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Improving the Risk Management System in a Commercial Bank as a Condition for Minimizing Credit Risks

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Abstract: This article discusses the issue of improving the risk management system in a commercial Bank, namely, the reasons for the appearance of Bank risk and the importance of forming a proper risk management system in the constantly changing conditions of the economy and the financial sector. The goals, tasks, and components of risk management are considered, and the combined organizational structure of the service is characterized. Recommended ways to properly organize risk management.

Key words: commercial Bank, risk management, organizational structure, monitoring, analysis.

Commercial banks are the most important institutions for saving, mobilizing and distributing financial resources. In fulfilling this role, it is necessary to understand that banks have the potential, capabilities and prospects for this mobilization of financial resources. Therefore, regardless of the sources of income or the economic policy of the country, commercial banks will be interested in providing loans and borrowings to their clients.

However, many factors influence the decisions of commercial banks to grant loans, such as the prevailing interest rate, the volume of deposits, the level of their domestic and foreign investment, the banks' liquidity ratio, prestige and public acceptance, and many others.

The main income-generating activity of banks is lending. But this activity is fraught with enormous risks for both the lender and the borrower [10]. The risk of a partner not fulfilling their contractual obligations on time or at any time thereafter could seriously disrupt the smooth running of the bank's business. On the other hand, a bank with a high credit risk has a high risk of bankruptcy, which puts depositors at risk. Among the risks faced by banks, credit risk is one of the most serious for most banking authorities and banking regulators.

Therefore, the recognition, measurement, control and management of credit risk are very important for banks [5]. There is not a single financial institution that can avoid the above risks. Credit risk management has long been a focus of attention of governments, regulators and financial institutions. The modern economy is basically a credit economy based on the trust of various actors. The creditor understands the credibility of the ability based on the repayment of the book value and interest at a certain time.

Thus, it is necessary to approach the issue of improving the risk management system of a commercial bank with due attention. Risk management is a system for managing banking risks and includes the strategy and tactics of management to achieve the main business goals of the bank [3]. The purpose of this system is to maximize profit with a relative balance of income and risk. The objectives of risk management are:

1. Constant monitoring of the internal and external environment of a commercial bank;

2. Formation and implementation of a risk management program, as well as methods of risk assessment and analysis, measures for possible consequences of risk;
3. Evaluation of the effectiveness of the risk management system and the application of methods for the analysis of banking risks, taking into account the development of economic trends.

The risk management system is developing and improving in terms of plan fulfillment and non-fulfillment. If the plan is not fulfilled, it is necessary to carefully analyze the causes of banking risk and develop specific measures taking into account all conditions.

This system can be developed into five constituent elements [15]:

- monitoring;
- identification;
- quantitative and qualitative assessment;
- comparison with a threshold indicator;
- improvement and application of measures for each risk.

The banking risk system is effective and efficient with the correct distribution of functions, tasks, powers and responsibilities among all participants in the management process in the bank [6]. It is necessary to ensure the independence of the risk management service and give the right of veto to its head when deciding to conduct high-risk operations that could threaten the financial stability and reliability of the bank.

The most acceptable structure of the risk management system is characterized by a combined type of organizational structure of the service [9]. A well-established organization of the system contributes to an increase in the efficiency of risk management in the bank and acts as a guarantee of strengthening the competitiveness, growth in value, functioning and financial stability of the bank. In Figure 1, we will consider the structure of the risk management system in a commercial bank [13].

In each commercial bank, as a special internal local act, a risk management strategy must be approved, with which it is necessary to familiarize employees of all departments responsible for tactical and strategic risk control. It should be noted that the risk management system should be implemented in such a way as to take into account the preservation of customer loyalty, especially when lending to borrowers [4]. It is also recommended to reorganize the organizational structure of the divisions, namely those responsible for risk management, then the creation of a division in the bank responsible for overdue debts of bank customers and specializing exclusively in working with problem debts.

It should be noted that in the process of improving the risk management system in a commercial bank, it is necessary to improve the quality of credit risk assessment [1]. One of them can be an improved approach to assessing the aggregate credit risk based on the calculation of a number of coefficients and setting, depending on the magnitude of the probable losses of three zones [11]:

- acceptable risk (determines the economic feasibility of the bank's lending activities);
- critical risk (losses exceeding the value of the expected profit and the possibility of obtaining losses are likely)
- catastrophic risk (losses exceeding the critical level are likely. They can reach a value equal to the bank's capital) [14].

Thus, today, taking into account the changes in the economy and the financial sector, there is a need to improve the risk management system of a commercial bank, which can be achieved by reorganizing the process of this system and improving the methodology for assessing the total credit risk, which will make it possible to manage them more effectively.

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