American Journal of Interdisciplinary Research and Development
ISSN Online: 2771-8948
Website: www.ajird.journalspark.org
Volume 26, March - 2024

ECONOMICS OF BANKING RISK MANAGEMENT CONTENT AND SIGNIFICANCE

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Abstract
In the article studiedthe economic value of the content and management of banking risks, defined the principles of bank risks and form the author's definition.

Keywords: Bank, risk, risk management, bank profits, the national currency, the national economy.

Introduction

Risks related to banking activities appeared during the period when they were created. However, the problems related to them, as well as the need to manage bank risks, have become one of the most important issues in the context of the deepening of the market economy and the globalization of the international economy. Because of the conditions of the market economy, the relations of commercial banks with depositors, investors, borrowers, and customers are constantly expanding, which in turn leads to the deepening of the need for effective risk management.

According to economic sources, the need for bank risk management has become one of the most urgent issues in international banking practice after the 1970s of the 20th century and in commercial banks in our country in the last years of the 20th century.

Because the activities of banks—not only banks, but all financial and credit institutions, unlike the activities of business entities—are closely related to various levels of risk, One of the main reasons for this is that banks organize their activities based on the attraction of temporary free money in the economy and generate the corresponding income. Therefore, when it comes to banking risks, it is appropriate to focus on the nature, essence, causes, and social-economic consequences of these risks.

Historically, the concept of risk initially showed its impact on people as the negative consequences of the socio-economic process during natural events, but with the emergence of commodity-money relations, the concept of risk began to be used as an economic category. The concept of risk as an economic category has been researched by several foreign and domestic economists, and various definitions of its economic nature have been given.

Russian economist A.V. Belyakov gave the following definition to the concept of risk as an economic category: "For a subject who is watching the situation with interest, the presence of options that lead to negative consequences for the participant in the conditions of

uncertainty of the outcome of the development of the situation means that this situation depends on risk" [1].
In our opinion, in this definition of the author, the essence of the concept of "risk-related situation" is more widely revealed, not the concept of "risk" as an economic category. Because the definition talks more about the person observing the situation, this person, "by observing the situation, becomes a participant in it, and this situation brings him negative results."
B.A. Ryzberg and L.Sh. In the modern economic dictionary published by Lozovsky, "risk is the risk of loss of expected profit, income, property, or money due to changes in economic activity conditions and unfavorable circumstances" [2].
In the above definition, the focus is on risk as the risk of loss of expected income, profit, property, or money in economic processes and adverse conditions. In our view, this definition of risk in the economic vocabulary misses two points.
First, the definition focused on the issue of "the risk of loss of expected income, profit, property, or funds," and the issue of the risk of non-return of the principal sum of loans given by banks was neglected. Because, along with the problem of full recovery of interest income from loans given by commercial banks, there is a risk of returning the principal amount.
Second, B.A. Ryzberg and L.Sh. The definition of risk in the economic dictionary published by Lozovsky does not take into account the activities of subjects participating in risk relations. However, the occurrence of risks and their level are of particular importance to the parties involved in them. In particular, their financial status and responsibility for fulfilling obligations are among them.
Economist E.B. According to Starodubtseva, "risk is a value expression of the probability of events leading to losses. The higher the level of risk, the higher the chance of profit. Risks arise as a result of differences between actual and future performance. They can be positive as well as negative. Thus, it is possible to make a profit only if losses are foreseen and avoided" [3].
The definition given by E. B. Starodubtseva of the economic essence of risk is very comprehensive, and the author has given a long sentence to reveal its essence. We also do not fully agree with the author's opinion that "risks arise as a result of differences between current and future performance." Because of the stability of the national economy and the national currency, risks may not appear as a difference between the current and future indicators that are actually achieved.
As a result of the analysis carried out above, we observed that there is no clear idea about risk in the economic literature. Based on the presented opinions about risk as well as studies from other sources, we came to the conclusion that economists and theorists who defined risk can be grouped into the following three directions:.
Economic theorists and economists can be included in the first group—the group that considers risk as a socio-economic reality. The representatives of the economic theory belonging to this group evaluate the risk as an uncertain socio-economic process and put

forward the theory that the result can end in profit or loss [4].

Economists who describe risk as an activity can be included in the second group. According to them, risk is a process in which one hopes that the end result of the activity will be successfully completed.

The last, third group of economic theorists emphasizes that risk is the probability of mistakes or successes. The majority of scientists who gave an economic definition of risk belong to the third group; most of them point out that risk is the possibility of losses due to the imbalance between assets and liabilities in financial institutions [5].

Now we want to focus our attention on revealing the economic content of the concepts of "bank risks" and "bank risk management," classifying their types, and showing their importance.

The results of these studies show that the issue of bank risk management in our country does not have a long history. It is known that until the 1990s, banks were organized on the basis of state ownership, and because they conducted their activities mainly in connection with state enterprises and organizations, they did not have a risk problem, which, in turn, did not require an in-depth analysis of it. By the 1990s, the market in banks, the deepening of the process of integration into the economy, and the increasing globalization of the economy created the need to assess and manage banking risks.

In this regard, foreign and local economists have researched the concept of "bank risks" in their work and formulated different definitions. In particular, foreign economists E.V. Ioda, L.L. Meshkova, and E.N. Bolotinas took a two-sided approach to the definition of bank risks. In the absolute sense, "risk determines the amount of losses in the form of measurable material things (physical) and value (monetary funds)," while in the relative sense, "risk is the risk that can affect the financial condition of a commercial bank, the total costs of its resources in operation, or the expected income (profit) from the amount of losses" [6].

The concept of bank risks was also researched by the local economist Sh.Abdullaeva, in which "bank risk is the loss of part of the bank's funds in the process of carrying out banking activities, or in the hope of a positive result in the absence of income, banking operations (deposit, credit, investment, currency) are defined as transfers" [7]. At the same time, according to the scientist, bank risks are different in terms of emergence and manifestation, and all of them are explained by the non-return of the value of the money owner as a loan and the interest payments paid to him.

The International Basel Committee defines credit risk in assessing capital adequacy as "the risk of default by the counterparty" [8]. It can be seen that in the definition formed by the International Basel Committee, the main focus is on credit risks, and there is no definition of bank risks that reveals their economic nature.

According to the legal dictionary published by Russian economists, "credit risk is the risk of the borrower not fulfilling his long-term obligations to the creditor, i.e., the loan will not be repaid" [9], focusing on the credit risk that may arise in banking activities. Of course, we also agree with this opinion, but the second aspect of the issue, the fact that the risk is connected not only with the loan but also with the passive operations of the bank, has been neglected.

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Similarly, other economists in Russia also say that "credit risk is the loss that the counterparty may suffer as a result of non-fulfillment of the obligations specified in the contract. Failure of the borrower to pay the remaining interest payment after deducting the principal amount and the paid amount is evaluated as a loss for the creditor" [10], who linked the risk only with the credit process.

As it can be seen from the conducted studies and analysis, when economists think about the risks of commercial banks, they focus on credit risks, while there are few studies on bank risks in the economic literature. Taking this into account, we found it appropriate to give the following author's definition of the risks of commercial banks: "Bank risk is a socio-economic reality associated with the possibility of losing the principal amount and income in the future or not receiving the full amount of the bank's individual asset and liability operations."

In bank risk management, the main focus is on the full return of the financial resources invested in risky assets and the formation of the appropriate profit. It is created on the basis of the mechanism of application, combining the theory of probability and the theory of bank risks in the management of bank risks.

Banks and borrowers, depositors, investors, customers, and the state are the subjects of bank risk management, and its object is funds and interest payments.

Bank risk management can be classified based on different regulatory criteria. Initially, if we look at the relationship between the subjects of bank risk management at the micro level, the socio-economic relations that are implemented in order to reduce the impact of banking risks at the country level can be studied at the macro level.

Based on the above-mentioned circumstances and factors, appropriate principles are applied in bank risk management in each country. The main ones are shown in the picture below.

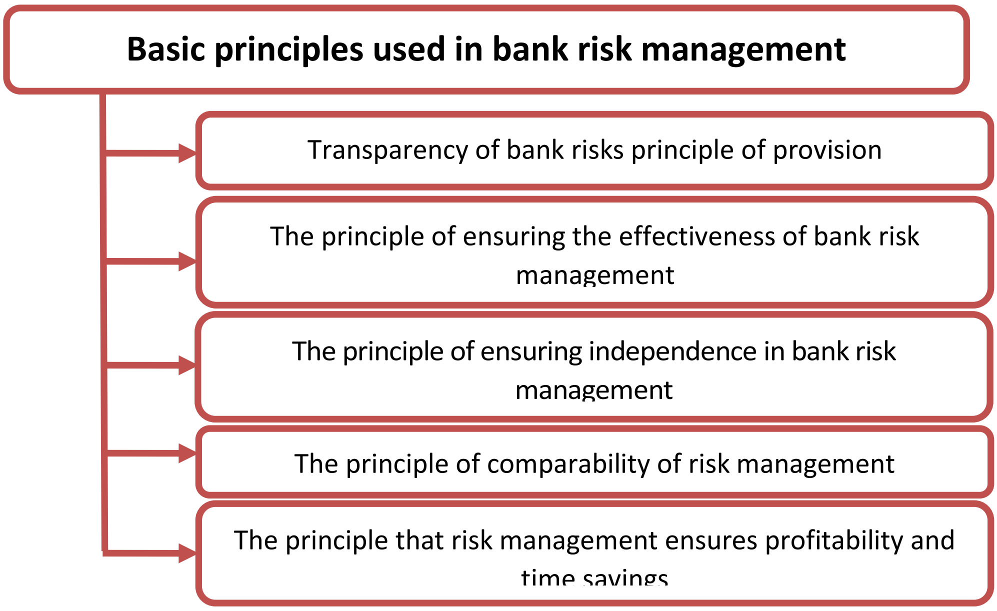

Figure 1.1. Basic principles of bank risk management (prepared by the author)

1. The principle of ensuring the transparency of bank risks. Ensuring their transparency is one of the most important issues in the management of bank risks. In this, the main attention is focused on the recognition of risks associated with the emergence of banks' activities. However, the fact that international audit and rating companies do not provide sufficient transparency regarding the decisions made on the activities of large banks, as well as, in some cases, the fact that banks do not comply with the accuracy of internal accounting reports, causes the emergence of various levels of risk. For example, one of the main reasons for the global financial and economic crisis that occurred in September 2008 was the impure reports of the Arthur-Anderson international audit firm on the results of audits of the United States banks. It is worth noting that in some cases, similar situations are encountered in the preparation of accounting reports by commercial banks in our country on this issue.
2. The principle of ensuring the effectiveness of bank risk management. If the intended effect and economic result are not achieved in the bank's risk management, all the work done will lose its economic significance. Therefore, it is desirable that any decision taken on the management of bank risks ensure the appropriate effectiveness of bank risk management. Of course, a number of factors affect this. In particular, the bank's internal policy on bank risk management, the knowledge and skills of specialists involved in bank risk management, the existence of the existing legal framework in the country, and the like are important in increasing the effectiveness of bank risk management.
3. The principle of ensuring independence in bank risk management. In most countries undergoing the transition to a market economy, including the banking system of our country, there are cases of a lack of independence in risk management decisions and their implementation. This, in turn, does not provide an opportunity to develop appropriate, effective mechanisms for managing bank risks and preventing problems related to them.
4. The principle of comparability in risk management. There are various ways of managing risks related to banking activities, so the responsible specialists of the bank should be able to choose the most effective and optimal options. For this reason, it is desirable that the risk management methods used in this process have a comparability status. At the same time, the amount of expected losses from this or that level of bank risk should be proportional to the bank's reserve fund (capital) established to cover losses that may occur as a result of risks. Otherwise, the negative consequences of the risky situation will reduce the development opportunities of the bank by affecting its income or profit.
5. The principle of ensuring profitability and time savings in risk management. It is desirable that the decisions taken on the bank's risk management ultimately ensure the appropriate economic interest for the bank. The basis of bank risk management is to search for ways to avoid the negative consequences of risky situations in banking activity. The amount of expenses incurred by the bank for risk management should not exceed the value that can be lost as a result of the negative consequences of these risks. The longer the operation carried out by the bank lasts, the longer the risk associated with this operation will live accordingly. As a result, there is a need for long-term management of these risks. This is contrary to the cost-effectiveness criterion in risk management.

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Management of banking risks is of great importance in the economy, and it is appropriate to consider them at the micro and macro level. As to the importance of bank risk management at the micro level, it is possible to mention the financial stability of commercial banks, the ability of banks to fully fulfill their obligations to the population and customers and their trust, the fact that banks receive economically relevant economic interest, and many other aspects.

Given the importance of bank risk management at the macro level, it is possible to mention such situations as ensuring the stability of the country's national economy and the positive impact of the banking system on economic growth, strengthening the purchasing power of the national currency, ensuring the standard level of inflation, and creating a positive balance in the country's balance of trade and payments.

In short, banking risks and their management is a multifaceted process, and the effective implementation of this process has a positive effect on ensuring the financial stability of commercial banks and increasing their profitability.

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