JOURNAL OF INTELLECTUAL PROPERTY AND HUMAN RIGHTS

Volume: 02 Issue: 05 | May – 2023 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

Analysis of Existing Management Mechanisms and Assessment Methods of The Bank's General Financial Risk

Shakhzod Abduvakhobov
Samarkand Institute of Economics and Service, Samarkand, Uzbekistan

Abstract

This article presents an analysis of the bank's existing management mechanisms of general financial risk, their implementation methods and evaluation methods. Recommendations on the bank's credit policy, credit risk management policy and related procedures have been formulated.

Key words: banking, risk, financial risk, credit policy, credit risk

Introduction

In the 21st century, a new stage of banking activity is represented by the beginning of the information age and digitization of the economy. In the past, the financial stability of banking activity was assessed quantitatively, but the new century shows the need to change these methodologies. In turn, the bank's financial stability is measured by minimizing risks to the maximum extent. This is reflected in factors such as the fact that bank risks are becoming more complex, firstly, the development of deeper integration of the world economy, secondly, the rapid penetration of digital technologies into the financial services market, and thirdly, the need to research behavioral economics.

The Bank shall develop and maintain an effective system of identification, measurement, monitoring and control of credit risk related to all types of its activities and products as part of an overall risk management approach, both individually and on a portfolio basis.

Also, banks should consider indirect concentration risk, currency risk and country risk as part of credit risk management.

Main part

As part of the bank's credit risk management, it is necessary to take into account all important sources of credit risk, such as balance and off-balance sheet items, but only in this case: credit, leasing, trade financing, guarantees given, interbank requirements, investments in debt and equity securities, requirements on derivative financial instruments. should not be limited.

The loans granted during 3 months of 2022 are noteworthy (Fig. 4).

It can be seen from Figure 4 that if more loans are allocated to legal entities, long-term loans have a higher weight in the composition of total loans. These loans total 340258.7 bln. amounting to soums, allocated by a total of 33 banks.

While the requirements of this section apply specifically to a bank's larger lending activities, these requirements apply to all of the bank's credit risk activities. At the same time, banks need to consider the relationship between credit risk and other risks they may face.

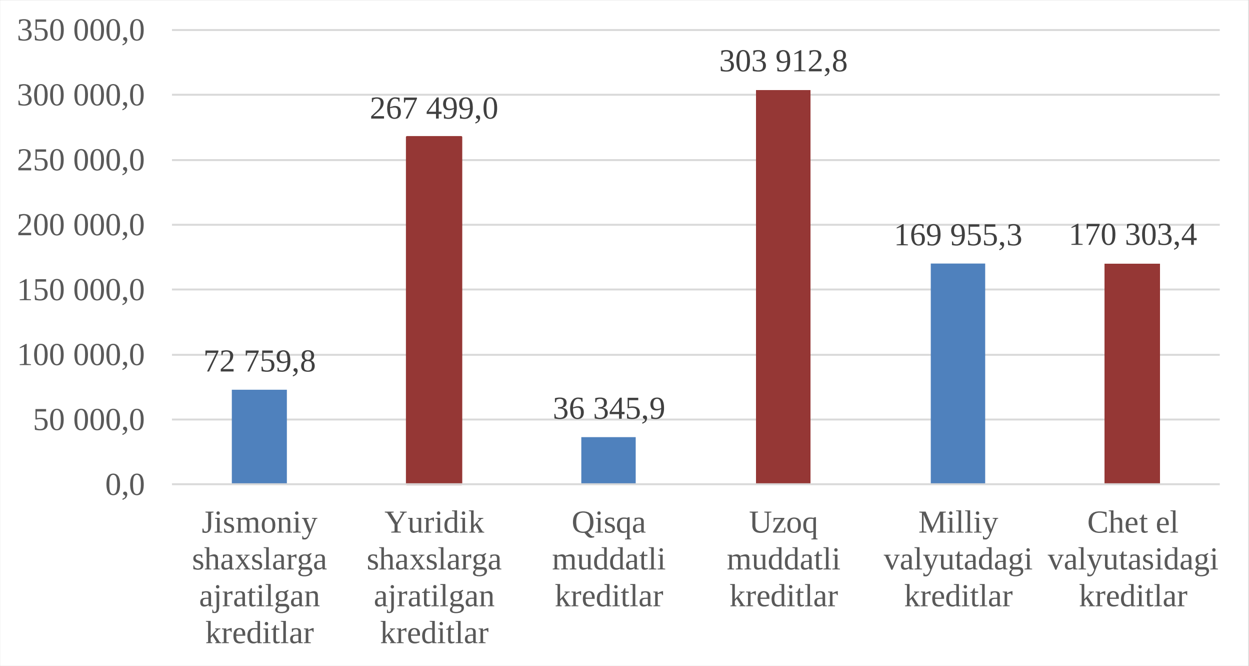

Figure 4. Information on loans granted as of April 1, 2022 [1], billion soums

An effective structure of credit risk management includes the following main parts:
- credit risk appetite;
- credit policy and credit risk management policy;
- lending, decision-making process;
- credit management and monitoring;
- identifying problem loans and working with them;
- credit risk stress-testing;
- credit risk reporting.

The risk appetite statement should include the credit risk appetite, i.e., the level of credit risk, that the bank is willing to accept to achieve its strategic goals and business plan.

A bank can demonstrate credit risk appetite using qualitative statements, but also quantitative indicators such as loan-to-asset ratio, non-performing (NPL) loan/asset growth, credit risk assessment and degree of concentration (obligors, products, sectors, etc.). should include.

Banking operations related to credit risk must be carried out in accordance with the bank's credit policy approved by the supervisory board. The credit risk policy must be prudent (prudence), consistent with the principles of responsible lending and applied continuously.

The credit policy must clearly reflect the bank's supervisory board's views on the priorities of the bank's risk appetite and risk management culture, which are applied to loans that are expected to be approved in the development of credit activity.

[1] O’zbekiston Respublikasi Markaziy banki ma’lumotlari

Volume: 02 Issue: 05 | May – 2023 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

Each bank must develop and implement its own credit policy. The members of the supervisory board are responsible for the development and implementation of the credit policy.

It is necessary to review the bank's credit policy in terms of no more than one year and, if necessary, to change and add to it. The bank's credit policy, as well as amendments and additions to it or its new version must be submitted to the Central Bank within three working days from the date of approval by the bank's supervisory board.

The credit policy should consist of at least the following components:

- basic principles of implementation of bank credit policy;
- target markets of the bank, acceptable and unacceptable types of lending (for example, economic sectors, types of credit products, types of borrowers, geographical regions, etc.)
- general or minimum requirements for assessing the creditworthiness of potential borrowers;
- general terms of granting loans: duration, volume, currency, acceptable means for security and the limit of the maximum amount of loans granted under a certain security;
- the target composition of the loan portfolio according to various criteria (for example, maturity, security, types of loans, currency, etc.);
- general requirements for collateral assessment;
- main financing sources for lending;
- principles of price formation for credit products;
- credit concentration requirements (if the bank's credit risk appetite is not included);
- principles of lending to employees and persons related to the bank;
- the procedure, powers and obligations of credit decision-making by the relevant persons and bodies of the bank;
- Exceptions to the approved policy and the procedure for their consideration.

The above and other components of the bank's credit policy may be reflected in one or more internal documents based on the bank's decision.

Each bank must develop and implement a credit risk management policy.

The members of the supervisory board are responsible for the development and implementation of the credit risk management policy. The bank's credit risk management policy should be reviewed every year, and if necessary, amended and supplemented.

The bank's credit risk management policy, as well as amendments and additions to it or its new version must be submitted to the Central Bank within 3 working days from the date of approval by the bank's supervisory board.

A credit risk management policy should include at least the following components:

- objectives, tasks and principles of credit risk management;
- organizational structure that takes into account the distribution of obligations among the participants of the credit risk management process, the order of their responsibility, powers and mutual relations;
- standard setting procedure for credit risk level control;
- credit risk identification, measurement, monitoring, control, reporting and mitigation methods;
- methods of identifying and managing overdue (problem) assets at an early stage;
- format and list of forms of credit risk management reports, procedure and periodicity/terms of

Volume: 02 Issue: 05 | May – 2023 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

submission of reports to subjects of the risk management system.

The above and other components of the bank's credit risk management policy may be reflected in one or several internal documents based on the bank's decision.

On the basis of the credit policy and credit risk management policy approved by the bank's supervisory board, the bank's management ensures that more detailed procedures (processes, criteria) are developed in the bank's internal documents and effectively put into practice for the effective implementation of the stated policies.

It is necessary to develop these procedures taking into account the nature and complexity of the bank's activities, to correspond to reasonable banking practices, to meet the regulatory requirements established by the Central Bank, and to be constantly revised.

In order to prevent excessive concentration of credit risk, bank management should develop and implement procedures to ensure adequate diversification of the loan portfolio, taking into account the bank's target markets, its risk appetite and credit policy.

In particular, these procedures should establish risk limits for individual counterparties and a group of interrelated counterparties, individual industries or sectors of the economy, geographical areas and (or) specific products.

The bank must ensure that its acceptable risk limits are at least consistent with the prudential requirements or restrictions set by the Central Bank.

To be effective, limits should be mandatory (not discretionary) and should not be changed too frequently based on the short-term and current requirements of the bank's business structure.

Conclusion

The bank's credit policy, credit risk management policy and related procedures should be communicated to all relevant employees. All employees of the bank must work in accordance with the established credit policy and procedures, they are responsible for the decisions made during the performance of their duties to the supervisory board and the bank's management through their direct supervisors.

In order to improve the skills of employees involved in any credit activity, the bank's management should periodically organize training sessions and ensure that the employees fully understand the bank's strategic direction, its policy, acceptable risk and the bank's risk limits.

Remuneration policies should be commensurate with credit risk and should not result in employees seeking short-term earnings that lead to an unacceptably high level of credit risk.

References

1. Зайналов, Д. Р., & Данияров, К. Д. (2014). Механизмы регулирования деятельности предпринимательских субъектов: теория и практика. Монография. Монография Изд.«Билим.
2. Зайналов, Д. Р. (2018). Достоинства и недостатки оптимизации налогообложения и налоговой ставки в условиях развивающейся экономики. Polish Science Journal, (1), 48-53.

Volume: 02 Issue: 05 | May – 2023 ISSN: 2720-6882
http://journals.academiczone.net/index.php/jiphr

3. Шодиев, Ж. Х., & Алиева, С. С. (2023). Источники финансирования инвестиционной деятельности со стороны государства. Ta'lim va rivojlanish tahlili onlayn ilmiy jurnali, 3(2), 294-297.
4. Тоғаев, С. С., & Тўрабеков, С. Ш. Ў. (2017). Банк кредитларини ажратиш орқали аҳоли бандлигини таъминлаш масалалари. Экономика и финансы (Узбекистан), (2), 58-66.
5. Togayev, S., & Xujamurotov, S. (2023). The role of bank management in the assessment of efficiency of commercial bank's activity. Research and education, 2(1), 12-16.
6. Togayev, S., & Ergashev, J. (2023). Peculiarities of organizational strategy formation. Educational Research in Universal Sciences, 2(1), 459-464.
7. Ахроров, З. О., Ханова, Н., & Хусанова, Д. Ш. (2018). Проблемы финансовой поддержки безубыточного функционирования хозяйствующих субъектов. In Направления повышения стратегической конкурентоспособности аграрного сектора экономики (pp. 122-126).
8. Ахроров, З. (2021). Фойда ва уни солиқ объекти сифатида шакллантириш зарурияти. Экономика и инновационные технологии, (4), 363-372.
9. Ahrorov, Z. (2020). Налоговое стимулирование инновационных предприятий сферы промышленности. Архив научных исследований, 34.
10. Zaynalov, D. R., & Ahrorov, Z. O. (2019). Modernization of the Tax Science: Methodology and New Paradigms. Int. J. of Multidisciplinary and Current research, 7, 305-312.
11. Ahrorov, Z. O. (2022). Formulation of Financial Policy in Providing Financial Security in Enterprises. American Journal of Economics and Business Management, 5(11), 150-154.
12. Altunbas, Y., Gambacorta, L., & Marques-Ibanez, D. (2010). Bank risk and monetary policy. Journal of Financial Stability, 6(3), 121-129.
13. Srivastav, A., & Hagendorff, J. (2016). Corporate governance and bank risk-taking. Corporate Governance: An International Review, 24(3), 334-345.