



IMPROVING THE METHODOLOGY OF IDENTIFYING AND MANAGEMENT OF RISKS AFFECTING THE ACTIVITIES OF COMMERCIAL BANKS

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Abstract: In this article, the essence of the methodology of identifying and managing risks affecting the activity of commercial banks is studied, as well as the process related to the formation of bank capital is analyzed from a theoretical and practical point of view, and the existing main trends are identified. Factors affecting the effective management of bank risks were analyzed, and scientific proposals and recommendations were developed regarding the improvement of the effective management of bank capital, the criteria for evaluating the performance of an employee working in the credit department. Formation of capital of commercial banks and achieving its rational management play an important role in ensuring the effectiveness of economic reforms and market relations. As in most developed countries, the deepening of economic reforms in Uzbekistan creates the need to effectively manage the capital of commercial banks and to constantly improve it and prevent risks. In recent years, a methodological and legal basis for the establishment and development of commercial banks in Uzbekistan has been created and put into practice. However, it is felt that there are some problems related to the formation of the capital of commercial banks and its effective management in our republic. In particular, there are problems such as ensuring a stable level of the authorized capital of banks, risking bank assets, forming the capital structure at the expense of financially stable sources, adjusting the regulatory capital of banks to the requirements of the international Basel standards, and recommendations for determining their solution are presented in this article developed.

Key words: *Commercial bank, bank capital, Basel Committee, credit, assessment, banking system, solvency, credit provision, analysis, banking supervision, risk management.*

Introduction. It is known from world practice that when analyzing the activities of banks, it is important to analyze the current legislation of the state in which the bank operates. World experience shows that each state, based on its political, economic goals, determines how to conduct monetary policy. In addition, the study of world experience in this direction requires the need to master the necessary knowledge and experience as a result. It is known that since 1975 of the last century, European countries, developed countries such as the USA, Canada, and Japan realized that the need to move to international banking control standards plays a key role not only in the financial sector, but also in the economy as a whole. As a result, the Basel Committee, an international organization for bank supervision, was created. This international organization is still important in regulating the activities of commercial banks.

Today, researchers all over the world are conducting a lot of scientific studies on the adequacy of bank capital and the requirements of the Basel Committee. In the development of the world economy, the existence of the

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national banking system of the countries serves to ensure the economic sovereignty of the countries. Especially in the conditions of the market economy, as a result of competition between commercial banks, the quality of services provided by them will increase. Increasing the role of commercial banks in providing capital for socio-economic reforms, legal regulation of their activities is a strategic direction of the monetary and credit policy of the states. Despite the research and theoretical research carried out within the framework of this topic, the ways of identifying, analyzing, evaluating and effectively managing and reducing the risk factors affecting the capital of commercial banks have not been fully studied in a comprehensive and systematic manner. Deep scientific research in this field indicates that it should be carried out.

Based on the international experience of creating an efficient banking system and developing its activities in the Republic of Uzbekistan, a legal framework has been created and measures for its development are being developed. In this regard, a number of practical works have been carried out to increase the importance of commercial banks and reduce state intervention. An important aspect of the analysis of the capital adequacy of commercial banks is that we need to take into account the fact that banks operate in the conditions of a market economy with the purpose of financial support of the economy and profit. This, in turn, requires the analysis of the issues of expansion of areas, sectors and directions in which commercial banks operate. As a result, it creates an obligation to assess and manage risks affecting the bank's activities.

Material and method. Commercial banks develop and implement strategic development programs in the course of their activities. Today, in the conditions of economic relations based on high risk, it is important to reduce the consequences of low risk. Therefore, it is necessary to take risks into account in the development strategy and in ensuring the adequacy of bank capital.

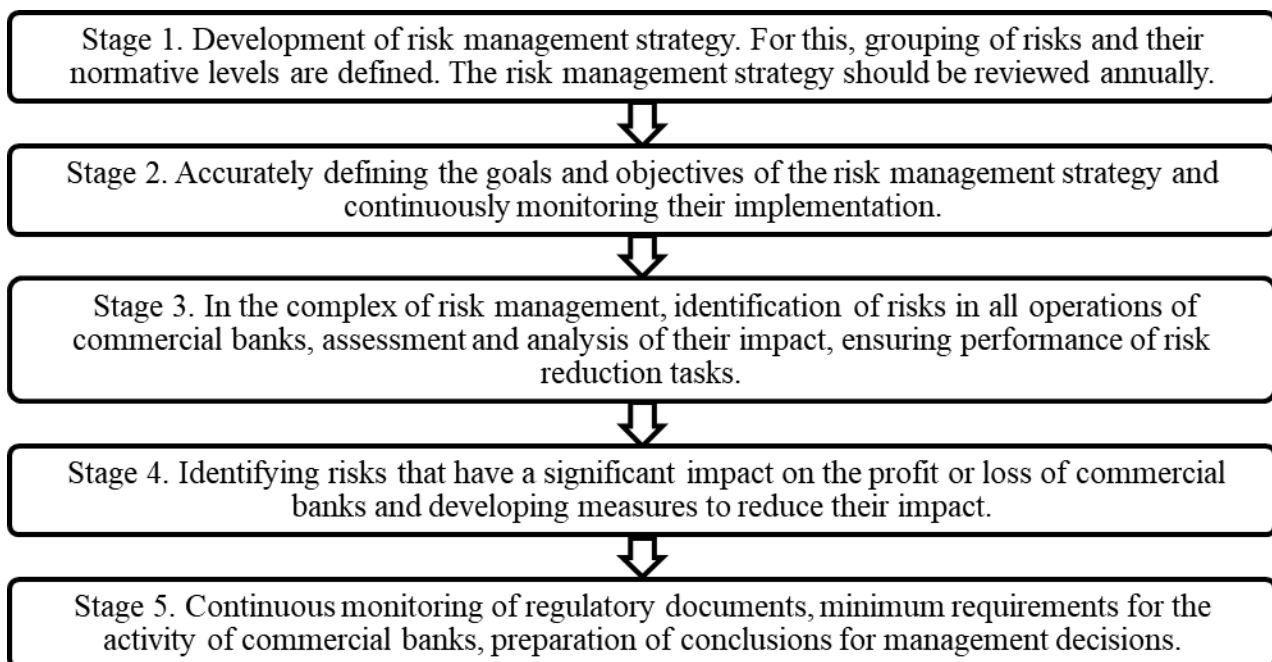


Figure 1. Risk management strategy

Figure 1 shows the risk management algorithm, which is an important element in ensuring capital adequacy of commercial banks.

Now we will group them to control the risks. In this case, we use the method of transition from general to specific. Because each risk has a specific effect, we can analyze their significance in detail through the deduction method.

Common risks are:

- Credit risk;
- Liquidity risk;
- Shareholding risk;
- Market risk (stock exchange risk, interest rate risk, currency risk);
- Operational risk;
- Profit and loss risk;
- Counterparty risk;
- Insurance risk;
- Image and reputation risk of the commercial bank;
- Issuer risk;
- Inflation risk;
- Political risk;
- Social risk;
- Administrative risk;
- Strategic risk and other risks.

There are many factors and risks that can affect the activity of commercial banks, and the main group of risks was noted above. It would be appropriate to assess each of these risks using a deductive method and determine regulatory limits for commercial banks.



The following general risks directly affect commercial banks, that is, if their share is higher than 2%, we group them as risks related to the activity of commercial banks:

- Credit risk;
- Liquidity risk;
- Shareholding risk;
- Market risk (stock exchange risk, interest rate risk, currency risk);
- Operational risk;
- Profit and loss risk;
- Counterparty risk;
- Insurance risk;
- Image and reputation risk of the commercial bank;
- Issuer risk;
- Strategic risk.

When assessing the impact of non-controllable risks on commercial banks, we divide them into controllable and non-controllable risks. It is necessary to determine that the share of risks in total risks, which are not applicable to commercial banks, does not exceed 10%. Directly affecting risks, in turn, are again divided into groups and the share of each is determined.

If the total impact of the risk is higher than 3%, such risks are considered significant risks for commercial banks and we group them as follows:

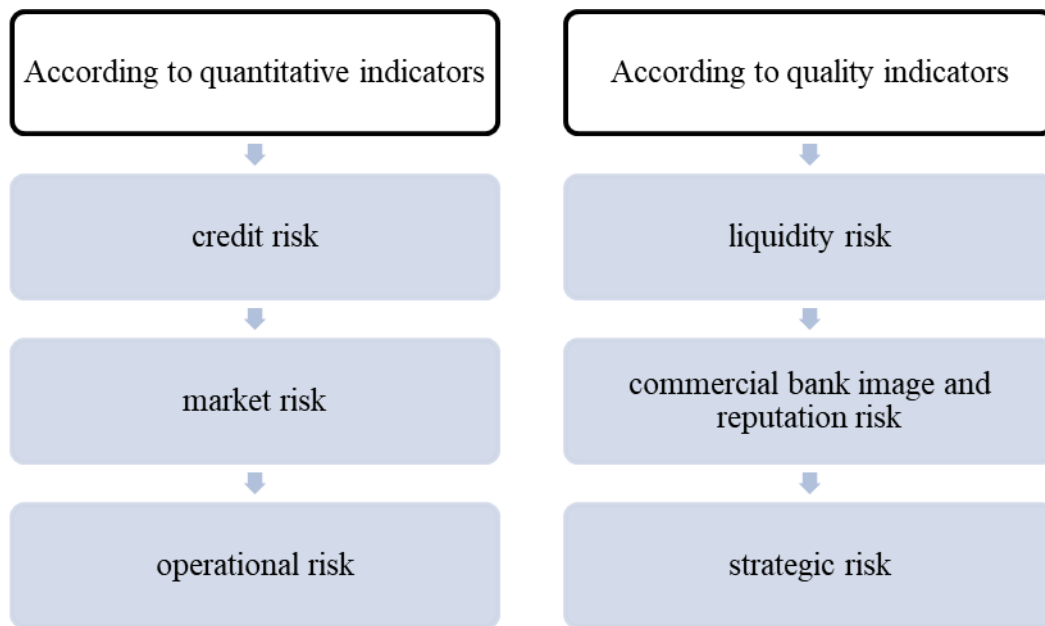


Figure 2. Risks that are significant for commercial banks

After grouping the risks, we will identify them in the process of practical activity and analyze the impact assessment.



Figure 3. Hierarchical arrangement of business processes

In order to analyze capital in the activity of commercial banks and use it effectively, it is necessary not only to assess risks, but also to understand the essence of commercial activity. In Fig. 3, we hierarchically divided the activities of commercial banks into 3 main groups from the point of view of doing business. As a result of this grouping, it becomes easier to identify the stage of occurrence of the risks and the affected object.

The risks we considered directly and indirectly affect the financial condition of commercial banks. As a result, the capital of commercial banks may suffer a certain amount of damage. In order to effectively assess and manage the capital of commercial banks, and to compensate for losses caused by risk-based activities, the capital is also analyzed by grouping based on its economic nature.

Results. The capital of commercial banks is divided into the following groups: internal capital consists of economic capital and regulatory capital. Through this grouping of capital, the internal control methodology for assessing the capital adequacy of commercial banks is developed.

Grouping of commercial bank in terms of capital adequacy		
Internal capital - capital intended to cover losses from expected risks and to carry out banking activities	Economic capital - capital used to cover losses from expected and unexpected risks over time	Regulatory capital is the capital set by the Central Bank and the International Basel Committee on the adequacy of commercial banks.

Figure 4. Grouping of bank capital

Capital adequacy requirements of commercial banks are intended to protect the interests of shareholders and bank customers, as well as to protect national economic interests by ensuring the continuity of banking activities.

To achieve the above goals, we recommend that commercial banks use the following methodology in their activities, having analyzed several new methods used in global practice today:

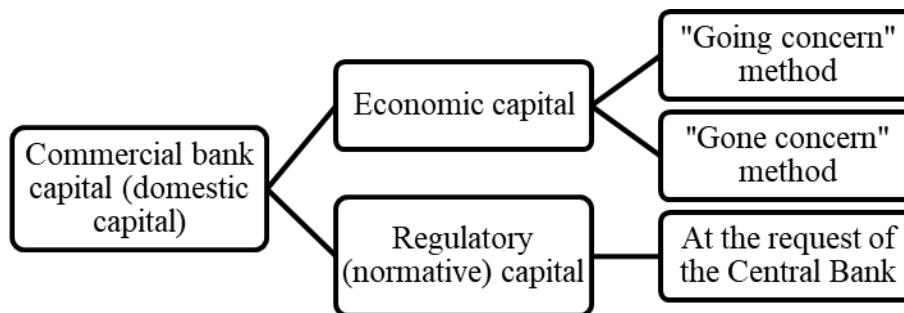


Figure 5. Methods of assessing the impact of risk on bank capital

Using the "Going concern" and "Gone concern" methods used in the assessment of economic capital, it is used to assess the impact of risks on the capital of commercial banks. When applying the requirements of



the International Basel Committee, it is desirable to prevent commercial banks from working only for official requirements or statistical indicators, and to reduce the impact of real economic threats and manage them effectively. According to him:

"Going concern" method is a capital assessment criterion for the purpose of ensuring the continuity of activity, taking into account the impact of risks on the activity of credit organizations. The confidence level should be more than 90%.

"Gone concern" method is a method of assessing the capital of credit organizations to obtain reliable rating points in international ratings, which takes into account all types of risks that may affect the activities of credit organizations. The reliability (confidence level) of achieving the adequacy of bank capital and the principle of continuity of activity should not be less than 99.9%.

Identifying risks for banks and reducing their impact is of great importance for Uzbekistan today. Effective use of capital of commercial banks, support of entrepreneurship has risen to the level of state policy, the relevance of this topic increases even more.

When looking for an optimal solution for risk assessment in commercial banks, each factor that causes the emergence of risks should be considered. In turn, we can divide the factors into such groups as economic, human factor and other unexpected factors.

Based on the standards of the International Basel Committee, it is based on the need for commercial banks to create internal systems and methods of risk assessment, as well as individual approach to risks.

It is possible to develop effective methods of operational risk assessment as a result of grouping credit risk according to indicators such as customer category, type of activity, and financial stability, as well as developing bank internal credit ratings, introducing currency risk management practices by creating market risk assessment systems. This is of great importance in ensuring the stability of our national banking system, which is increasingly integrated into the world financial system.

It is also important that in the research process, the lack of information transparency in the banking system to ensure the reliability and reality of the analysis, the lack of statistics of many cases in the banking practice or the lack of reliability of the data, as well as interruptions in the periodicity of the data, interruptions in the generality of the indicators, made it somewhat difficult to analyze the prospects of banking activity.

Therefore, by strengthening the requirements for ensuring the transparency of information on the activities of commercial banks, the requirement of promoting market discipline should be introduced into the banking control system of our republic. The main reason for this is that by fulfilling this requirement, the published information should allow market participants to draw conclusions about the level of risk sensitivity of banking activity, capital adequacy and the level of risks.

In the course of our analysis, we have seen that the amount of reserve allocations intended to cover losses from loans in large commercial banks of the Republic of Uzbekistan is relatively high. In particular,

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according to the recommendation of the experts of the Basel Committee, the amount of reserve allocations of commercial banks intended to cover possible losses from loans should not exceed 0.5 percent of gross assets. In many large banks of our country, this indicator is higher than 1 percent.

Due to the fact that the reserves of commercial banks intended to cover possible losses from loans are made at the expense of bank expenses, the increase in the amount of reserves creates a strong negative impact on the financial stability of commercial banks.

Also, the wide range of powers and responsibilities of employees in banking activities not only reduces the productivity and quality of work as a result of increased workloads, but also leads to exceeding the level of operational risk.

Debate. A special feature of the banking system of Uzbekistan is that the country's economy has a strong degree of specialization in relation to large banks, medium and small banks. As a result of the violation of the principle of diversification of the loan portfolio in the large commercial banks of our country, the level of credit risk increases, and a negative effect on their profitability occurs. In order to solve these problems, it is important to develop and put into practice specific methodological recommendations for allocated loans.

We can determine the economic factors by analyzing the main indicators of commercial banks. We will analyze the methodology of personnel performance analysis in detail below.

In order to evaluate the performance of an employee working in the credit department, we have developed a system of indicators in the following table:

1-Table

Criteria for evaluating the performance of an employee working in the credit department.

Criteria for evaluating the work of an official dealing with issues of credit allocation in commercial banks				
The employee's background in the banking industry: 1) "5" points with a higher education in the field of banking; 2) "4" points with higher education in other areas of economics; 3) "3" score with secondary-specialized education in the field of economics; 4) Not an expert in the field, score "2";	The duration of the employee's work in the banking sector, in particular in the credit department: 1) "5" points with work experience of 10 years or more; 2) "4" points with work experience of 5 years or more; 3) "3" points with work experience of 2 years or more;	The indicator that the employee received a disciplinary punishment: 1) "5" points for not receiving disciplinary punishment in the last 5 years; 2) "4" points for not receiving disciplinary punishment in the last 3 years; 3) "3" score for not receiving disciplinary	According to the qualification of the employee: 1) "5" points that have been improved during the last year; 2) "4" points, who have improved their qualifications during the last two years; 3) "3" points for advanced training during the last three years;	Annual attestation of the employee on changes and innovations: 1) "5" points assigned to "excellent" grade; 2) "4" points assigned to "good" grade; 3) "3" points assigned to "satisfactory" grade; 4) "2" points assigned to the "unsatisfactory" rating;

	4) "2" points with less than 2 years of work experience;	punishment during the last 1 year; 4) "2" points for receiving disciplinary punishment during the last 1 year;	4) "2" points, who did not improve their qualifications during the last three years;	
Regarding the employee's service to legal entities: 1) score "5" without expecting any material benefit, without negative opinion; 2) "4" score for shortcomings, low quality of service; 3) There are kinship ties with the officials of the Union of Soviet Socialist Republics, score "3"; 4) "2" points for those who made gross mistakes and violated the principles of fairness	Regarding the employee's service to individuals: 1) did not expect any material benefit, no negative opinion score "5"; 2) "4" score for shortcomings, low quality of service; 3) there are kinship ties with clients, score "3"; 4) "2" points for those who made gross mistakes and violated the principles of fairness	According to the areas of credit allocation of the employee: 1) "5" points allocated to credit in various fields; 2) "4" points for a large volume of loans to individuals; 3) separate types of loans less than 10 "3" points; 4) "2" points less than 5 allocated credit types;	According to the elements of the administrative-territorial unit to which the credit is allocated: 1) "5" points allocated to more than 50 CG and VA; 2) "4" points allocated to 40 ≤ x < 50; 3) "3" points allocated to CG and VA less than 30 ≤ x < 40; 4) "2" points assigned to less than 30 CGs and VAs;	Problematic level of loans allocated by the employee: 1) 30 ≤ x < 50 but less than 200 million soums "5" score; 2) 50 ≤ x < 75 but less than 300 million soums, score "4"; 3) 75 ≤ x < 100 but up to 500 million soums, score "3"; 4) More than 100 and more than 500 million "2" points.

Based on the information in the above table, the work performance of the official dealing with the issues of credit allocation in commercial banks is evaluated. We present our evaluation proposals in the table below.

Table 2

Standards and results of employee performance evaluation .

Standards and results of employee performance evaluation (x here is the score received by the employee)	$50 \geq x$ up to >43 points	$43 \geq x >$ up to 35 points	$35 \geq x >$ up to 30 points	If less than 30 points
	If the score received by the employee falls within this range, encourage this employee and create conditions for him to conduct his work in this way in the future.	If the score received by the employee falls within this range, encourage this employee and create conditions for him to conduct his work in this way in the future.	If the employee's score falls within this range, qualification improvement, retraining or transfer to another position	If the employee's score falls within this range, review the employment contract concluded with him

This evaluation should be conducted by commercial banks once a year, and the results should be analyzed. Regardless of the field, if we take into account that the final result is formed based on the decision made by a person, we can achieve the efficiency of the activity through the analysis of personnel and their work. In addition, it is important to conduct a general analysis and draw a conclusion on other risks affecting the adequacy of bank capital.

Summary. To sum up, Basel standards should be introduced to the bank control system of our republic by strengthening the requirements for ensuring the transparency of information on the activities of commercial banks, promoting market discipline and enforcing discipline. By complying with this requirement, the published information allows market participants to make conclusions about the level of risk sensitivity of the bank's activity, capital adequacy and the level of risks.

The article analyzed the mechanisms of increasing the efficiency of capital utilization of commercial banks. As a result, a risk assessment methodology was developed to reduce the negative impact of commercial banks' financial operations on banking activity and increase bank capital adequacy. Also, a risk reduction methodology was developed and proposed for implementation in commercial banks by increasing the resource base for bank capital, assessing the performance of employees responsible for preventing problem loans.

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