

Banking Risks

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Abstract: In this article, the concept of risk in commercial banks, their theoretical and legal foundations, the occurrence of risks and recommendations for combating them have been developed.

Keywords: bank risks, financial resources, financial market, stock market, liquid assets, illiquid assets, bank risk.

Introduction. Fluctuations in the prices of financial resources and consumer goods in the international and domestic financial markets, as well as urgent issues regarding the management of asset and liability operations of banks, create the need to improve bank risk management. From this point of view, the need to manage bank risks is one of the important issues in the conditions of the deepening of the market economy, globalization and instability of the international economy.

In global practice, providing commercial banks with stable financial resources, diversifying assets and forming reserves for them, increasing attention to risk management in the bank's asset operations as well as passive operations, the market arising as a result of sharp price fluctuations in the international financial and stock markets (stock, currency and interest)) risk management, assessment of risks related to the banking system in foreign partner countries, conducting comprehensive research on improving the theoretical and practical bases of risk management in the activity of commercial banks is gaining importance.

In the years of independence, the introduction of market relations in our country, the change of ownership in enterprises and organizations, the transition from the monopoly banking system to the form of emission banks and credit institutions became the basis for the organization of the activities of banks that correspond to world standards. Based on the international Basel I, Basel II and Basel III requirements for risk management, a number of mechanisms and methods are gradually being used in the banking system of our republic, which was formed during this period.

Analysis of used literature. Some theoretical, methodological and practical aspects of the occurrence of risks in commercial banks and prevention of their negative consequences were discussed by foreign economists. It is expressed in the scientific works of G.L. Avagyan², D.K. Van Horn³, O.I. Lavrushin⁴, J. Sinki⁵, D.M. Noton⁶ and a number of other scientists.

Also, some issues related to management of assets of commercial banks, problem loans and risk regulation were discussed by Uzbek economists. It was reflected in the scientific works of Yo.A.Makhmudalieva⁷, F.I. Mirzaev⁸, O.K.Iminov⁹, Sh.Z.Abdullaeva¹⁰, N.Kh.Jumaev¹¹, F.N.Karimov¹², O.B. Sattorov¹³, F.J. Nasriddinov¹⁴ and others.

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² Авагян Г.Л. Экономический анализ деятельности коммерческого банка: учеб. пособие: - М.: Магистр, 2007. - 350 с.

³ Ван Хорн Д.К. Основы управления финансами. Пер.с англ.; Гл.ред.серии Я.В. Соколов. – М.: Финансы и статистика, 1996. – 800 с.

⁴ Банковское дело: Учебник, перераб. и доп./ Под ред. О.И. Лаврушина. – М.: КНОРУС, 2008. - 768 с.

⁵ Синки Дж. Управление финансами в коммерческих банках, пер. с англ. 4-го переработанного изд./ под ред. Р.Я. Левиты, Б.С. Пинскера. – М.: Catallaxy, 1994. – 820 с.

⁶ Нотон Д.М., Карлсон Д.Д. и др. Организация работы в банках: в 2–х томах. Том 2

⁷ Махмудалиева Ё.А. Тижорат банкларининг молиявий баркарорлиги ва уни баҳолаш. и.ф.н. илмий даражасини олиш учун ёзилган дис. автореф. – Т.: 2001. – 20 б.



Risks related to banking activities appeared in the period when they were created. However, the problems related to them, as well as the need to manage bank risks, have become one of the important issues in the context of the deepening of the market economy and the globalization of the international economy. Because, in the conditions of the market economy, the relations of commercial banks with depositors, investors, borrowers, customers are constantly expanding, which in turn leads to the deepening of the need for effective risk management.

Analysis and results. According to economic sources, the need for bank risk management has become one of the most urgent issues in international banking practice after the 70s of the 20th century, and in commercial banks of our country in the last years of the 20th century.

Because the activities of banks, not only banks, but all financial and credit institutions, unlike the activities of business entities, are closely related to various levels of risks. One of the main reasons for this is that banks organize their activities based on the attraction of temporary free money in the economy and generate the corresponding income. Therefore, when it comes to banking risks, it is appropriate to focus on the nature, essence, causes and social-economic consequences of these risks.

It is worth noting that bank risks are a very comprehensive economic concept, which includes all the risks that arise during the organization, implementation, profit and other processes of banking activities.

Liquidity refers to the effective management of the decline in the level of deposits and borrowings, together with meeting the bank's obligations and financing the growth of assets.

Non-Permanent Liabilities are large deposits/loans which are highly likely to leave the bank at any time. Such obligations are usually characterized by:

- to be in a relatively large amount;
- short quenching period;
- the owners of obligations will not be bound by any transactions other than these obligations with the bank.

Surplus of reserves - bank funds that exceed the amount of allocations to the mandatory reserve fund - the balance of funds in the representative account of the bank at the Central Bank.

Liquid assets are a special type of assets that are constantly sold and bought, which ensure the formation of their well-known market price, and banks can find a buyer who is ready to buy them in a short period of time. Such assets include cash, government short-term bonds, short-term (up to seven days) interbank loans. The securities of the governments of the countries of the Organization for Economic Co-operation and Development (OECD) and well-known multinational companies of countries with developed stock markets also have high liquidity.

Non-liquid assets are assets whose market price cannot be determined based on quotations, and the purchase price of such assets is determined privately as a result of an agreement between the seller and the buyer. The fact that the value of such assets fluctuates greatly makes comparisons difficult. These

⁸ Мирзаев Ф.И. Молиявий рискларнинг тулари, таснифи, бошқариш ва баҳолаш усуллари. – Т.: Молия, 2006. -135 б.

⁹ Иминов О.К. Бозор иқтисодиёти шароитида кредит тизими ва уни такомиллаштириш йўллари. И.ф.д. илмий даражасини олиш учун ёзилган дис. автореф. –Т.: 2002, – 38 б.

¹⁰ Абдуллаева Ш.З. Банк рисклари ва кредитлаш. - Т.: Молия, 2002. – 304 б.

¹¹ Жумаев Н.Х. Ўзбекистонда валюта муносабатларини тартибга солиш методологиясини такомиллаштириш. и.ф.д. илмий даражасини олиш учун ёзилган дис. автореф. – Т.: 2008. - 35 б

¹² Каримов Н.Ф. Рисклар ва тижорат банкларининг фойдасини шакллантириш муаммолари. и.ф.н. илмий даражасини олиш учун ёзилган дис. автореф. - Т.: 1998. – 19 б

¹³ Сатторов О.Б. Тижорат банклари ликвидлигини таъминлашни такомиллаштириш. и.ф.н. илмий даражасини олиш учун ёзилган дис. автореф. – Т.: 2008, – 18 б.

¹⁴ Насриддинов Ф.Ж. Тижорат банкларида риск менежмент тизимини такомиллаштириш йўллари. и.ф.н. илмий даражасини олиш учун ёзилган дис. автореф. – Т.: 2012, – 26 б.



types of assets include, for example, loans, unquoted or difficult-to-quote securities, fixed assets, etc. A bank may sell illiquid assets at a loss when it is necessary to sell illiquid assets to raise cash quickly¹⁵.

In our opinion, when classifying bank risks, it is appropriate to group them into risks associated with asset and liability operations. Because it is necessary for banks to form enough financial resources to carry out active operations. This process is directly related to certain level of risks. In particular, the risks related to investors, creditors and depositors withdrawing their funds before the agreed period, the instability of the volume of allocated reserves, the risks related to the decrease in the price of bank shares and bonds in the financial markets are among these.

In the practice of international banking, relations related to risks mainly occur in the course of asset transactions. However, it should be noted that not all asset operations of commercial banks are associated with risk. In particular, it is appropriate to emphasize credit and investment operations as the main risk-dependent asset operations of commercial banks.

The reason why these asset operations of banks are highly risky is that banks generate their income through these operations.

Before focusing on the concept of banking risks, we found it appropriate to research the risks that follow humanity at all stages of its activity as a general economic category and to study the scope of their influence on the activity of banks.

Historically, the concept of risk initially showed its impact on people as the negative consequences of the socio-economic process during natural events, then with the emergence of commodity-money relations, the concept of risk began to be used as an economic category. The concept of risk as an economic category has been researched by several foreign and domestic economists, and various definitions of its economic nature have been given.

In the above definition, the focus is on risk as the risk of loss of expected income, profit, property or money in economic processes and adverse conditions. In our view, this definition of risk in the economic vocabulary misses two points.

First, the definition focused on the issue of "the risk of loss of expected income, profit, property or funds", and the issue of the risk of non-return of the principal sum of loans given by banks was neglected. Because, along with the problem of full recovery of interest income from loans given by commercial banks, there is a risk of returning the principal amount.

Of course, we also agree with this opinion, but the second aspect of the issue, the fact that the risk is connected not only with the loan, but also with the passive operations of the bank, has been neglected.

The economic meaning of the term "banking risk", it should be noted that when economists think about the risks of commercial banks, they focus on credit risks, and at the same time, there are few studies on the term "banking risk" in the economic literature.

It can be defined as "Banking risk is a socio-economic reality related to the possibility of losing the principal amount and income in the future or not receiving the full amount of the bank's individual asset and liability operations." Therefore, in order to prevent banking risks or minimize their negative effects, studying and analyzing them by types provides some convenience.

Nowadays, a strong need for risk management is felt in commercial banks, which are the main link of the financial and credit system. Because banks form almost 90% of resources from the funds raised, which in turn requires full return of the funds invested in assets with additional income. However, this process is associated with a certain level of risks, and if the level of risk is high, the bank will not only suffer economically, but also cause a number of problems in fulfilling its obligations to customers, depositors, investors, and shareholders.

¹⁵ Тижорат банклари ликвидлигини бошқаришга бўлган талаблар тўғрисида НИЗОМ



Conclusion. In order to reduce banking risks in commercial banks, attention should be paid to the following factors:

- introduction of a special service dealing with the assessment and management of liquidity risk in the activities of commercial banks;
- the management board of commercial banks should develop an internal regulation based on the Central Bank's regulations on liquidity risk management; On the basis of this regulation, the rights and obligations of employees in the course of liquidity risk management, timely provision of necessary information on liquidity risk should be defined;
- in order to effectively reduce liquidity risk, commercial banks should analyze the extent to which they need and depend on central bank or interbank resources and adopt certain normative indicators;
- in the process of regular assessment and management of the liquidity risk of commercial banks, a strategy of actions to ensure the financial stability of banks should be developed;
- Introduction of the quality standard of liquidity risk management in the activity of commercial banks, which is widely used in foreign banking practice.

In our opinion, the methods of liquidity risk management of commercial banks vary depending on the socio-economic processes taking place in the country's economy, and their effective and rational use serves to increase the financial stability of commercial banks and strengthen public confidence in the banking system.

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