https://gospodarkainnowacje.pl GOSPODARKA I INNOWACJE

LABORATORIUM WIEDZY Artur Borcuch

Volume: 48 | 2024

Economy and Innovation

ISSN: 2545-0573

For more information contact: editor@gospodarkainnowacje.pl

Indicators Affecting Risk Management Practice in Commercial Banks

Nematullayeva Mukhlisa Nasrullo qizi

Trainee-teacher of the AndijanMachine-building Institute

A R T I C L E I N F O.

Key words:
risk, risk management, liquidity, profitability, net profit, capital adequacy

Abstract

The purpose of this article is to analyze the trends in the development of risk management in commercial banks and ways of effective management. Risk management plays an important role in the banking sector, as it enables banks to effectively manage risks and minimize losses. The article discusses the main aspects of the development of the risk management system in commercial banks, in particular, the use of new technologies, innovative approaches to risk assessment and management, as well as changes in the regulatory environment.

Introduction:

Commercial banks are one of the main components of the financial industry, which is the backbone of socio-economic development, and the invariable task of commercial banks is to continuously measure, accept and manage risk. Effective risk management during the operation of commercial banks at home and abroad is not only an important guarantee of the main competitiveness and rational management of commercial banks, but also the only way to maximize the value of commercial banks. Therefore, as people's awareness of the importance of risk in commercial banks increases, the approach to strengthening the management of internal and external risks in commercial banks is causing intense debate.

Banking regulatory bodies require banks to have a strong risk management mechanism in order to ensure financial stability and protect the interests of each client. Banks that do not comply with these requirements may also be subject to fines. In addition, strengthening customer trust and maintaining long-term success is one of the most pressing issues facing banks today.

ANALYSIS OF LITERATURE ON THE SUBJECT: Several scientists of our country have conducted scientific research on the importance of risk management and their effective organization in these commercial banks. It is one of these scientists, G.A.Abdullayeva, who defined bank risks in her scientific works as follows: "Risk in banking practice is not always an unexpected phenomenon. All banking activities are associated with risk. Knowing that this type of activity or operation is risky, the bank decides or carries out this operation, and in all cases it plans to get a high profit from this operation [2].

A.A. Azlarova said that one of the main issues of bank management is the organization of credit organizations. In the organization of management in banks, it is appropriate to create a number of rules for functional distribution to specialists. Banks should implement the following 3 most important goals in managing their activities:
- achieving high efficiency;
- maintaining sufficient liquidity;
- mentioned ensuring the stability and security of the bank [3].

M.A. Akbarov stated in his scientific article that the most important indicator ensuring the financial stability of commercial banks is liquidity. During the pandemic and inactivity in the economy, ensuring and maintaining the liquidity of commercial banks increases the riskiness of banking operations, which can lead to a crisis. There are several factors that influence the increase of bank liquidity risks, and these factors require constant monitoring of bank liquidity risks. In turn, he mentioned that the liquidity and profitability of banks are inversely proportional to each other.[4]

P.A. Smelov defined operational risk as follows: "operational risk is a special type of risk that causes great damage to the banking sector, and a systematic approach to the information base and analysis is not fully developed." According to him, among the risks faced by banks, operational risks form a separate group due to their specific characteristics, the lack of a systematic approach to analysis, and the lack of identification criteria that require more detailed study [5].

A.A.Labov describes bank risk as a set of several actions that lead to the deterioration of its liquidity due to the probability of losses inherent in the bank's activities, as well as adverse events related to internal activities. Today, a financial institution such as banks can face various risks, and therefore, how to correctly classify risks is a very complicated issue[6].

The scope and level of losses arising from credit risk is higher than others. This is one of the reasons for bank failures. It is necessary for commercial banks to develop an effective credit risk management system to minimize credit losses. In order to organize an effective system, each bank should form a credit risk management system and improve continuous control.

This literature review aims to provide a comprehensive review of existing research on risk management in commercial banks, to highlight key concepts, methodologies and challenges faced by banks in risk management.

METHODOLOGY: During this study, the importance of risk management practices in commercial banks and the analysis of important indicators of banks that affect their development, based on the literature on the subject, logical thinking, systematic approach methods were widely used. At the same time, the dynamics of changes in important indicators affecting risk management in commercial banks of Uzbekistan were analyzed and comments were made.

ANALYSIS AND RESULTS: As the banking system develops, the demand for proper organization and development of risk management increases. The role of risk management in the activity of commercial banks is high. The reason for this is that this practice is inextricably linked with the protection of the financial stability of the bank, the interests of its customers and shareholders. In particular, today, our President is paying special attention to this area and reforms are being carried out. As an example, we can cite the decree of the President of the Republic of Uzbekistan "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025". This strategy defines the goals, tasks and priority areas of the development of the banking system, the directions of transformation and reform of the banking system, ways to search for possible solutions based on the experience of transforming the financial sector of foreign countries and taking into account world trends in the financial sector [1-5]. We will analyze the dynamics of changes in 2022-2023 of the important factors affecting risk management practice in the example of all commercial banks (Fig. 1). It should also be noted that the high level of capital profitability of commercial banks helps them to effectively organize risk management practices. If we pay attention to the chart, we can witness a significant increase in the rate of return on capital in February 2022. As of January 2022, this indicator was 6.1%, and by February it was 13.2%. To date, the indicator of capital profitability is increasing and decreasing at the same time. As of July 2023, this indicator was 14.7%. This means that the return on capital has increased by 8.6% compared to January 2022 [7].

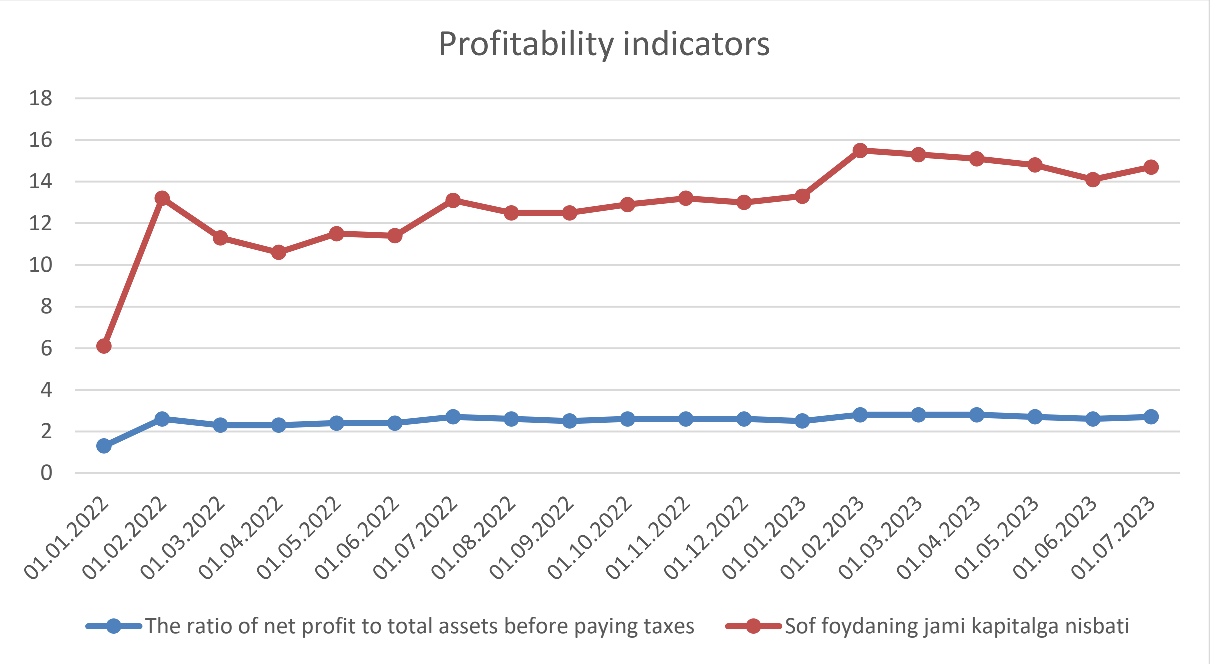

Figure 1. Dynamics of ROA and ROE indicators in commercial banks in 2022-2023. (in %)

Source: Prepared by the author based on statistical data.

An increase in problem loans can also affect the bank's financial activity. A large volume of bad loans can lead to increased losses that the bank has to cover. This can reduce the profitability and financial stability of the organization.

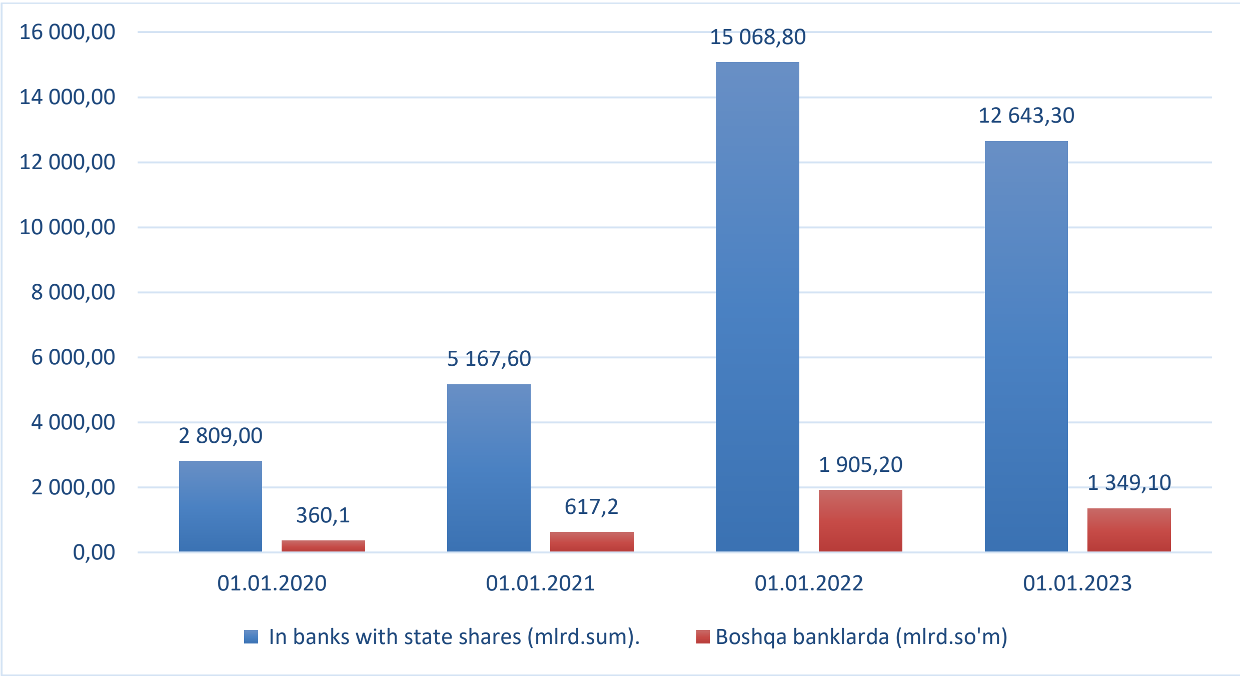

Figure 2. Dynamics of change in problem loans in commercial banks in 2020-2023.

*Source: Prepared by the author based on statistical data***.**

In general, credit risk is an important factor that determines the level of non-performing loans in a bank or other financial institution. Reducing credit risk, for example through stricter lending criteria or improved credit monitoring, can help reduce non-performing loans and increase the financial strength of an organization [8].

CONCLUSIONS AND SUGGESTIONS: In conclusion, we can say that indicators affecting risk management in commercial banks play an important role in ensuring the stability of the banking system. They allow banks to identify and assess the risks they may face and develop a strategy for their management. Liquidity and asset quality are also important indicators. A high level of liquidity allows the bank to meet its financial obligations quickly and safely, and the high quality of assets guarantees the minimum presence of problem assets that lead to losses. The risk management performance indicator also plays an important role. It reflects the effectiveness of the bank's risk management and its ability to make the right decisions on risk management.

Finally, important indicators are the degree of branching and diversification of assets in the bank's portfolio. A more diversified and balanced portfolio of assets reduces the risk of concentration and increases the overall financial strength of the bank. In general, the analysis of these indicators makes it possible to assess the financial stability and riskiness of a commercial bank, which is an important tool in making and developing decisions in the field of risk management.

Development and implementation of new technologies and tools for risk management. The use of artificial intelligence, blockchain and other modern technologies can significantly improve risk management processes in commercial banks.

References

1. PF-5992 (2020) Decree of the President of the Republic of Uzbekistan No. 5992, "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" May 12, 2020.
2. Abdullayeva. G. A. (2022), "Methods of assessment and risk assessment of economic security of

banks in Uzbekistan", Journal of Hunan University Vol 19.
3. Azlarova.A.A, Abdurakhmanova.M.M (2019), "Bank marketing and management" study guide, Tashkent, page 52.
4. Akbarov.M.A (2022), "Improving liquidity risk management in commercial banks", "Economics and society" #10(101)-1.
5. Smelov.P.A (2018), "Operational risk management in a commercial banks", "International journal of engineering and technology" No. 7(4.36).
6. Labov A.A (2020), "Risk management in commercial banks", Scientific journal No. 2.
7. Erejepova Jiengul Tajetovna. Corporate governance and its peculiarities in joint-stock commercial banks. Vol. 48 (2024): Gospodarka i Innowacje. Published: 2024-06-01. https://www.gospodarkainnowacje.pl/index.php/issue_view_32/article/view/2727.
8. Erejepova Jiengul Tajetovna. INTERNET BANKING IN THE CONTEXT OF DIGITALIZATION: ADVANTAGES AND DISADVANTAGES. World Bulletin of Management and Law (WBML). Available Online at: https://www.scholarexpress.net Volume-28, November - 2023 ISSN: 2749-3601 14. https://scholarexpress.net/index.php/wbml/article/download/3348/2854
.