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## Improving Bank Risk Management

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**Abstract:** This article explores the concept of risk, in particular the risks that arise in the activities of commercial banks, their theoretical basis. Therefore, problems in improving ways to reduce bank risks through assessment and management have been analyzed and proposals for their elimination have been formulated.

**Key words:** banking, banking services, risk, bank risks, risk assessment models, risk management methods, risk management, stress-testing.

### Introduction

At the current stage of the transformation of the economy, special attention is paid to the issues of effective organization and improvement of modern corporate management practices in commercial banks. In particular, in recent years, taking into account the economic processes occurring in the world and the main trade partner countries, continuing macroeconomic policies are being implemented aimed at preventing their negative impact on the economy of our country, promoting domestic demand and real-sector investment activity, creating the financial resources necessary for entrepreneurial activity and ensuring the expansion of production volumes in all areas

This, as the head of the country noted, "as a key factor in the development of the national economy by the end of 2024 within the framework of the "business support program" in order to create more favorable conditions for business:

attracting 2 million residents to business through the implementation of complex support measures; let the necessary conditions be created to ensure the employment of 5 million inhabitants by creating new jobs"[1] – one of the main conditions for the implementation of the huge tasks ahead of us.

Risks can harm the financial situation of any organization and lead to the complete bankruptcy of the enterprise. Taking these cases into account, enterprises try to reduce its risk level by managing risks during activities.

The presence of the above problems and the need to solve them, the president of the country Sh.M.Mirziyoev touched on: "ensuring financial stability in the banking system by reducing problematic loans in the structure of loans allocated to the economy."[1] stated.

Today, it is envisaged to improve the risk assessment system, in particular, to introduce a mechanism for deep factor analysis of financial risk management, to form reserves, diversify the investment portfolio, take measures aimed at preventing the occurrence of problem loans, to introduce international standards for improving requirements for the formation of reserves for probable losses based on models of expected losses.

### Analysis of the literature on the topic

Risk is considered one of the most basic elements of economic activity, a multidisciplinary concept that has a broad meaning: therefore, in order to increase the efficiency of banking activities, to

ensure its financial stability, it is necessary to thoroughly study the existing risks in the economy, their aspects of influencing banking.

Any economic activity always contains elements of risk. However, there is no single approach to defining this concept in the literature.

In the existing literature, the relationship of objective and subjective characteristics of the property, characteristics and elements of risk, its understanding of its content, has been described in different ways.

The absence of a single definition of risk is due to the versatility, complexity and inconsistency of this phenomenon. The word "Risk" is present in many languages of Europe. An example is the Greek word *ridsikon*, meaning cliff, peak. In Italian, the word "risiko" means danger, threat, and the word *risicare* means skillful crossing of a rock.[2]

Webster's Dictionary defines risk as risk - risk, loss, and probability of loss.[3]

The French term "risdoe" refers to the meaning of taxiing, danger, fear, (guyoki risking when circumnavigating a steep cliff).[5]

The term "risk" is derived from the Spanish - Portuguese word "rock under water", referring to the deep Moss of risk. Therefore, balkim, the etymology of the word "risk" goes back to the Latin word "ressum" – "risk at sea", "danger". "Risk is such a thing that it should be avoided." [6]

In the late 19th - early 20th centuries, the interpretation of "risk" had arisen in connection with the separation of the concept of "risk" from the concept of "uncertainty" in other areas, including the Economic Sciences.

It has become a habit to interpret risk as risk. First, N. Luman distinguished the concepts of "risk" and "risk", commenting: "the difference means that there is uncertainty about future harm. Or possible damage is considered as the result of the decision. In it we are talking about the risk of decision. Or if the causes of such damage were affected from the outside, we will talk about uncertainty." [6]

The perception of risk as uncertainty in economic activity can be used in the justification of the project chosen for its implementation, (according to the "cost-benefit" criterion) if it is justified. The main part of the profits that are currently being formed comes from effective risk management. The relationship between Risk and profit served as the basis for the perception of risk as an opportunity. Risk to profit leads to a desire to invest and aggressive behavior, the purpose of which is to quickly achieve positive results. Within the framework of this concept, risk is called only when there is a deviation between the actual and predicted result caused by many unknown factors.

In the implementation of financial transactions, the abstractions of information, that is, the duration of the transaction, the time of receiving information, for example, the time of buying or selling an asset, changing the characteristics of the flow of payments, etc., lead to temporary uncertainty.[4]

Russian scientist V.A. Akimov the source of the risk is the action carried out by the subject, which makes uncertainty a risk. That "... for an organization, a certain activity and negative effects that are limited in a certain field of activity, leading it to transition from one form to another, in connection with the formation of unfavorable conditions in the environment, its state in the outcome of losses" [7]. Risk reduction involves the allocation of resources to reduce the likelihood of adverse events.

Classical school figures have made significant contributions to the study of Risk theory. A. Smith had attempted to clarify the concept of reciprocal proportionality between risk and profit. A. Smith argued that "in an area with high risk cases, the income by law will be small, which in turn will increase even more the balance of methods to increase the expected income level." Accordingly, achieving the usual level of profitability is always associated with a large or small amount of risk.[9]

Another foreign economist scientist was P. Hein called it: "... profit is caused by uncertainty. If it is not, all the harm associated with making a profit will be known to everyone, all the possibilities of its implementation will be fully used, so the profit will be zero everywhere." [10] interprets. Y. As Schumpeter noted, if the economic plan does not take into account risks, then they become a source of losses on the one hand and profit on the other. [12]

Economist E.S. Stoyanova's book "Financial Management" defines risk as the likelihood of a loss occurring or the risk of not receiving income as projected [13]. Sh.Z. Abdullaeva believes: risk and risk are something special, that is, risk is the activity of the subject of the economy, and it is associated with choice. [14] this activity is carried out based on the choice of the subject in risk conditions.

Professor V. Usoskin comments that "risk will always come with uncertainty and be associated with events that are difficult or impossible to foresee in the last, in turn" [14]. E. In Stoyanova's opinion: "risk is the possibility of failure to receive income or harm in relation to the planned option." [13]

In generalizing risk considerations, risk is the failure to reach the goal set, setting the result in the case of uncertainty; evaluating the result set in the subjective case.

Prof. Sh. Abdullaeva makes another point in her research. In his view, "the interpretation as risk - error, hesitation, uncertainty, abstraction and hokozas is not consistent with international practice, and approaching that state, "risk" is intended to be referred to as "bank risk", "credit risk". [14]

T. from Economist-scientists. Malikov, O. It is noteworthy that the olimjonov's views on risk. While the term "Risk" is being translated in some Uzbek-language sources to mean "risk", "risk", "threat", and "risk", none of them, according to the authors, have the original meaning of the term "risk". "The likelihood that losses will arise or that revenues will be received less than the intended level is called risk." [15]

In addition to the above, we can say that risk is a distrust resulting from the activity being carried out in the hall, which pursues a certain goal, sometimes consisting of losses in the result of unsatisfactory termination. Risks are an indicator that can be measured in banking activities, and they will always be equal to the loss the bank receives from the operas it performs, the income it loses" . [16]

Thus, risk helps to overcome conservatism, dogmatism, psychological barriers that hinder the social progress of new, promising types of activities and remain as a brake in ensuring the implementation of creative initiatives, innovative ideas, social experiences aimed at achieving success. On the other hand, risk leads to the stagnation of avanturism, volatility, subjectivity, social progress and, as a result, to the origin of certain socio-economic and spiritual costs.

### **Research methodology**

In the implementation of scientific work, the activities of commercial banks in the financial market, as well as the activities of Investiture, emission and mediation, have been studied by a number of foreign and domestic economic scientists and have formed their own approach to them. If we approach these hos more closely, then in almost all cases the activities of commercial banks in the financial market, opinions and approaches to this market are close to each other in content, but one of the forms of them is sharply different from the other. The author made conclusions, suggestions and recommendations in the relevant directions as a result of studying the existing experiments and conducting a comparative analysis through them.

### **Analysis and results**

Foreign experience testifies to the fact that business is impossible without risk. Anyone who does not take a risk of Hech will eventually become dishonest. It is not without commercial banks. Therefore, before taking risks, it is necessary to study it as much as possible and seek to evaluate and manage it. And when managing it, of course, it is necessary to take into account the principles

of risk (not going to risk beyond the possibilities of equity, it is necessary to always take into account the consequences of risk, it is not necessary to risk with a large amount of funds for a small amount of profit).

In order to assess and reduce the impact of risks on the income of banks, it is important to classify them according to their various signs. Systematization of risks in general on the basis of their signs and criteria, combining their subgroups into general concepts, depends on the motivation of the subject conducting this activity.

In our opinion, Financial Risk Management in banks is a complex type of activity associated with the multifaceted nature and manifestation of financial risks, which have many diverse and sometimes contradictory Real foundations.

Currently, the main focus on risk management is on organizations involved in the financial spheres of activity, since the problems of risk management and management are traditionally an integral part of the daily activities of financial institutions.

However, in the last years, new approaches to risk management appeared. At the beginning of the 90s of the XX century, the formation of standards in the field of risk management was observed in the world experience.

The spread of standards was carried out on the drums, at the international level and even at the network level (banking, insurance organizations). Proof of this is the Anglo-Saxon rights standards of risk management (Australia, New Zealand, Japan, United Kingdom, JAR, Canada), as well as the standard developed by the sponsoring organizations Treadway Commission Committee (COSO, USA), the risk managers European Federation of Association standard (farm) and the risk management standard ISO 31000:2011.

Among the standards for Network risk management, the standards associated with the activities of insurance organizations (Solvency, Solvency II) and the bank (Basel, Basel II, Basel III) are popular.

In 2020, in order to transform state banks, reorganize their activities in accordance with market principles and international standards, and expand private equity participation in the banking system and strengthen the competitive environment, on May 12, the decree of the president of the Republic of Uzbekistan PF – 5992 approved the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025.

Within the framework of this strategy, four priorities for the reform and development of the banking and financial system are established in the next five years. In particular, it is envisaged to assess the state of the financial sector by the end of 2024 on the basis of the program of the International Monetary Fund and the World Bank (FSAP) in order to assess the level and stability of the development of the country's banking and financial sector.[11]

In addition to the above, it is appropriate to cite the following words of the president of the Republic of Uzbekistan Shavkat Mirziyoev. "In the last 4 years, serious steps have been taken to introduce market mechanisms to all aspects of our economy. The ultimate task is to create the foundation for long-term sustainable growth through deep structural reforms.[17]

**Table 1. The share of the banking system of the Republic of Uzbekistan in the economy [18] billion sums**

Specification name	Years in cross section				
	01.01.2020.	01.01.2021.	01.01.2022.	01.01.2023.	01.01.2024.
GDP	529391,4	602193,0	738425,2	888341,7	1066569,0
Bank assets	272726,9	366121,1	444922,5	556746,3	652157,1

Ratio of assets to GDP, in percentage	51,5	60,8	60,3	62,7	61,1
Loan investments	211580,5	276974,8	326385,6	390048,9	471405,5
The ratio of loan investments to GDP, at interest	40,0	46,0	44,2	43,9	44,2
Deposits	91009,0	114746,9	156189,8	216737,5	241686,6
The ratio of deposits to GDP, in percentage	17,2	19,1	21,2	24,4	22,7
Capital	51030,7	58351,3	70917,6	79565,4	97079,2
The ratio of capital to GDP, in percentage	9,6	9,7	9,6	9,0	9,1

Based on the data of Table 1, we can say that the increase in the volume of total loans allocated by commercial banks in 2023 is 81.4 trillion. the change compared to the growth rate of almost 2022 year, despite the conditions of the pandemic, is 63 trl.so ' established M. As a result, the balance of credit investments allocated to the economy was equal to 20.8 percent per year or 44.2 percent against nominal GDP growth.

The total assets of the commercial banks of our country have increased by 4.35 times, and the total value of credit investments directed to the real sector of the economy has increased by 5.15 times, and this situation indicates an ever-increasing role of the banking system in promoting economic growth. The total amount of assets of commercial banks is 652.2 trillion, according to January 1, 2024. som. This situation suggests that the role of the banking system in promoting economic growth is increasing.[18]

As a result of the work carried out, the resource base of the banking system of our country, the amount of capital and their liquidity capabilities are also becoming more and more solid.

However, it is worth noting that the increase in risks associated with non-repayment of loans due to the reduction of cash flows of economic entities due to a decrease in economic activity under the influence of coronacrisis, which occurred at the international level in 2020, caused an increase in concerns about the financial stability of the banking system.

The resource base of banks is 66 trillion in 2023 compared to 2020. it grew by a sum of or 22%. [18]

**Table 2. Structure and dynamics of total assets of commercial banks of the Republic of Uzbekistan [18]**

(billion sums)

Specification name	01.01.2020 й.		01.01.2021 й.		01.01.2022 й.		01.01.2023 й.		01.01.2024 й.	
	billion sums	share, at (%)	billion sums	share, at (%)	billion sums	share, at (%)	billion sums	share, at (%)	billion sums	share, at (%)
Cash and other payment documents at the cash desk	6553,2	2,4	9734,6	2,7	10686,3	2,4	19309,1	3,5	20201,8	3,1
Funds in the central bank	14769,0	5,4	18851,4	5,1	31514,6	7,1	36592,1	6,6	33228,0	5,1
Funds in other banks-residents	10089,4	3,7	13146,0	3,6	13302,5	3,0	17423,7	3,1	24368,5	3,7
Funds in other banks-non-residents	15419,9	5,7	21700,5	5,9	25074,0	5,6	37688,3	6,8	28862,5	4,4
Investments and other securities*	3567,8	1,4	11023,6	3,0	19633,7	4,4	31507,9	5,7	32548,3	5,0
Credit deposits, net	207646,3	76,1	270212,8	73,8	316382,4	71,1	378909,2	68,1	457847,1	70,2
Basic tools, pure	5723,1	2,1	8314,2	2,3	11031,9	2,5	14242,9	2,6	19874,9	3,0

Interest accrued on assets	3306,3	1,2	7881,6	2,2	9387,1	2,1	12295,3	2,2	19249,8	3,0
Other private properties of the bank	352,8	0,1	1131,2	0,3	1339,4	0,3	3065,5	0,6	4483,5	0,7
Other assets	5299,1	1,9	4125,1	1,1	6570,6	1,5	5712,1	1,0	11492,7	1,8
Total assets	272726,9	100,0	366121,1	100,0	444922,5	100,0	556746,3	100,0	652157,7	100,0

From the data of this Table 2, it can be seen that during the period 2019-2023, there was a tendency to increase the absolute amount of loan investments. Its share of GDP share also had a growth trend in 2019-2023. This is considered a positive situation and indicates that the economy is increasing in the provision of bank loans. At the same time, during the period 2019-2023, the GDP balance of loan investments decreased by 7.7 percent, which means that commercial banks have much more problems in credit activity, as well as the need to improve it.

The share of loans in the bank's asset balance is trending from year to year. If the share of the loan in the bank's assets was 76.1% as of 2019, its share as of January 1, 2024 was 70.2%. This means that while the absolute amount of bank loans has increased, their relative downward trend continues.

Of course, within the assets of commercial banks, all of the loans allocated to the real sector of the economy occupy a significant place. In this case, 86.7% of the allocated loans are credited to internal sources. This situation suggests that the role of the banking system in promoting economic growth is increasing.

The Central bank of the Republic of Uzbekistan has taken the necessary prudential measures to mitigate the negative impact of the risks that may arise by constantly assessing the financial condition of the banking system, changes in the quality of assets, by conducting stress-tests, and has been able to maintain the quality of assets at an acceptable level.

### Conclusions and recommendations

It should be noted that the transition of society to a new economic form complicates the mechanisms of financial relations. An increasingly developing society with a high level of informatization and technical support requires novel approaches to risk perception and treatment.

Financial and credit specialists are inclined to determine the risk-through the "risk of loss", since any financial transaction, carried out primarily for the purpose of profit, can lead to the fact that this goal is not always achieved, and even worse - to losses.

So risk is the financial category. Therefore, the level and value of risk can also affect the functioning of banks through a financial mechanism. Such an effect is carried out with the technical assistance and special strategy of financial management of the bank. Thus, the ultimate goal of risk in banks is to know the benefits and risks at an optimal level, to gain profit in an optimal ratio.

Currently, comprehensive work is being carried out in Uzbekistan on reducing existing risks in commercial banks. In particular, in the following years, institutional foundations of the risk management system were created in commercial banks in the country. In this case, management systems are being formed based on the value and risk methods of regulating the risks that arise in the activities of commercial banks through market methods.

But even so, in the activities of every commercial bank in our country, it is advisable to develop separate risk management standards that serve to ensure financial security and increase financial stability.

Because, in all developed countries, their existing banks have a risk management system. They protect banks through this system from crises, residents from depression, and enterprises that are customers to them from negative results. Risk Management serves significantly in ensuring financial security in banks as well as having a place in market conditions;

When developing a Risk management standard, it is necessary to use important elements of the above international risk management standards, as well as to include it in the management system

of commercial banks, taking into account national characteristics and analyzing modern development trends. This in turn makes it possible to solve most problems in "income-cost" or "income-risk" pairs in commercial banks.

On April 18, 2023, the Central Bank of the Republic of Uzbekistan adopted Regulation No. 3427 "on requirements for the risk management system of banks and banking groups". According to this regulation, the risk management system in the bank should be based on the three-line method of protection, and the risk management obligations under this method should be distributed among the following structural units of the bank:[19]

the first line of protection is the structural units responsible for providing direct banking services. These structural units accept risks and also provide reports on the current management of risks;

the second line of defense is the structural units responsible for managing risks, as well as other structural units with control functions. These structural units identify and manage risks;

the third line of protection is the Internal audit Service. This structural unit examines and evaluates the risk management system.

This means that the most optimal way to manage risks in commercial banks is a clear distribution of tasks, obligations and powers for managing risks between all structural units and employees of the bank, taking into account conflicts of interest.

In addition, the most effective ways to reduce the risks that arise in banks include systematically increasing the financial literacy of the population, economic entities and individuals considered bank customers, various forms of compensation for losses caused by risks, diversification, securitization, creation of mutual guarantees and insurance systems in the financial services market.

This means that the level of Risk Reduction and rational management that arises in the banking system allows you to timely meet the demand of the national economy for financial resources and permanently protect its obligations to the population and creditors more broadly.

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