



## **THE MAIN WAYS OF EFFECTIVE ASSESSMENT OF MONETARY LEVERS AND RISKS IN THE DIVERSIFICATION OF COMMERCIAL BANKS' ASSETS**

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### **ABSTRACT**

This article discusses the monetary levers of asset diversification, which are important in stabilizing the risks of commercial banks. In addition, the foreign experience of effective assessment of the level of risks is studied and recommendations are given for its implementation.

### **KEY WORDS**

Bank, risks, capital, loan, management, finance, networks, committee, income, variation, dispersion, model restriction.

### **Introduction**

Any banking activity is directly related to various risks, the effective management of which is one of the most important functions of banks. The risk in any banking transaction has a different value and is covered in different ways. In the economy, it is very difficult to find risk-free operations that guarantee a predetermined financial result.

Risk management in banking is crucial in minimizing and preventing risks. The main goal of bank risk management is to ensure the best possible balance between the bank's profit and its liquidity and safety when managing the bank's assets and liabilities, that is, to minimize losses that may arise from risks. Effective risk management helps to solve many problems that may arise in banking activities.

The level of risk varies depending on various reasons and factors. For this reason, banks should conduct their activities by calculating risks based on market conditions, customer quality, demand, etc., the state of their assets and liabilities, and the supply and demand for banking services. The risk management process includes the following: anticipating risks, determining their estimated volume and impact, developing measures to prevent or minimize risks, preventing losses that may arise under their influence, etc. In this regard, commercial banks have been actively participating in the securities market. Commercial banks have emerged as a method of securitizing their assets in attracting financial resources, which is practically important for them by issuing various types of securities in the financial market. Asset securitization increases the efficiency of the bank's overall economic activity by being used not only as an important tool for attracting cheap financial funds to banks, but also as an important financial technology for ensuring the liquidity of banks' balance sheets, achieving effectiveness in risk management, and increasing the bank's economic profit.

## **Review of literature on the subject**

For banks, it is important not to avoid risks, but to eliminate them, to minimize them. However, there is no single approach to their essence. Most scholars attribute the causes of risk to situations and factors that lead to losses. According to I. Bernard and J. Collier, credit risk, as a type of banking risk, is interpreted as unforeseen circumstances that may arise before the loan is repaid. The International Basel Committee, when assessing capital adequacy, defines credit risk as “the risk of non-fulfillment of obligations by the counterparty”.

I.O. Krolli defines risk as the possibility of a bank losing part of its funds, not receiving the planned income, or incurring additional expenses as a result of financial operations. Carl Birch defines it as “a key component of any company’s risk management philosophy is determining its risk appetite. Risk appetite reflects the amount of risk that a company can accept, given its financial and operational capabilities, growth rates, and profitability prospects for stakeholders”.

It is clear from the above definitions that the authors define the essence of banking risks as some kind of ambiguity, uncertainty, risk in unforeseen circumstances, the possibility of not receiving income or suffering losses without achieving the intended result. These definitions are to some extent related to banking risks, but do not describe their nature.

## **Research methodology**

In the article, independent approaches were formed on the basis of the scientific conclusions of the scientific research conducted by foreign and domestic scientists and the practical experiences of the authors on the research of the monetary policy of diversification of assets, which are considered important for the identification, evaluation, management, monitoring and control of risk appetite and risk profile indicators in commercial banks. Tables, analytical comparisons, logical analysis, grouping and other statistical data are widely used.

## **Analysis and discussion of results**

One of the forces that make the economy healthy is the efficient operation of banks. This level of influence is manifested in the process of applying monetary levers in the diversification of bank assets in the economy.

Monetary levers in commercial bank assets are a set of measures to effectively manage credit resources of banks through monetary levers through the analysis of the demand for financial funds in the economy.

Through the monetary policy of the Central Bank, commercial banks regulate the volume of asset transactions. In the implementation of monetary policy by the Central Bank, the use of its traditional instruments of refinancing policy, mandatory reserve ratio, open market policy, foreign exchange policy and deposit policy are of great importance. When diversifying bank assets, monetary levers can be noted as internal and external. Internal levers include lending policy, special lending standards, setting lending powers, credit limits, external levers include refinancing rate, interest policy, control of economic norms.

In the monetary policy, changes in the interest rate affect the level of general interest rates in the economy, which leads to changes in aggregate demand in the economy through investment attractiveness. Changes in aggregate demand, in turn, affect the level of inflation. Although there is no direct relationship between the interest rate and aggregate demand, the effect of changes in the interest

rate is also realized through other channels. Analyses of the impact of the refinancing rate of the Central Bank of the Republic of Uzbekistan on interest rates in the economy show that there is a stable relationship between them.

Therefore, many Central Banks choose the interest rate as an effective tool for transferring monetary policy to the real sector. Currently, most Central Banks operate an interest rate corridor (IRC).

The essence of banking supervision is ensuring that banks have sufficient capital, complying with the economic regulatory norms established by the Central Bank, increasing the volume of credit funds directed to the economy and rational diversification of risk, monitoring the procedures for granting loans, the state of the loan portfolio based on the protection of interested entities. In this case, the main task of commercial banks is to comply with the adopted and economic norms, maintain sufficient capital and liquid funds, create reserves for doubtful and loss-prone assets, as well as diversify assets in order to reduce risk.

The economic regulation standards include: establishing the minimum amount of regulatory capital for operating banks; capital adequacy ratio; the ratio between the bank's capital and its liabilities; the liquidity ratio of the bank's balance sheet; the maximum risk per borrower; the highest degree of risk associated with all "large" loans; the maximum risk per depositor; the indicator of the use of own funds in transactions with securities; consists of conducting banking operations with relevant persons.

The refinancing rate, as a key indicator in the money market, is one of the important factors affecting the interest rate on credit funds in the economy. The refinancing rate is widely used to manage interest rates in the money market and stimulate economic growth processes. International experience shows that in the practice of developed and a number of developing countries, the refinancing rate is actively used as an important regulatory tool to strengthen the investment potential of the national economy in order to alleviate the negative effects of the financial and economic crisis observed in recent years.

Further increasing the level of capitalization of banks within the framework of the tasks set by the President and our government to further reform the banking system, ensure its stability, and strengthen their investment activities creates a financial opportunity to expand the share of long-term credit deposits in the economy. As a result, the weight of lending to the real sector of the economy in the credit policy of commercial banks is increasing year by year.

As a result of rationally organized reforms, the evolutionary implementation of the tasks set for reforming and liberalizing the banking system has led to further improvement in the activities of commercial banks, ensuring their financial stability, and most importantly, increasing public confidence in the banking system. The main goal of reforming the banking system is to direct the activities of banks towards ensuring economic growth and financial stability, and in recent years, commercial banks have become a financial institution that directs financial resources to the field of financial intermediation operations.

However, at the same time, there are problems with risk management in protecting the assets of commercial banks, which makes it urgent to solve them and develop a modern method of risk assessment.

Despite the expansion of investment flows in rapidly developing countries, factors such as transparency, liquidity, corruption, governance, taxes, and relatively high transaction costs make it difficult to form the "best" methods of asset valuation. The still low growth rate in the world economy is encouraging world investors to invest in the economies of developing countries, which are growing at two or more times the rate of developed countries.

Risk assessment in the activities of commercial banks, first of all, involves analyzing the risk, determining its possible effects, and developing the limits of its general indicators. Risks are assessed taking into account a number of economic factors. Experts evaluate these indicators in a scoring system, and on this basis, the level of impact is studied, dividing risks into certain categories.

In general, the source of risks in the financial market is various factors, the impact of which, in a potentially known and unknown degree, causes risky processes, events, and actions in the financial market, respectively. In other words, risks are always present in the composition of factors, arise on the basis of laws that are inherently probabilistic, and are directly or indirectly transmitted to the realities that are being formed in the financial market environment. Therefore, risks are always present in the environment of the financial market, weakening its condition and the quality of its development, sometimes even worsening it. Based on the analysis of the nature, content and impact of risks, it is possible to develop measures to reduce and manage them.

The main methods of risk assessment in financial markets are the Markowitz model, CAPM, APT, Black-Scholes option pricing model, and the VAR method of risk assessment based on fluctuations.

In practice, banks can use any of the above risk assessment methods. Although the level of financial risk determined by each method is different, they are quantitatively close to each other. The Markowitz and CAPM methods assess and reduce risks by forming portfolios of various types of assets.

The assets of commercial banks can be loans, microloans, foreign exchange, overdrafts, leasing, factoring, securities, investments, funds in other banks, accrued non-interest income, other private property of the bank, and some derivative instruments. In our case, foreign exchange funds, securities, and loans are taken as assets.

One of the most widely used methods in world practice for assessing financial risks is VAR (Value-at-Risk), that is, “risk amount” or “risk rate”. The Value at Risk method is sometimes also called the Monte Carlo method.

VAR has a number of advantages, including:

- this method allows you to assess risk by the probability of their occurrence within the expected losses;
- allows you to assess risk universally in different markets;
- allows you to reduce individual positions to a single amount for the overall portfolio, taking into account information on the number of positions and market fluctuations during the position holding period.

Financial risks are assessed using the VAR assessment method using complex mathematical formulas. This method is currently very widely used in developed countries.

Various methods are used in practice to identify risks.

The most commonly used of them are:

- A) statistical method;
- B) expert method;
- C) combined method.

We consider it appropriate to present the methods used to identify risks in commercial banks in the form presented in this table (Table 1).

**Table 1 Methods of determining risks of diversification of bank assets**

Statistical method	Expert Method	Combined method
The statistics of profits and losses in the activity are studied, the volume and period of receipt of this or that economic derivative (return) are determined, and based on this, the most probable prospects for the future period are determined.	When business owners do not have access to performance indicators or when collecting and calculating figures can be costly and data is insufficient, the expert method of calculating the level of risk is used.	A combination of statistics and expert methods
Basic elements of statistical methods		
Variation: quantitative change of the indicator when moving from one state (period) to another	Dispersion: the amount of deviation of the level of an indicator for a certain period from its average level	Default limit: Change of the indicator characteristics of all periods

The essence of the statistical method is that it studies the statistics of one or another profit and loss, determines the volume of one or another economic return, and based on this, determines the most likely prospects for the future period.

The main tools of the statistical method of risk calculation are as follows:

- Variation;
- Dispersion;
- Default limit.

### Conclusions and Suggestions

The change in the quantitative assessment of a characteristic when moving from one situation to another is called variation. An example of this is the change in economic profitability from year to year. The variance is estimated by the difference between the actual level of the characteristic and its average level with a standard deviation. It should be noted that if these indicators (variance and standard deviation) are considered absolute criteria in assessing risk, then the coefficient of variation is its relative criterion.

For these reasons, if there is insufficient or no data, other methods of calculating the risk level are used. One of such methods is the expert method. When using the expert method to calculate the risk level, the opinions of experienced businessmen and specialists are taken into account. In this process, it is advisable for experts to use exact figures on the probability of the occurrence of potential losses when expressing their opinions. At the same time, a combination of statistical and expert methods of determining the risk level is the most convenient option that should be used in practice. As noted above, determining the level of risk is of great importance in making investment decisions. Making (choosing) an investment decision depends not only on the economic return, but also on the level of risk.

The essence of this approach is that if the return on the first project (type of activity) increases, it is necessary to take into account how the return on the second project (type of activity) changes.

In order to reduce the level of risk, it is necessary to select such products (services) for production, the demand for which changes in opposite directions, that is, when the demand for one product increases,

the demand for the second product decreases and vice versa. As we can see, it is advisable to use a combined method in assessing and identifying risks, that is, the statistical and expert methods and their main tools.

It should be noted that the effectiveness of the expert method in risk assessment is determined primarily by the level of experts, so the main criteria for this method are the involvement of highly qualified experts in the risk assessment process and the use of specific models.

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