

IMPORTANCE OF RISK MAP IN THE MANAGEMENT OF RISKS THAT MAY OCCUR IN COMMERCIAL BANKS

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A B S T R A C T	K E Y W O R D S
The article provides information on the types of risks that may arise in commercial banks of the Republic of Uzbekistan, as well as the importance of using the Risk Map in preventing and managing these risks.	risk, types of risk, register of risk events, risk map, risk codes, risk management strategy.

Introduction

Currently, there is a strong focus on improving risk management systems in the corporate management of commercial banks. In particular, the structure of risk management in commercial banks of the Republic of Uzbekistan was registered by the Ministry of Justice of the Republic of Uzbekistan on May 25, 2011 “On requirements for the management of banking risks of commercial banks” 2229 - It was introduced on the basis of Regulation no [1]. In particular, this year, this regulation was improved and a new version was registered by the Ministry of Justice of the Republic of Uzbekistan on April 18, 2023, and it was determined that the risk management system of commercial banks will be regulated on the basis of this regulation. This new version of the regulation contains information on measures to be taken to improve risk management in commercial banks [2].

In addition to this regulation, we will consider below the prospects of establishing the practice of using a risk map in risk management in commercial banks.

Creating a risk map in commercial banks is a necessary element in creating a risk management system. A risk map provides a holistic view of risk management, from the types of risks and their sources to control and management methods. A bank’s risk map helps to answer questions about where risk occurs, who manages and controls this risk, limits risk acceptance and risk control.

2. Literature Review

Local and foreign scientists have conducted a number of researches and developed scientific literature on risk management in commercial banks. In the scientific works of foreign economists Joyol Bessis [3], Anthony Saunders and Marcia Millon Cornett [4], Andrea Resti and Andrea Sironi [5], the risks that may arise in commercial banks and their management have been studied. Philipp Harle [6], Andras

Havas and Hamid Samandari, A. Ghosh, M. Crouhy, D. Galai, R. Marklar [7] also conducted research on effective risk management methods in their research.

3. Research Methodology

In the research process, general logical (induction, deduction, analysis and synthesis, analogy, generalization) and specific scientific (comparison, grouping, statistical analysis and economic-mathematical) methods were used.

4. Analysis and discussion of results

In order to effectively manage risks, first of all, it is necessary to distinguish their separate types - to classify them in order to develop management decisions for each risk group based on their specific characteristics.

According to the regulation “On requirements for the risk management system of banks and groups of banks” approved by the Central Bank, the following types of risk are defined as significant types of risk for commercial banks:



Figure 1. Types of risks [8].

The risk map is a means of visual representation of certain risks encountered during the banking activity. The risk map is one of the most important tools of risk management, through which it is possible to monitor the bank's risk profile and improve the bank's risk management process. A risk map is often presented as a two-dimensional matrix. For example, the probability of occurrence of a risk is plotted on the x-axis, and the effect of the same risk on the y-axis. Through this visualization, it is possible to decide whether to pay more attention to the risks that occur a lot and have a high level of impact on the banking activity.

One of the problems related to risk management in the activity of commercial banks is that banks do not keep a register of risk events. Through these registers, a risk map is formed in the bank.

Risk events are identified by risk coordinators in each department and reported to the risk management department. The register of these events is collected and recorded by the risk management unit, and the supporting sources are collected and regularly analyzed by the risk management unit. The management of the bank and relevant structural units will be notified of the results of the incident investigation, and measures will be developed to reduce the consequences of the incident and prevent such incidents in the future.

The register of risk events includes the following information:

- a) the date of occurrence, detection and registration of the incident;
- b) the date on which the impact caused by the event was taken into account;
- d) the employee who caused the incident;

- e) the structural unit that identified the incident and is responsible for its investigation;
- f) description of the event and reasons for its occurrence;
- g) amount and type of the economic impact of the event in national currency, including damages, compensation payment, possible damages;
- h) type of risk associated with the event, including credit risk, market risk;
- i) classification of the event according to the level of significance.

Events are classified according to the frequency of occurrence according to the following criteria:

- a) If the event is repeated from 1 to 5 times - it is very rare;
- b) If the event is repeated from 5 to 10 times - less;
- d) If the event is repeated from 10 to 25 times - medium;
- e) If the event is repeated from 25 to 50 times - a lot;
- f) If the event is repeated more than 50 times - too many.

Events with the amount of direct loss or probable loss are classified according to the level of impact on the banking activity based on the following criteria:

- a) Events with a loss amount up to 0.0005% of the amount of the bank's private capital are insignificant;
- b) Incidents with a loss amount from 0.0005% to 0.005% of the bank's private capital are small;
- d) Events with a loss amount from 0.005% to 0.05% of the amount of private capital of the bank - medium;
- e) events with a loss amount of 0.05% to 5% of the bank's private capital - serious;
- f) Incidents with an amount equal to or greater than 5% of the bank's private capital are very serious.

According to the scope of the impact, events where the amount of loss cannot be calculated are evaluated by an expert with the classification of insignificant, small, medium, serious and very serious. The level of risk is classified according to the combination of the frequency of occurrence of events and the degree of impact on banking activities in the following order:

Table 1 Levels of risk of events [10]

Frequency of occurrence of events	The degree of influence on the banking activity	Risk level
Very little	It doesn't matter	low
Very little	Small	low
Many	It doesn't matter	low
Medium	It doesn't matter	low
Many	It doesn't matter	low
Too much	It doesn't matter	Below average
Little	Small	Below average
Medium	Small	Below average
Many	Small	Below average
Very little	Medium	Below average
Little	Medium	Below average
Too much	Small	Average
Medium	Medium	Average
Many	Medium	Average
Very little	Seriously	Average
Little	Seriously	Average






Very little	Very serious	Average
Too much	Medium	Above average
Medium	Seriously	Above average
Many	Seriously	Above average
Many	Very serious	Above average
Medium	Very serious	Above average
Too much	Seriously	high
Many	Very serious	high
Too much	Very serious	high

Below we will consider the operational risk map compiled by AT “Aloqabank” based on the data on the results of the first quarter of 2023:

Table 2

AT “Alokabank” Risk map [11]

As of 01.04.2023

Probability of occurrence							Risk level
		Too much					 Low
		A lot		OR-1700	OR - 1521 OR - 1900	OR - 1521	 Below average
		Medium	OR - 1600		OR - 1600		 Average
		Few	OR - 1900	OR - 1900	OR - 1521 OR - 1600 OR - 1700	OR-1600	 Above average
		Very little		OR - 2100	OR - 3050 OR - 1600	OR-1100 OR-1300	 High
			It doesn't matter	Small	Average	Seriously	Very serious
		The level of influence on the bank's activity					

Internal fraud cases (OR–1000), external fraud (OR–1100), errors in customers, products and business practices (OR–1300), deficiencies in business process software communication systems (OR–1500), the Bank’s new Colvir software problems (OR–1521), power outages (OR–1600), management errors (OR–1700), operational risks due to low professional level and negligence of Bank employees (OR–1900), compliance with fire safety cases of failure to do so and the bank building not being technically secured against this risk (OR-2100), cases of damage to collateral property due to a natural disaster (OR-3050).

It can be seen from the data in the operational risk map above that in the first quarter of this year, the events that seriously affect the bank were the problems with the bank’s new Colvir program (OR-1521). In addition, there are the following risks, which are rated as having a medium impact on the bank’s activity:

- Power outages (OR-1600);
- External frauds (OR–1100);
- Operational risks due to low professional level and carelessness of bank employees (OR-1900).

5. Conclusions and Suggestions

In the process of globalization, as a result of the increase in digitalization of information, new modern facilities are being created in every field. In particular, commercial banks also have opportunities to establish new types of services and create new management methods. In order to determine the existing risk profile of commercial banks, to continuously monitor the risks encountered during the bank’s activity and the amount of losses suffered as a result, the risk management department of the bank should regularly maintain a register of risk events [12]. Through this, the head of the risk management unit must inform the Bank’s management and the Bank Council about all the risks arising in the bank. With this information, the bank should pay more attention to the risks it faces in most cases or the risks that cause many losses, and in the future, it should minimize or take measures to prevent them.

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