

# Improvement of Risk Management System in Commercial Banks

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## **Abstract:**

the article describes the necessity and importance of risk management in commercial banks and their assessment methods from a theoretical and practical point of view. Conclusions and suggestions on improving risk management in the activity of commercial banks were developed, and recommendations were made for their additional application in the banking system of our country.

**Keywords:** commercial banks, risk, risk management, risk assessment.

## **Introduction.**

The most important indicator that ensures the financial stability of commercial banks is risk. Banks have had a risk problem since their inception. That is, the effectiveness of banks' activity is determined by their ability to fulfill their obligations to customers on time. Liquidity is one of the most basic concepts in the activity of commercial banks. Liquidity is the basis of reliability and stability of commercial banks and creates the basis for their solvency. Liquidity of banks is a necessary category for ensuring their solvency and reliability.

Inactivity in the economy and ensuring and maintaining the liquidity of commercial banks during a pandemic increase the riskiness of banking operations, which can lead to a crisis. There are several factors that affect the increase in bank liquidity risks, which require special attention to bank liquidity and constant monitoring of bank liquidity risk. That is why banks have to maintain liquidity, even if they give up their income. In turn, if the resources are directed to increase the profitability of banks, then this will affect the liquidity of the bank. Therefore, the liquidity and

profitability of banks are shown in an inverse proportion to each other. Therefore, the bank's liquidity means its ability to fulfill its obligations on time and in full, as well as to meet the credit needs of customers in a timely manner.

How important it is to manage the liquidity of banks and calculate it can be explained by the fact that several banks have gone bankrupt due to the problem of bank liquidity in history. For example, "Lehman Brothers" was one of the world's leaders in investment business. In this way, an investment bank specializing in providing financial services and managing investments was established. The regional headquarters of the bank has offices in London and Tokyo, as well as in many countries of the world. Over time, the bank became one of the first major players in the mortgage lending market. In 2019, Lehman acquired Aurora Loan Services, a Colorado-based mortgage broker. In 2016, the bank expanded its participation from the West Bank Expanded with the acquisition of BNC Mortgage LLC and quickly became the largest player in the mortgage market. By 2019, the volume of mortgage loans issued by the bank was estimated at 18.3 billion dollars, which allowed it to take the third place in the rating of the USA. In 2020, this figure increased to \$40 billion, and in 2021, Aurora Loan Services and BNC Mortgage LLC issued mortgage loans in the amount of \$50 billion per month. By 2022, Lehman had absorbed \$680 billion of these loans, with only \$22.5 billion in capital, which, from a market perspective, would have Lehman 30 times capital in the distressed real estate market. was. As a result of the bank not diversifying its assets in order to effectively manage its liquidity risk, the main assets of the bank have become real estates. As a result, with a 3-5% decrease in the value of the housing market, the bank was suddenly deprived of all capital. This happened overnight, on September 15, 2022, when the mortgage crisis started.

When developing a liquidity risk management strategy, the bank should define a funding plan that will help to effectively diversify funds and the terms of placement.

Diversification of the bank balance structure:

- maintaining the best balance sheet structure by reducing the concentration of funds by types of banking operations;
- diversification of sources of attraction;
- stated that it is a permanent control of the bank's asset and liability operations.

In order to maintain the stability of the banking system, to protect the interests of bank depositors and creditors and shareholders, liquidity risk management in banks is considered one of the urgent and important issues. Let's look at the downsides of liquidity risk in commercial banks. Through this, we will try to understand how urgent and important the management of liquidity risk in commercial banks is for the economy and society.

Let's imagine that a commercial bank could not repay its debts to several depositors on time due to ineffective management of its liquidity risk. This situation has been spread among the people officially or unofficially through mass media, social networks and other communication services. As a result, the customers of this commercial bank got the idea that this commercial bank is facing bankruptcy, and all thousands of depositors started demanding their funds. In foreign practice, this so-called "bank run" puts a commercial bank in a very difficult situation and accelerates its bankruptcy. Preventing the negative situations mentioned above by managing the liquidity risk in commercial banks, the decisions made by the Basel Committee on International Banking Supervision on bank liquidity and the decisions of this committee, which are included in the relevant procedures and regulations in Uzbekistan 'changes indicate the relevance of this topic.

According to the analysis, if we study the factors affecting the liquidity risk in commercial banks according to external and internal conditions, we can see as follows: The bank's liquidity risk mainly occurs as a result of the inconsistency of the maturities of assets and liabilities will come. In

this case, we will be able to understand the inconsistency between the term of deposits of commercial banks and the term of assets placed on their account.

Failure to accurately calculate the maturity of the deposit funds attracted in commercial banks and the maturity of the assets placed on their account may lead to serious consequences in the future. That is, we can cite cases such as cases where the appropriate resources involved are not included in the bank's electronic database, and the relationship between the terms of resources and the terms of loans allocated from them is not controlled electronically. This, in turn, may cause a number of difficulties in the identification, assessment, minimization and management of liquidity risk, which may have negative effects.

The Central Bank of the Republic of Uzbekistan, which is the regulator of the banking system, controls the liquidity of commercial banks based on the regulation "On requirements for managing the liquidity of commercial banks" registered in the Ministry of Justice on August 13, 2020 with No. 2909 will go In order to ensure the timely and complete fulfillment of the bank's obligations regarding the assessment of liquidity in commercial banks, this regulation defines the standards for instant liquidity, liquidity coverage, and net stable financing. In addition to this regulation, it is useful to include recommendations such as the timely entry of relevant resources involved in the management of liquidity risk in commercial banks into the bank's electronic database, the electronic control of the relationship between the terms of resources and the terms of loans allocated from them of course.

The Central Bank of the Republic of Uzbekistan is carrying out the following activities to increase the liquidity of commercial banks during the pandemic:

- increasing the resource base of commercial banks;
- improving the quality of bank assets;
- strengthening guarantees for depositors and further strengthening the trust of the population and foreign investors in the banking system;
- implementation of new attractive savings and deposits,
- wide involvement of free funds of the population and economic entities in the banking circulation by expanding the type and scope of the provided banking services.

We can clearly witness that the banking system of our republic is functioning stably and reliably and has been showing high indicators as a result of the defined directions and specific measures implemented. In the Republic of Uzbekistan, the reserve requirement is set at 4%. Due to high mandatory reserve rates, the amount of funds deposited in the mandatory reserve of the Central Bank remains high. In our republic, this instrument of monetary policy strongly affects the liquidity of banks.

In order to positively affect the liquidity of commercial banks during the pandemic, the Central Bank of the Republic of Uzbekistan made a decision to increase the averaging coefficient for the amount of mandatory reserves that commercial banks deposit with the Central Bank starting from April 1, 2023. That is, in order to support the liquidity of banks and ensure the stable operation of the payment system, the current average ratio of 0.25 to 0.35 and from 0.35 to 0 from July 1, 2022. increased to 75. It was allowed to leave 75% of the amount of mandatory reserves of commercial banks that should be transferred to the Central Bank in the banks' representative accounts. This, in turn, serves to support the liquidity of commercial banks. Based on the above, we can make the following additional suggestions for effective management of liquidity risk in commercial banks:

- Taking into account the fact that the population of Uzbekistan believes in the Muslim religion, by introducing the service of Islamic bank deposits in commercial banks, forming a solid resource base at the expense of attracting free funds of the population;

- Conducting a constant stress test regarding early withdrawal of deposits belonging to large customers;
- Diversification of deposit portfolio and assets;
- Reduction of non-profitable assets in commercial banks as much as possible;
- Introduction of electronic mechanisms for raising funds and their placement. We can confidently say that by controlling the banking system in our country on the basis of modern systems, the highest results will be achieved in the future in strengthening the stability of the banking and financial system and developing the economy.

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