RISK MANAGEMENT IN BANKS

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Abstract

As of late, the risk management in banking establishments has visible significance and got the focus of discussion after the Global Financial Crisis. Accordingly, there is an expanded interest for the selection of viable risk management systems to guarantee the progression and achievement of this area. Thusly, this investigation expects to add to the on-going discussion of the viability of the risk management in developing nations, explicitly in Uzbekistan.

Keywords: - Risk management, financial crisis, management framework, progression, Uzbek banks

Introduction:-

The reason for this proposal is to examine risk management practices of banks in Uzbekistan and their effect on the bank operations. Therefore, an inside and out comprehension of the risk management practices is essential to inspect the connection between risk management and performance of banks (Ariffin and Kassim, 2011). Hence, this investigation embraces frameworks thinking approach (which is a novel methodology in the local banking setting) to build up a subjective framework elements model to comprehend and report the circumstances and logical results connection between the different factors in risk management frameworks of Uzbek banks. This methodology bolsters this examination to draw a chain of causality between risk management arrangements in act of banks and various forms of risks in Uzbekistan.

Santomero (1997) analyzed the financial risk management frameworks in various banks in the United States. He looked into both the way of philosophy and practices of the financial risk management of chose banks and recognized that the multifaceted nature of risk management strategies was a lot of reliant on the size of bank. He demonstrated that the banks which had a bigger size would in general apply more predominant and the scientific risk management. His investigation suggested that the credit risk strategies in banks were should have been normalized for clients just as for organizations. Moreover, he proposed that the credit misfortunes were required to be checked cautiously yet the risk management frameworks were not adequate to see that action.

Financial economics approach depends on the exemplary Modigliani-Miller worldview (Miller and Modigliani, 1958) that proposes the circumstances for superfluity. In 1984, Stulz led a concentrate on the Optimal Hedging Policies and is the primary individual to introduce an achievable monetary justification for why chiefs include themselves in both anticipated benefit along with in the changeability around their qualities (Santomero, 1995). He derives the reasonings for risk the board in firms in view of the unimportance conditions. After that few elective recommendations as well as legitimizations have been created to support the risk management. From the beyond couple of many years, there is a rising writing on the various purposes behind management of risk and a few striking commitments are the exploration works of Santomero (1995), Smithson, Smith and Wilford (1995) and Oldfield and Santomero (1997).

The Legislative Framework

To achieve the strategic goals of increasing the financial stability of the banking sector, the following measures are envisaged:

1) ensuring moderate lending growth rates and improving the quality of the loan portfolio;

2) improving supervision in the banking sector and introducing a modern risk management system in banks;

3) ensuring a coordinated reform of the banking system and enterprises with a state share in the real sector of the economy, active participation of banks in the transformation of the activities of state-owned enterprises and companies in connection with its transition to a commercial basis, ensuring synchronization of changes in the real sector and the financial sector;

4) increasing requirements for the minimum capital of banks, including taking into account the accession of the Republic of Uzbekistan to international economic organizations and the integration of the banking system of the republic into the international financial system;

5) consistent development of the deposit insurance system based on the best international experience.

Functions of the risk management department. The risk management department should be financially and structurally independent from the rest of the bank's departments. Its functions include ensuring all stages of risk management. It is desirable that its head be a member of the board and have the right to veto when making serious decisions. In addition, the functions of the risk management department include: creating a database of risks developing and testing new methods of analysis and assessment collecting data by years for comparative analysis researching possible scenarios reporting on risks for management developing recommendations and tactics to protect against identified risks maintaining a regulatory framework on risk management and providing access to it to personnel

Materials And Methods

In rundown, this examination has embraced a practical philosophical position and is roused towards the objectivism. This postulation has taken on logical thinking and utilized blended techniques research procedure in which the qualitative research plays a beneficial part to work with the quantitative examination. This study has fostered a consecutive extraordinary research plan. This exploration has chosen four unique classifications of banks (5 - state 13 - joint-stock commercial 6 - private 5 - with the participation of foreign capital) as populace. A cross sectional information has been gathered from the supervisors of twenty chose banks in Uzbekistan with the assistance of questionnaires and interviews. The auxiliary information has been gathered for twenty designated banks working in Uzbekistan during the period 2018-2021. Different graphic and inferential measurements strategies have been utilized to break down the various arrangements of information.

Interviews

Organized or normalized interviews are led to get answers from the respondents utilizing an indistinguishable structure of addressing by the specialist. The analyst peruses quite certain inquiries alongside a fix scope of answers frequently alluded as close finished questions and records the interviewees' reactions of each inquiry during the organized meetings (Bryman and Bell, 2011; Saunders, Lewis and Thornhill, 2012).

The semi-organized interviews contain a versatile and liquid system of addressing in opposition to the organized meetings. This contains subjects, topics, or regions to be covered over the span of the meeting, rather than a sequenced content of normalized questions.

This research has utilized close and personal semi-organized meetings to gather essential information and this approach has offered assortment of benefits including:

- Assisted with helping the respondents to comprehend the inquiries by giving additional data.
- Moved toward various respondents of various banks over the country.
- Offered more noteworthy anonymity to the respondents.
- Worked with the research to acquire more data.

Questionnaires

A questionnaire alludes to every one of the procedures for information assortment where each respondent is requested to answer against composed series from questions, introduced in a set up request. It is a proficient technique to gather information when the agent can determine what information is required and the way that the particular factors are figured (Sekaran and Bougie, 2013). The survey is an extremely valuable and a generally acknowledged technique to gather exact information in a less costly way from a large quantity of targeted people in business and the management research.

This study has embraced the questionnaire method to gather required information for quantitative examination and in view of following significant contemplations:

- It is exceptionally useful with regards to this research since firms by and large distribute not many insights concerning their risk management in the yearly reports;
- It is the most proficient strategy to move toward the objective respondents inside the financial area of Uzbekistan, by recollecting that reaching them in a more effective way through a questionnaire is conceivable;

- It offers adequate opportunity to the respondents (one to about fourteen days) and permits them to answer the surveys effortlessly and when it is comfortable to them.

Results

We gathered information from Tashkent. The fundamental motivation to choose this city for this study is that the majority of the workplaces for ranking staff individuals from risk management of banks in Uzbekistan are situated in this urban area. We guaranteed every one of the respondents that the information would be just taken for research purposes and information about their personality wouldn't be uncovered to anybody to inspire them to be open.

Every one of the meetings were recorded through mp3 sound recording gadget and just significant field notes were reported during the meetings. Notwithstanding, unimportant conversation and points were not recorded

Table 1. Demographics characteristics of the interviewees

Sr. No.	**Bank Type**	**Participant Experience (Years)**		**Positions**
		Over all	**Risk Management**	
01	Public Bank	26	8	Senior Vice President
02		23	7	Senior Vice President
03	Private Bank	18	7.5	Vice President
04		21	8	Senior Vice President
05		15	5	Vice President
06		18	6	Vice President

07		23	5	Senior Vice President
08		22	6	Senior Vice President
09	Foreign Bank	19	4	Vice President
10		22	7	Senior Vice President

Table 1 shows the demographic attributes of the relative multitude of interviewees. The foundations of the members, for example, their rich work encounters (between 15 to 26 years in current case) and top to bottom information on risk management office give a proper ground to separate even minded and valuable data from these meetings.

From each chose bank, 15 chiefs of various divisions have been picked up randomly to get their reactions. It is worth focusing on, that risk the board isn't the sole liability of the staff of risk executives division in banks, yet each and who's employer the bank is answerable for it. Consequently, we have gathered information from the chiefs of different divisions, for example, investment banking, foreign exchange, audit, compliance and controls, depository, activities, risk management to take more line perspective on the peculiarities. Subsequently, absolute 300 managers have been drawn nearer to get essential information with respect to risk practices of banks. A self-assortment and conveyance survey technique has been utilized and 263 polls have been concluded for additional investigation which addresses a decent reaction pace of 88 %. Table 2 reports different demographical attributes of the respondents, for example, their orientation, age and work insight.

Table 2. Demographical characteristics of questionnaire respondents

Demographics	Respondents	Percentage	Cumulative Percentage

Gender			
Male	212	80.6	80.6
Female	51	19.4	100
Age (Years)			
29 and below	43	16.3	16.3
30-34	50	19.0	35.4
35-39	74	28.1	63.5
40-44	44	16.7	80.2
45-49	29	11.0	91.3
50 and Above	23	8.7	100
Work Experience (Years)			
04 and below	38	14.4	14.4
05-09	70	26.7	41.1
10-14	65	24.7	65.8
15-19	45	17.1	82.9
20-24	29	11.1	94.0

25-29	08	3.0	97.0
30+	08	3.0	100

Discussion

What kind of risks is being considered in banking?

Hypothetically, banking business includes a few diverse action classes, however the overall grouping depends on traditional banking and trading activities. All in all, banking activities result in numerous one of a kind risks, however for this situation, different models can be given to rearrange the presentation. These risks are identified with a bank's credits, liquidity, trading, revenues and expenses, earnings and solvency issues.

It should be noted that banking risk management is a risk management process, a set of actions aimed at identifying risk problems and developing ways and methods to solve them.

Credit Risk

In banking practice, credit risk management is a priority area of banking activity. Credit risk, the risk that the borrower will not be able to make interest payments or repay the principal amount of the loan in accordance with the terms of the loan agreement is an essential part of bank management. Due to the fact that there is a possibility of late or non-payment of payments by the borrower, the bank risks encountering problems in cash flow and worsening its liquidity ratios.

One of the principle exercises led by a bank is loaning. At the point when a portion of its credits are not gotten back to the bank when a client encounters monetary issues, this is mostly causing credit risk for the banks. This sort of monetary misfortune results from the disappointment of credit clients to reimburse the banks.

Liquidity Risk

Banks are additionally profoundly centered on the issues of having inadequate fluid resources for repay the money needs or withdrawals from investors and credit requests. For the most part, keeping up the liquidity places of the banks is one of their pivotal assignments, in light of the fact that the outcomes of having a low degree of liquidity mess up the banks as far as banking bankruptcy. Dissolvability is identified with the commitments that banks are fundamentally offering vows to their clients. Confronted with liquidity issues, the banks need to get reserves quickly with additional expense to meet their money needs. This sort of subsidizing is generally done by the loan specialist after all other options have run out or interbank markets. Quick asset needs can be covered by the national banks or different sources, yet this interaction prompts extra expenses for the banks and lessens their profit.

Foreign Exchange Risk

A few factors, for example, political strength, expansion, public obligation, current-account shortages and market hypothesis might drive the money down (Ishfaq, 2006). All the unfamiliar trade exchanges with counter-parties situated external the nation of origin contain this risk. Saunders and Cornett (2008) depict foreign exchange risk as the danger that variety in unfamiliar conversion scale could influence conversely on the worth of resources or liabilities revealed in foreign monetary forms. Additionally, Bessis (2002) characterizes this type of risk as bearing misfortunes because of unfavorable changes in the unfamiliar trade rates. Crouhy, Galai and Mark (2006) call attention to that the unpredictability in foreign trade might disturb the arrival of expensive on the abroad ventures, and at the same time include a bank in a serious burden to its unfamiliar rivals. They further make sense of that the unfriendly foreign exchange instability may likewise produce gigantic working misfortunes and prompt restrain venture.

Interest Rate Risk

After liberation, a large portion of the roofs and limitations on the interest rates were taken out by the controllers and authorities. Market interest rates are dictated by the market elements. These days, interest rates are changing dependent on the market interest conditions. Under these conditions, developments of the interest rates which banks are utilizing for their exercises likewise have consequences for the banks profits and losses. A portion of the banks' resources are producing interest revenues, for example, security investments and loans, while then again, a few liabilities likewise have costs like deposits. Hence, the change in interest rates substantially affect the banks' income. Therefore, this is called interest rate risk.

Market Risk or Systematic Risk

Deliberate risk is connected with the bank's resources where their qualities are changed by the systematic factors. It is likewise called market risk and banks are typically occupied with market exercises. Market risk can be identified with any costs which are persistently traded on the financial markets. In light of the hypothesis of diversification, a portion of the investment risk can be diversified away, yet this is absurd with the rest. Unquestionably, new freedoms like supporting give the chance for market participants to hedge their risk, however this isn't totally diversified away from the risks that are identified with the market. Theoretically, subsidiary items give probably the best device to manage value changes. Another significant idea that can be examined here is portfolio management. Portfolio management is additionally a significant methodology used to address the risk decrease that is identified with the investment activities.

This study means to add new knowledge of risk management in Uzbek banks and further accepts to support or broaden the current hypothetical writing in the financial field in following ways.

This review, first and foremost, has analyzed the relationship of a few additional angles (overseeing credit risk, overseeing market risk, overseeing liquidity risk and overseeing functional risk) in the local setting with practices of risk management. Thusly, this examination presents a more all-encompassing perspective on risk management operations in banks of Uzbekistan in correlation of past investigations. Thus, this study adds to the current hypothetical writing by looking at the connections of a few extra angles inside the risk management in the local area.

The current research remains as the primary full committed concentrate in the local context which simply centers around this significant examination region, with a strong emphasis on various parts of risk management in Uzbek banks. This concentrate primarily focuses on the Uzbek banking climate; but its discoveries will have significant ramifications at global level excessively because of the expanded limit for information assortment and examination. Alongside considering the way that Basel Accords (perceived as best worldwide practices) has been taken into account as a significant piece of the hypothetical framework during the research process.

This examination has restricted its survey investigation just to evaluate the connection between risk management practices and various parts of chance administration, for example, risk understanding, risk recognizable proof, risk appraisal and investigation, risk checking and controlling, overseeing credit risk, overseeing market risk, overseeing liquidity risk and overseeing functional risk. Nonetheless, a few different viewpoints, for example, the executives quality, board size, and board arrangement might have been examined too.

Moreover, every one of the meetings and polls information were restricted to the assortment from the banks working in one significant urban area of Uzbekistan, to be specific: Tashkent. In any case, this study had the option to get information from most of the financial staff working at head workplaces as well as provincial workplaces of the chosen banks in the previously mentioned urban area.

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