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RISK MANAGEMENT METHODS IN THE BANKING SYSTEM

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Introduction: In a market economy, the banking system plays an important role in ensuring the financial stability of the country, stimulating economic growth and creating an investment climate. Therefore, the issue of proper risk management in banking activities is more relevant than ever. Risks are uncertainties that can negatively affect the results of banking activities, and they are divided into such types as credit, liquidity, interest, currency, operational and market risks. The reforms implemented in the banking sector of the Republic of Uzbekistan in recent years require improving the effective risk management system. In particular, the introduction by the Central Bank of a banking supervision system in accordance with Basel III international standards and the use of automated risk analysis mechanisms based on digital technologies are a vivid example of this.

Analysis and results: Benefits of risk management in the banking system:
Ensures financial stability - Risk management helps to identify and reduce potential financial losses in banking activities in advance. This strengthens the overall stability of the bank and customer confidence. **Improves the quality of the loan portfolio** - through effective risk management, the bank conducts a thorough analysis of the solvency of customers when issuing loans, which reduces the incidence of loan defaults and increases the level of profitability. **Facilitates compliance with legislative and regulatory requirements** - the risk management system helps the bank operate in accordance with the requirements of the Central Bank and international standards (for example, Basel norms), which reduces the risk of fines and sanctions. **Increases the bank's reputation and customer confidence** - banks that properly manage risks are recognized as reliable partners among financial market participants. This helps to attract new customers and retain existing ones. **Improves strategic decision-making** - as a result of risk analysis, the bank's management plans its activities based on accurate information, which is an important basis for long-term strategic development. **Increases profitability and competitiveness** - by minimizing risks, losses are reduced, resources are allocated efficiently, and this increases the bank's overall profit and market competitiveness.

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Chart 1. State of the banking system in 2021

Source: <https://www.gazeta.uz/oz/2021/12/01/bank-system/>

Graphical analysis: The banking system of Uzbekistan includes 33 banks, including 12 with state shares, as well as 15 private and 5 foreign banks. As of November 1, bank assets amounted to \$39 billion (419 trillion soums), 82% of which belonged to state-owned banks. Bank liabilities amounted to \$33 billion (352.6 trillion soums), 40% of which were deposits. The total capital of banks was \$6.2 billion (66 trillion soums), 81% of which belonged to state-owned banks.

Disadvantages of risk management in the banking system: **High implementation costs** - the implementation of a risk management system requires significant financial resources. Modern software, training of specialists and the creation of an internal control system are additional costs for the bank. **Uncertainty of analysis results** - statistical and forecasting models used in risk assessment may not always give accurate results. Due to rapid changes in market conditions, risk forecasts are not always accurate. **High dependence on the human factor** - the experience of specialists and subjectivity in decision-making play an important role in the risk management process. If an analyst makes an incorrect assessment, this negatively affects the effectiveness of the entire system. **Insufficient or poor quality of data** - complete, reliable and up-to-date information necessary for risk analysis may not always be available. As a result, the level of risk is incorrectly assessed and the wrong decisions are made. **Decrease in profits due to excessive caution** - sometimes banks pursue an overly cautious policy in order to reduce risk, which leads to the abandonment of highly profitable but somewhat risky projects. As a result, overall profitability decreases.

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Chart 2. Bank performance indicators in 2021

Source: <https://www.gazeta.uz/oz/2021/12/01/bank-system/>

Graphical analysis: "Regarding the financial stability of banks, over the past period of this year, high-risk assets grew by **21 percent - from 317 trillion soums to 383 trillion soums**, and total capital grew by **14 percent - to 66 trillion soums**. The capital adequacy ratio decreased by **1.2 percent and amounted to 17.2 percent**, which meets the minimum requirements," said Abrorhoja Turdaliyev.

Conclusion and suggestions: Risk management in the banking system is one of the most important factors in ensuring financial stability, reducing losses and supporting the long-term development of the bank. Since modern banking activities are directly related to credit, liquidity, interest rate, currency and operational risks, their identification, assessment and control are of strategic importance. An effective risk management system helps to increase a bank's profitability, strengthen customer confidence, and ensure the stability of the national financial system. However, this process also has disadvantages, such as complexity, high costs, and dependence on the human factor.

Training qualified personnel in risk management- it is necessary to organize regular training courses and seminars for bank employees. **Introduction of modern technologies** - it is necessary to expand the system of automatic identification and analysis of risks using artificial intelligence and analytical programs. **Strengthening the internal control system** - it is recommended to appoint persons responsible for risk monitoring in each department and conduct regular audits. **Enriching the database** - it is necessary to increase the accuracy of analysis by updating information on customers, markets and economic indicators. **Strengthening cooperation with the Central Bank** - it would be useful to develop national standards for risk management and introduce unified assessment criteria. **Maintaining a balance between risk and profit** - banks should abandon an overly cautious policy and support projects that bring high profits with a medium level of risk.

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