



PURPOSE AND CRITERIA OF RISK DIVERSIFICATION IN COMMERCIAL BANKS

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A B S T R A C T	KEY WORDS
In the article, the goals and tasks of risk diversification in banks, the results achieved by banks through diversification, as well as the factors affecting diversification are studied in a wide scale. Opinions of economists who conducted research on this topic were studied and interpreted. At the end of the scientific work, conclusions and proposals were formed based on the knowledge learned.	Commercial banks, globalization, risk, bank risks, credit risks, diversification, national economy, national currency, monetary policy, bank assets, bank liquidity, international financial institutions, interest rate.

Introduction

In the diversification of risks in commercial banks, the main focus is on ensuring the financial stability of the bank at the micro and macro level, increasing its profit, and continuously fulfilling its obligations to customers and shareholders. At the macro level, it is to increase the solvency of the country's banking system and national currency, to strengthen the confidence of the population and customers in the banking system. Risk constantly surrounds us in the society in which we live, its types and processes of emergence are very diverse. Its versatility, types and wide or narrow scope of influence are directly and indirectly related to the economic, political and social processes in the society in which we live. Of course, the diversification of bank risks is considered one of the important aspects in this process, and in this article, we will analyze the economic content and main principles of diversification of risks in banks.

Therefore, the need to diversify bank risks is one of the important issues in the context of the deepening of the market economy and the globalization of the international economy. Because, in the conditions of the market economy, the relations of commercial banks with depositors, investors, borrowers, customers are constantly expanding, which in turn leads to deepening of the need for effective diversification of risks.

Literature Analysis

The concept of bank risks has been studied in different ways by foreign economists. Their views and conclusions on this matter differ significantly from each other. In particular, issues related to credit risks in banks were studied in the studies of V.N. Ermanov, V.D. Krylova, M.D. Rosenberg, E.E. Rumyantseva, R.G. Olkhova, D.M. Noton and similar scientists.

The occurrence of processes and problems related to banking risks in our country does not have a long history. For this reason, processes related to bank risks have not been studied at a high level by national economists.

It should be noted that bank risks are a wide-scale economic concept, which includes the risks arising in the process of organizing, implementing, profiting of banking activities and similar processes.

Economist E.B. According to Starodubtseva, "risk is a value expression of the probability of events leading to losses.

The higher the level of risk, the higher the chance of profit.

Risks arise as a result of differences between actual and future performance. They can be positive as well as negative.

Thus, it is possible to make a profit only if losses can be foreseen and taken care of.[3]

The definition given by E.B. Starodubtseva to the economic content of risks is wide-ranging, and the author gave a long sentence in order to reveal its essence. We also disagree with the author's statement that "risks arise as a result of differences between current and future performance."

The reason is that in the context of the stability of the national economy and the national currency, risks may not appear as a difference between the results achieved in the current and future periods.

Foreign economists E.V. Ioda, L.L. Meshkova, E.N. Bolotinas took a two-sided approach to the definition of bank risks.

In the absolute sense, "risk determines the amount of losses in the form of measurable material things (physical) and value (monetary funds)," while in the relative sense, "risk is the risk that can affect the financial condition of a commercial bank, the total costs of its resources in operation, or the expected income (profit) the amount of losses", it was noted.[4]

Similarly, other economists of Russia also say that "credit risk is the loss that the counterparty may suffer as a result of non-fulfillment of the obligations specified in the contract. Failure of the borrower to pay the remaining interest payment after deducting the principal amount and the paid amount is evaluated as a lost loss for the creditor" and associated the risk only with the credit process.[5]

The concept of bank risks was also researched by the local economist Sh.Abdullaeva, in which "bank risk is the loss of part of the bank's funds in the process of carrying out banking activities, or in the hope of a positive result in the absence of income, banking operations (deposit, credit, investment, currency) is defined as transfer.

At the same time, according to the opinion of the scientist, bank risks are different in terms of emergence and manifestation, and all of them are explained by the fact that the owner of the money does not return the value of the loan and the interest payments paid to him in full.[6]

According to the legal dictionary published by Russian economists, "Credit risk is the risk of the borrower not fulfilling his long-term obligations to the creditor, i.e. the loan (loan) will not be repaid." Of course, we agree with this opinion, but the second aspect of the issue, the fact that the risk is connected not only with the loan, but also with the passive operations of the bank, has been neglected.[7]

Analysis and Results

If we talk about risk and its diversification in the activity of commercial banks, this issue has become one of the most important issues facing commercial banks of all countries.

Because, in the next 10-20 years, along with the rapid development of digital services, techniques and technologies in the state, finance and credit and other areas, the population of the earth will increase, the amount of above-ground and underground economic resources will decrease, geo-economic differences between countries and regions

and the tension of geopolitical relations are putting commercial banks on the agenda of ensuring the level of risk at a constant normal level and its effective diversification as urgent issues.

In addition, the imbalance of raw materials and financial markets and socio-economic processes at the global level, as well as the deepening of the division of labor and financial-economic relations between countries, creates the need to diversify risks in commercial banks.

Because in the conditions of the market economy, the formation of interest rates on loans and deposits of commercial banks based on demand and supply, the tendency of the risk associated with them to change constantly, as well as the fact that the activities of local and foreign financial institutions are closely connected with each other, the financial and economic situation that occurred in one country the problem is reflected in the financial and credit sector of another country.

Such socio-economic processes create a strong need to generate appropriate profits by diversifying risks in commercial banks.

In addition to the above, in the following years, the improvement of market relations and the deepening of economic competition in our country, as well as the acceleration of the processes of economic integration of our country's financial and economic relations with other countries and international financial organizations require diversification of risks in commercial banks.

Therefore, the main goal of diversifying bank risks is timely fulfillment of the bank's obligations to its shareholders and customers, as well as strengthening the financial stability of the bank, and in order to achieve this goal, commercial banks diversify the risks that arise in the process of fulfilling risky assets and liabilities.

Therefore, the diversification of the risks of commercial banks gives them a number of opportunities, the main ones are presented in the diagram below.

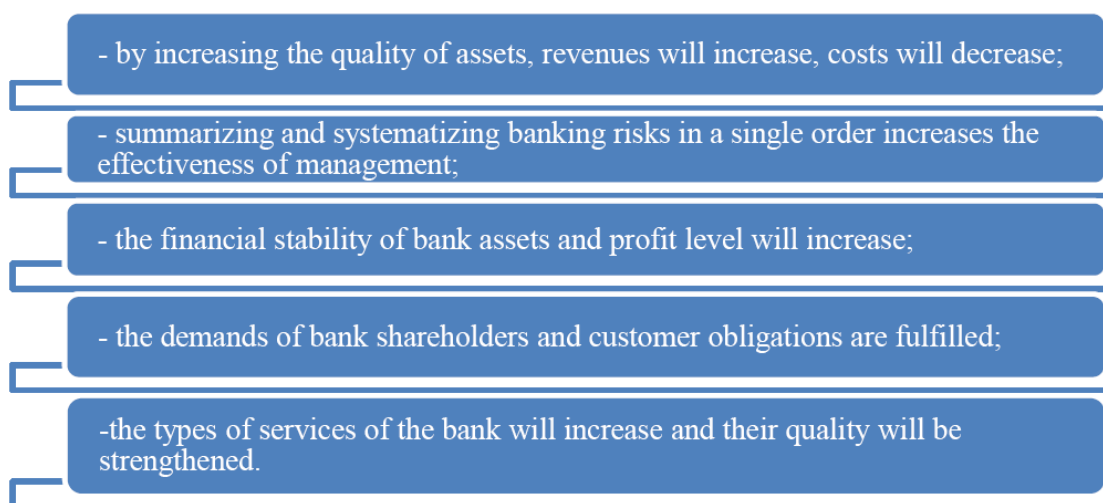


Figure 1. Results of risk diversification of commercial banks.

*Author development.

Chart 1 shows that diversification of the risks of commercial banks gives positive results, we will try to touch on some of them in more detail.

Reducing costs by increasing the quality of bank assets.

It is known that the deterioration of the quality of assets in commercial banks leads to an increase in their costs.

According to the regulation of the Central Bank No. 2696-3 "On the procedure for the classification of asset quality in commercial banks and the formation and use of reserves to cover potential losses on assets", the assets of commercial banks are classified into the following groups and reserves are allocated for them[1].

standard – 1%;

substandard – 10%;

unsatisfactory – 25%;

doubtful - 50%;

desperate - 100%.

By grouping the quality of the assets according to these 5 categories, the commercial banker forms reserves to cover possible losses that may occur to them in the future. Of course, these reserves are made at the expense of the bank and have a negative impact on the level of profit that the bank receives at the end of the reporting period.

In addition to the above, the quality of assets (representative accounts, interbank deposits and loans) placed by commercial banks in banks in the territory of the republic is classified as follows:

when the principal and (or) interest repayment period is delayed up to 10 days - "unsatisfied";

when the principal debt and (or) interest repayment period is delayed from 11 to 30 days - "doubtful";

when the principal debt and (or) interest repayment period is delayed by 31 days, as well as when the license of the bank where the asset is placed has been revoked or when liquidation has begun in another order - "hopeless".

In this, the financial indicators of the banks where the assets are placed and the implementation of the regulations established by the Central Bank are regularly studied [1].

As can be seen from the above, as the assets of commercial banks are classified into appropriate groups according to their quality, appropriate reserves are formed for them.

Deterioration of the quality of assets of commercial banks affects not only their costs, that is, the decrease in profit levels, but also causes the following conflicting situations:

major investors and partners of the bank will reconsider the issue of continuing cooperation with the bank in the future;

as a result of a decrease in the level of liquidity provision, problems arise related to the fulfillment of bank obligations;

as a result of deterioration of the bank's financial stability, the trust of shareholders and customers will decrease;

the market price of bank shares will decrease, the share of additional capital in the structure of own funds will decrease or it may not be there at all;

and others.

Summarizing and systematizing bank risks in a single order increases the effectiveness of management. The activity of commercial banks is an extremely risky activity compared to the activity

of any economic entities in the real sector. Because 88-90 percent of the financial resources of commercial banks are formed from the financial resources attracted from third parties on appropriate terms.

Of course, these resources must be returned on time and in full by commercial banks within a mutually agreed period. If, in this process, the risks are not summarized and systematized in the appropriate directions with the help of diversification, its economic and social consequences will be very bad. It is known that the bank must have liquid funds to fulfill its obligations to customers. In order for the bank to have liquid funds, it is desirable to effectively manage the relationship between liabilities and liquid funds. The results of studies show that in foreign practice, special attention is paid to the issue of diversification of risks in order to effectively organize the activities of commercial banks and achieve the intended goal. In this process, diversification of banks' risky assets and risks arising from attracting long-term funds is of great importance. It should be noted that until the 1980s, the main focus of commercial banks was the management of their risky assets, and later, the management and diversification of risks that may arise in connection with the passive operations of banks became an urgent issue.

Because there have been conflicting situations related to the failure of commercial banks to fulfill their obligations to customers.

In particular, such cases include the transfer of large customers to other banks, the decrease in the desire of investors to invest funds, and the decrease in the market price of bank shares.

The following figure presents the main tasks of commercial banks' risk diversification.

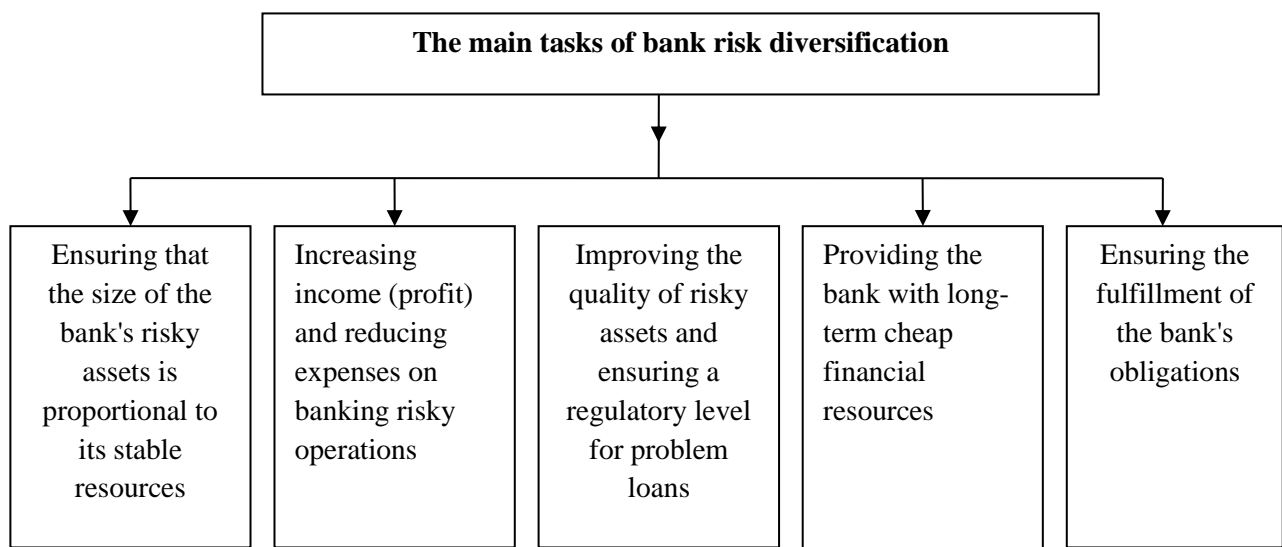


Figure 2. Criteria for bank risk diversification.

*Author development.

Above, we have considered in detail the goal of diversifying the risks of commercial banks, of course, a number of tasks will be set to achieve this goal. The main ones are shown in the picture above.

It is very important to ensure the profitability of the bank, increase the quality of risky assets and ensure the standard level of problematic loans. The need for diversification of bank risks is evident when assessing the level of influence of factors affecting bank risks. For this, we can observe that the classification of these factors is highly effective. In general, we can classify the internal and external factors affecting the diversification of bank risks as follows.

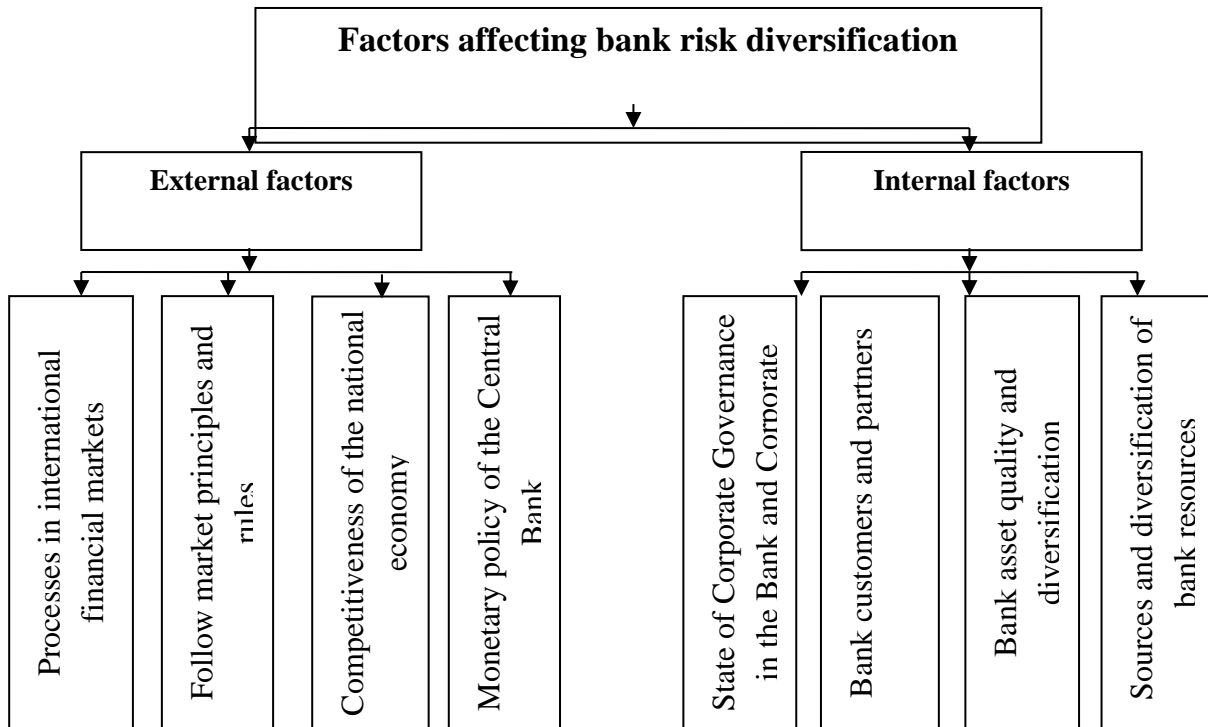


Figure 3. Factors affecting bank risk diversification*.

*Author development.

In recent years, in the conditions of sharp fluctuations of the world economy, the banking system of the country cannot fail to have its influence. In particular, it causes the main rate of the Central Bank to remain high, the share of problematic assets in commercial banks is noticeably increasing, the high volume of reserves created by banks on assets with a high probability of loss is causing their profits to decrease.

Interest rates of loans and deposits remain high in the national economy, one of the main reasons for this, in our opinion, is the low monetization ratio.

The figure below shows the level of monetization coefficient in some countries.

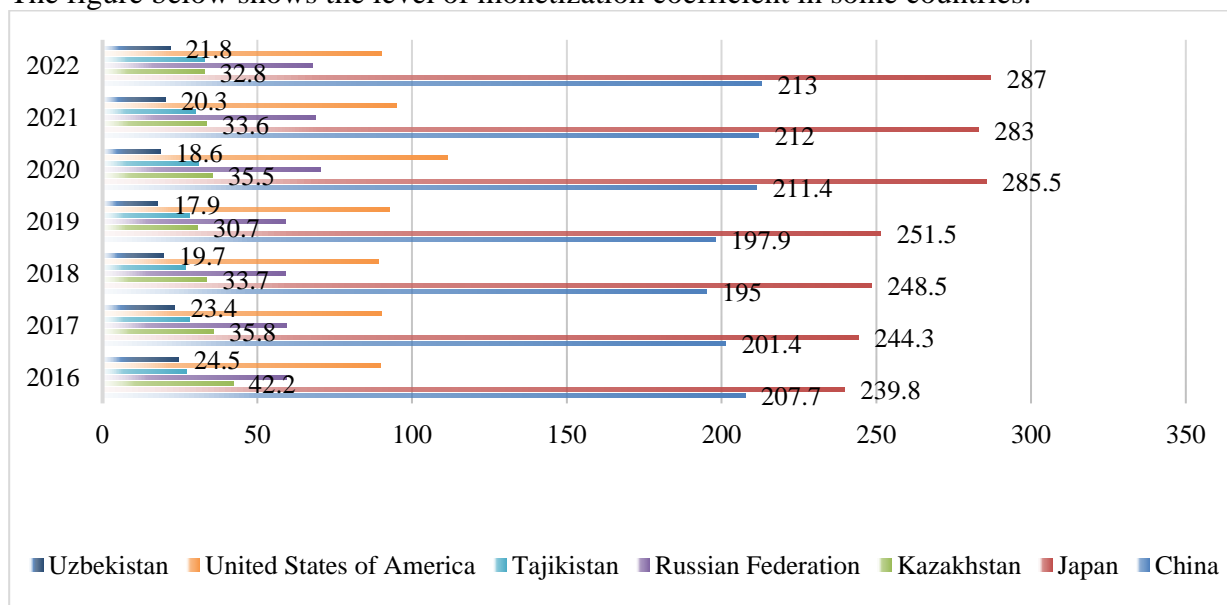


Diagram 1. Monetization coefficient in Uzbekistan and some countries of the world (the ratio of broad money to the country's GDP)*

*Author development.

It is known that the monetization coefficient indicates that the national economy is provided with money. According to experts of the World Bank and international financial organizations, this indicator should be at least 50 percent of GDP in countries that are in the process of transition to a market economy.

From the data of diagram 1, it can be seen that this level in our country was 24.5 percent in 2016, and it was 21.8 percent in 2022.

Of course, raising this level is carried out by lending to commercial banks based on the Central Bank's base rate, but the Central Bank's hard money credit policy, that is, the policy aimed at reducing inflation by maintaining the size of the money supply in the economy, does not currently provide an opportunity to raise the monetization ratio.

This situation requires further improvement of risk diversification practice in commercial banks. The factor of financial processes in international financial institutions, which is part of the external factors of bank risk diversification.

It should be noted that this factor is important in diversifying bank risks. The reason is that the negative changes in the international financial institutions, the decrease in the trend of stable change will not fail to affect the banking system of our country by itself.

An example of this is the world financial and economic crisis observed in 2008.

In such situations of economic instability, bank depositors are at risk and seek to withdraw their funds quickly and invest in precious metals, real estate and base currencies. As a result, problems with shortage of financial resources arise in banks. In addition, in order to ensure the bank's liquidity, to gain the trust of customers, they will start taking measures to withdraw the funds directed to active operations before the due date. In this regard, the instability of financial processes in the international financial markets is one of the main factors influencing the diversification of risks not only at the level of one bank, but for the entire banking system.

Application of market principles and rules

In our opinion, this factor is important in diversifying the risks of commercial banks. The application of market principles and rules in the country allows commercial banks to organize asset and liability operations on the basis of mutual competition. This, in turn, has a positive effect on the reduction of the risk level, as the interest rates on asset and liability operations of banks are formed on the basis of mutual competition. However, the fact that a number of urgent issues remain in our country regarding this issue has a negative impact on the process of diversification of risks in commercial banks, as a result of which the share of problematic assets in the country's bank assets is high, and the amount of funds that are unstable in term and expensive in terms of their resources remains high.

The following two external factors affecting the diversification of the risks of commercial banks, i.e. the competitiveness of the national economy and the monetary policy of the Central Bank, are important in the diversification of bank risks. Their importance lies in the fact that if enterprises and organizations operating in the national economy and all other sectors are not competitive, they will not be able to sell all goods to the country's markets, in particular food markets, construction and technical markets, clothing and perfume markets, service markets, financial markets and other markets. Appliances and other consumer goods come in from abroad. The entry of goods into the consumer and service markets from abroad causes a number of negative situations. In particular,

foreign currencies will go abroad, jobs will not be created, money income will decrease in the form of taxes and other fees to the state budget and will lead to a number of other negative consequences. The monetary policy of the Central Bank indirectly affects the risk diversification of commercial banks. For example, the high rate of the Central Bank does not allow commercial banks to satisfy their demand for liquid funds, and the interest rates of loans and deposits increase. All this has a negative impact on the level of risk diversification of commercial banks.

Conclusions and Suggestions

In general, in the course of the globalization of the world economy, the international division of labor is deepening day by day, and mutual economic relations of financial organizations are developing. As a result, negative or positive situations occurring in the activities of partner countries and financial organizations affect the activities of financial organizations of other countries. If this is a negative situation, it will be necessary to increase the level of bank risks and make an appropriate decision regarding effective diversification of these risks by mutual partner countries. In particular, this process is evident in the processes of investment, deposit, credit and currency relations between partner countries. A change in the financial situation of foreign economic partners creates a risk that their interests will not be realized.

In our view, the importance of diversification of risks of commercial banks can be more broadly defined in terms of micro- and macro-level aspects.

However, considering that these issues will be explored in one way or another in the next sections of the article, we decided not to dwell on them in detail.

It should be noted that the diversification of banking risks in the conditions of the market economy is a requirement of economic and social processes, and whether the results of diversification of risks are negative or positive is evaluated based on a number of criteria.

In conclusion, banking risks and their diversification is a multifaceted process, and the effective implementation of this process has a positive effect on ensuring the financial stability of commercial banks and increasing their profit level.

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