which are widely used in the organizational structures of modern banks operating effectively in different countries of the world, are important today for the development of banking practice in our country based on advanced foreign experience. At the same time, it is necessary to create specialized divisions in the country's commercial banks by type of risk. In particular, it is recommended to manage and monitor credit risk by a specialized credit risk committee, as well as regulate interest rate and currency risks by the asset management committee in relation to liabilities. Liquidity risk management is usually part of the functional responsibilities of a bank's money or deposit department. It should also be noted that practice and theory always complement each other, which leads to their further improvement. The conditions of transition to a market economy require the effective creation of organizational structures for risk management of credit institutions. In particular, some banks in the country should have specialized divisions in their structure that provide operating hours, security (internal, economic) services, identification, analysis, assessment, risk management related to collateral, etc.

Effective use of the elements of the credit system, which is a key area of activity for banks, shows that financial issues are of paramount importance in their activities. In addition, the factors listed above that determine the role and importance of risks in the banking sector are reflected in various operations of banks. The existing risks of banking negatively affect its financial condition, the main of which are:

- direct financial losses, losses in case of a risky situation;
- failure to receive planned revenues and profits;

- the occurrence of additional costs as a result of the complexity of banking operations and transactions under the influence of indirect risks;
- damage to banks' activities as a result of risky situations and the cost of resuming banking activities;
- the costs of preparing, creating and implementing a risk identification system, schemes and assessment methods, emergencies, costs resulting from cyclical changes in the market economy;
- development of measures to support the planned scenarios of the life cycle of banking products and their financing;
- operations related to the creation and use of reserves intended to cover losses in the event of a risky situation.

As noted above, the financial aspects of risk management are interrelated with the economic condition of the bank and also have certain limitations. In particular, the financing of high-risk projects is assessed in terms of their impact on the bank's economic potential and sustainability, which is implemented only with the approval of the bank's management.

Table 1

Methods of credit risk assessment in international practice [4]

6 «S»	Customer character	Client status
	Capacity to pay	Ability to pay
	Capital	Capital
	Collateral	Granting a loan
	Current business conditions and goodwill	The economic situation and its prospects
	Control	Control
PARTS	Purpose	Purpose of the loan
	Amount	Loan amount
	Repayment	Repayment of principal and interest payments
	Term	Term
	Security	Credit security
PARSER	Person	Information about the borrower's identity and position
	Amount	Justify the requested loan amount
	Repayment	The possibility of repayment of the loan
	Security	Credit security assessment
	Expediency	The expediency of obtaining a loan
	Remuneration	Bank premium (interest rate) for credit risk
CAMPARI	Character	Borrower's position
	Ability	Evaluate the borrower's business
	Means	Analysis of transactions required to obtain a loan
	Purpose	Purpose of the loan
	Amount	Justify the loan amount
	Repayment	The possibility of repayment of the loan
	Insurance	Credit risk insurance method
COPF	Competition	Online competition
	Organization	Organization of activities
	Personnel	Staff, staff
	Finance	Finance, income
SWOT	Strong	Identify the strengths of the loan applicant
	Weak	Disclosure of the borrower's weaknesses
	Opportunities	Identify the key factors that will ensure the successful step of the borrower
	Threat	Identify potential risks in lending

An analysis of the current state of risk management in commercial banks requires a separate review of all its activities. The study of the risk level of active and passive operations of commercial banks, loans, deposits, various international currencies and stocks on the stock market, and operations with bonds serves to ensure the stability of their activities.

The main part of the active operations of the country's commercial banks is lending to customers. Loans issued by them to customers for up to one year (short-term) and more than one year tended to increase between 2018 and 2024

The analysis results show that the share of short-term loans in the structure of loans issued by commercial banks in the country is growing, i.e. in 2018, short-term loans accounted for only 4.2% of the total loans from commercial banks, in 2024 the figure was 10.6%. Due to the modernization of the economy, increased employment and rapid adaptation to various processes in the transition economy, the development of small business and private entrepreneurship as one of the priorities of economic reforms has led to an increase in short-term loans by banks. However, in general, long-term loans predominate in the total volume of loans, which is an alarming indicator, since the ratio of funds raised and placed does not match the timing.

As we noted in the course of our research, short-term deposits make up the bulk of the bank's attracted deposits, while long-term assets have a significant share in the structure of funds placed, which is the most risky condition for the bank. This means that there is a need to create reserves. The amount of reserves of commercial banks to cover possible loan losses is one of the main indicators that determine the credit risk of a commercial bank. The decrease in the share of banks' assets with their increase is a positive development.

CONCLUSIONS AND SUGGESTIONS

As a conclusion, it can be noted that:

1. The banking risk management system consists of a set of elements that protect a credit institution from external and internal threats and operate within the framework of legislation, representing a certain integrity in relationships and relationships.

2. The development of the Bank's risk management strategy includes the following steps::
identification of factors that reduce or increase specific risks during certain banking operations;
analysis of the impact of identified factors on risk;
assessment of the exact form of risk;
determining the optimal risk level;
analysis of individual operations for compliance with the optimal risk level;
Development of risk mitigation measures.

3. Problems in credit risk management. In our opinion, the main problems related to effective credit risk management in the risk management system of the country's banks are the following:

A) Imperfection of the methodology for assessing credit risk in banks. The assessment of creditworthiness is limited by the use of financial ratios (coverage, liquidity, autonomy). In banking practice, methods of cash flow analysis, scoring, and internal rating are not used to assess risks.

B) Low quality of the loan portfolio of the republic's banks and high credit risk. The ratio of special reserves created to cover possible loan losses to the total assets of the bank is 2 times higher than the internationally recognized norm. However, the optimal level of this indicator was 0.5%, whereas in the country on January 1, 2021 it was 1.0%. However, in some large commercial banks, this figure remains much higher.

C) Limited ability to sell loans and transform the associated risks. Lack of creation of collection agencies and

special agencies for the purchase of problem loans do not allow banks to clear their balance sheets of problem loans. In addition, the lack of a legal framework for securitization of banking assets limits the possibility of risk transformation. In this context, banks must constantly monitor the quality of their loan portfolio and establish effective control over the targeted use of loans.

The improvement of the risk management system in the country's commercial banks should begin with the improvement of the structural units responsible for risk management in the bank's corporate structure. In particular, the following risk management units should be opened in commercial banks: market risk Management Unit; credit Risk Management Department; operational Risk Management Department.

In our opinion, the introduction of the Central Bank's practice of stress testing the financial stability of commercial banks in various risky situations and crises will allow banks to predict risks and take the necessary measures in a timely manner.

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