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The Role Of Risk Management In Improving The Competitiveness Of The Bank System And The Way Of Improvement

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Abstacrt: Implementation of economic reforms in recent years has contributed to further improvement inthe financial stability of the bank system.

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Extending reforms and modernising economics in our republic has great function on commerce banks. At the same time, effective risk management in banks and increasing the stability of the banking system and strengthening public confidence in it have particular importance. In this regard, the focus is on improving risk management in further reforming the bank system.

The subject activity of any economist is to make a maximum profit with minimum expenses. Having particular obstacles, peril, hesitation to decide in order to achieve expecting results is a natural event. This confirms that economical corporations are connected with risks. So, that's why commerce banks activity is connected with different risks. The extent to which the corporate and commercial banks play an important role in establishing economic relations with each other.

Therefore, before establishing economic relations with any subject, commercial banks are primarily interested in studying the risky business environment.

Nevertheless, overcoming the need for higher income, widespread use of speculative practice can have a negative impact not only on a particular bank but on the entire banking system as well.

Implementation of economic reforms in recent years has contributed to further improvement in the financial stability of the bank system. Decree of the President of the Republic of Uzbekistan Sh.Mirziyoev "On the Strategy of Action for the Development of the Republic of Uzbekistan in 2017-2021" and PF-5177 of September 2, 2017 The Resolution of the President of the Republic of Uzbekistan "On Measures for Further Improvement of Monetary Policy" of 13 September, 2017 in the Resolution of the President of the Republic of Uzbekistan № PP-3272 "On Basic Measures on Liberalization of the Policy" created a basis. In addition, in order to increase the financial stability of banks, the Decree of the President of the Republic of Uzbekistan Sh.Mirziyoyev of September 12, PD-3270 "On measures for further development and enhancement of stability of the banking system" will be adopted. The above-mentioned normative documents serve to the sustainability of the financial stability of the banks of Uzbekistan.[2]

According to the Resolution of the President of the Republic of Uzbekistan from November 26, 2010 of N PP 1438 "About priority directions of further reforming and increase of stability of the financial and banking system of the republic in 2011-2015 and achievement of high international rating indicators" , a number of priority areas for improving the risk management system in banks, in particular, the mandatory introduction of the Committee on Risk Control, which is directly subordinated to the Board of Directors in the corporate management of commercial banks, in the composition of the capital of commercial banks under the impact of their crisis the introduction of new proposals of the Basel Committee in the banking supervision system, which envisages the creation of stabilization reserves, improvement of capital adequacy requirements, and formation of reserves for possible losses.

Many economist scientists gave diversity definitions to the concept of risk. V.Dal the word «risk» means to act at random, to do dangerous work, «to do risk» is to do something without thinking well, to behave courageously and to set about the work diligently. S. Ojegov's vision of "risk" is risky, dangerous in the hope of a successful outcome, or the risk to do something. Ushakov understands the possibility of causing any danger or harm to the word "risk". She defended her doctoral thesis on "Bank risks and their lending" and published a monograph. Sh.Abdullayeva also believes that the word "risk" is threatening, risking, risky, and risking the term "risk" to be at risk.[7,67]

In our opinion, there is a risk that adverse consequences may be expected from the outcome of a risk-achieving achievement. For example, due to the failure to pay for the loan, the bank's profit is decreasing, or it has to pay for guaranteed letters, as well as a decrease in the bank's resource base. Risks are an indicator that can be measured in the bank's activities and are always equal to the loss that the bank borrows from the operations it performs. Taking into account the relationship between risk and profitability, as the risk of bank operations increases, its benefits increase, and on the contrary, little risk operations are less profitable transactions.

"Indicator dynamics of the ATB“Turonbank” [16]

1-schedule

(In mln sum)

Years	All actives	Credit allowance	Share in total assets
01.01.2016	88657.7	24417.8	27.5 %
01.01.2017	111089.6	64958.5	58.5%
01.01.2018	161368.3	97240.6	60.3 %

As it is known from the data in the table, if the share of credit investments in

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Volume 07 Issue 14
November 2019

total assets in 2016 was 27.5% in 2017, this figure was 58.5% as of January 1, 2018,h And 60.3% by 2018.Main actives of the bank are included credits.

One of the most effective ways to reduce credit risk is to diversify the by bank's collection and use of credit resources. The term "diversification" is Latin, meaning "diverse", "diversification."

In order to increase the stability of the bank system, it is necessary to coordinate the allocation of loans for sectors of the economy. According to table 12, the results of 2017, ATF Turonbank accounted for 39.5% of the total loan portfolio of the single industry. Construction, trade and public catering, as well as diversification of agricultural activities can be considered as favorable in the branch due to the reduction of credit activity in the industry by 2016.

2

ATB“Turonbank” distribution of total credit investments by sectors of the economy”[16]

Definition	Quantity of 2017	Amount %	Quantity of 2018	Amount %
Transport and communication	4505,6	7,1	6028,9	6,2
Building	5838,2	9,2	9529,6	9,8
Agriculture	2855,7	4,5	5251,0	5,4
Trade and catering	6853,6	10,8	11279,9	11,6
Industry	26208,6	41,3	38410,0	39,5
Other sectors	17197,4	27,1	24796,4	25,5

ISSN: 2235-767X
Volume 07 Issue 14
November 2019

Overall credits	64458,5	100	97240,6	100

According to the results of the economic reforms in the country, the President of the Republic of Uzbekistan Sh.M.Mirziyoyev in his reference to the OliyMajlis on priority tasks for 2019 said: " Today the main problem in the bank system - the majority of which is owned by the state, ie 83% of the country's capital.This, in turn, affects healthy competition in the bank sector, negatively affect the quality of service.

Government and Central bank should organise a long-term strategy to improve the system of bank and finance with the help of international bank institutions. At the same time, we will gradually reduce the share of state-owned banks through private and foreign capital inflow into the bank system. This will contribute to the improvement of the competitive environment in the industry, the diversification of the quality and culture of credit operations as well as the activities of commercial banks.

In addition, improving finance markets, such as fund markets, is considered one of the main purpose in the economical condition.

Further expansion of bank services through introduction of new financial instruments and issuance of bonds, development of bank system based on advanced information technology.[15]

The risks associated with the assets of commercial banks are the major risk factors for credit transactions. These assets are related to the risks involved and the risks associated with overdue loans.

Credit risk also grows not only with the credit facility, but also with the new approach to a credit subject. This type of risk may occur when the financial condition of the client becomes obsolete and may arise uncertainty due to

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Volume 07 Issue 14
November 2019

problems in the market. That's why every commercial bank should develop its own assets and find methods to manage them. As you know, the value of assets and the benefits of commercial banks can change. Risks relating to actives may decline in the value of assets and the amount of revenue generated are caused of increasing risk of assets.

Diversification of actives can be a solution for this problem. Because of the decrease in the value of some assets, the value of other assets can be rebounded and may eventually be able to maintain the total assets of the bank.[13]

A regular accounting of the Bank's assets and their revenues can lead to the efficiency of the bank activity, incorrect estimation of the value of assets, and the placement of them can create difficulties in the financial status of the bank.

At the moment, the fact that the loan estimating by commercial banks in most cases, is not thoroughly analysed by banks in our republic.

Countries that market economies are highly developed, the market value of the loan is taken into consideration when calculating the credit, but the calculation of the credit value of the investment will consist of several stages, and this will be calculated by the commercial bank's in-depth analysis. The primary purpose of the loan assessment is to ensure profitability and bank liquidity by achieving the efficiency of the loan issued by the Bank. This can lead to the detection and prevention of bank risks.

Banks need to calculate the interest rate, which can be attributed to their capital, primarily in lending. This is because the interest rate (profit) ratio that is appropriate to the capital of the bank is the basis of bank liquidity.

The bank should calculate the number of profits it would have to offer itself to the client for a loan. For this purpose, the bank will have to calculate its principal expenses (employees' expenses, rent and other expenses) and general

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Volume 07 Issue 14
November 2019

expenses (electricity, other small expenses).

It is important to note that commercial banks have a relatively high standard of risk in developing a risk management strategy. In accordance with the Resolution of the Board of the Central Bank of the Republic of Uzbekistan dated May 7, 2011 No. 14/2 "On Requirements for Bank Risk Management of Commercial Banks", the Bank and the need to develop a clearly defined and documented risk management policy. However, there are no specific requirements and guidelines for the priorities of risk management policies, risk management strategies, and tactical measures. In other words, the above Charter has a general character and does not fully reflect the position of the Central Bank on risk structure and management strategies.[14]

Often in banks, there is a risk of unbalanced liquidity as a result of mistakes in the selection of clients. These risks usually arise when there is a predominance in lending to businesses with instability.

Unbalanced liquidity risk is the result of poor management of bank management and staff qualification, poor management of banking activities, poor management techniques, the uncertainty of methods used for risk management, as a result of shortcomings in the establishment of risk margins for separate bank operations or their groups occurs.

Banks should avoid the risk of insolvency, lack of financial and economic performance due to lack of funds. If the bank gives a large number of loans without analysis of its loan application, and if there is a possibility that they will not be returned, such "bad" loans may cause a significant damage to the bank.

The Bank's interest rate risk is still the same as the lender. As a lender, the interest rate on bank interest (resources) increases as a creditor reduces its profits in the bank's operation. The same thing is that the interest rate on attracted resources is, and the bank will be damaged.

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Volume 07 Issue 14
November 2019

The Bank does not have a robust manufacturing process for credit risk management. The most common shortcomings are:

- There is no limit to collect portfolio;
- excessive centralization or decentralization of credit management;
- poor analysis of the lending sector;
- Artificially financial analysis of borrowers;
- No frequent contacts with customers;
- impossibility to increase the loan quantity as a result of poor credit quality;
- excessive use of debt;

These weaknesses have an impact on the weakening of the loan portfolio, as a result, it takes the accumulation of loans to a network or the agricultural sector, a large number of credit portfolios, loan losses, insolvency and misbehaviour. There is no doubt that in most markets, banks operate under such economic conditions, which are facing objective difficulties in quality management of credit, which indicates the need to strengthen credit management.

In our opinion, it is expedient to improve credit risk management in the following areas of the risk management system of the republic:

- Developing assessment methods of credit risks in the bank. At present we are limited to use the financial coefficient (covering, liquidity, wealth) in the creditworthiness of our banks. Cash flow analysis, scoring, internal rating valuation methods should be widely used in the risk assessment of bank practice.
- Further increase in the quality of the credit portfolio of the republican banks. The ratio of the unique reserves created to cover losses of the bank system of the country in total bank assets is almost twice as much. However, the acceptable level

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Volume 07 Issue 14
November 2019

of this indicator should be 0.5 per cent.

- It is increasing the credit portfolio diversification level. In the structure of loan portfolio of large banks today, the volume of loans, allocated to one network, is quite high. This testifies to the growing risk of banks' loan portfolio.

It is necessary to mention that, limitation of the increasing compulsory of foreign valuta in risk management system and effective management of valuta risks has an vital role in supporting the stability of commercial banks. Analysis of the composition of the credit portfolio of the commercial banks of the Republic shows that the share of loans in foreign currency in the total loan portfolio considerably decreased under the conditions of the devaluation of the national currency.

In our opinion, improvement of operational risk regulating practice in banks of our Republic should be defined as one of the most important directions of effective risk management. An analysis of the Bank's current operational risk management methodology shows that, to date, the bank practice has not put into practice the operational risk management concept, which is a systematic tool for identifying, measuring and minimising operational risks.

At the same time, in order to identify operational risk and create a necessary database for commercial banks, banks regularly collect information on operational losses, develop operational risk reporting forms, and they should fill them regularly.

It should be noted that the banks' internal operational risk database can only be collected for 3-5 years, and the potential for future risks is high.

Additional methods of minimizing risks include outsourcing functions and process benchmarking. Analyzes show that commercial banks are outsourcing (ie providing certain services and business processes to foreign companies specializing in this field) and process benchmarking (that is, a "best practice" in this area) tactic does not use enough. At the same time these methods are widely used in foreign practice and can be recommended for use in our country.

In addition, in order to effectively manage operational risk management in commercial banks, the first is to divide operational risk management into two divisions - operational risk management (information gathering, monitoring and operational risk analysis) organization of business processes analysis and business processes analysis); - organization of business-process methodology division (simultaneously minimizes risk mitigation and analyzes business processes); Secondly, it is necessary to use a systematic approach to the operation and implementation of key operational risk indicators, which represent a system of pre-emptive risk management.

The modern bank is directly linked to various risks, and its effective management is one of the most essential functions of banks. The risk is at various levels in various bank operations and is covered in different ways. Transactions that are unprofitable for a predetermined financial result are difficult to meet in the market economy. For commercial banks it is important not to escape the risk, but to eliminate them and minimize them.

Although the Bank's risks are diverse, risk management should be taken into consideration by the Basel Committee on Bank Supervision with the classification of requirements and risks for bank risks. Because the Basel Committee has developed a methodology that has a practical risk management approach. Basel agreement encourages banks to limit their risky operation.

In sum, effective management of the bank's risks, in turn, will take the necessary measures to forecast the potential threats to the bank's activity, to evaluate their causes, probability, factors and negative consequences, ensures

ISSN: 2235-767X
Volume 07 Issue 14
November 2019

stable operation of our banks.

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