UDC 336.71

# RISK MANAGEMENT IN A COMMERCIAL BANK

# УПРАВЛЕНИЕ РИСКАМИ В КОММЕРЧЕСКОМ БАНКЕ

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ABSTRACT

*MANAGEMENT, RISK, BANKING RISK, CLASSIFICATION, FEATURES, BANKING SYSTEM*

*One of the most important areas of science at present, which is of great importance for many sectors of the economy, is the theory of risk management. Interest in this area is associated with the increasing complexity of the relationship between various spheres of society. The aim of the study is to determine the place of banking risk in the general system in order to improve the efficiency of internal control in the implementation of banking operations. As a result, we concluded that despite the rapid spread of risk management practices in banks, there are still different interpretations of their concept.*

It can be considered that the emergence of risk, as a phenomenon, is associated with the moment of the historical origin of man on the Earth. Even then, earthly beings could foresee all kinds of dangers and tried to avoid unnecessary risks, often risking their very lives. This is one of the first forms of risk management.

The history of the concept of risk dates back to antiquity when the mathematical apparatus necessary for its development was born. It was during the Renaissance that the intensive development of this concept began. The concept of risk is one of the main ones in the formation of Western civilization, forming the basis of the market economy. Furthermore, the most important catalyst for its development is the ability to operate in uncertain conditions.

However, the term "risk" first began to be used only in the 1920s of the 19th century. At this time, investment activities were developing, which served to form the theory of risk and the emergence of forecasting in financial markets.

In the scientific literature, the term "risk" was fixed only in the 20th century. However, regardless of the fact that there are currently a large number of publications on the theory of risks, their types and risk management, the problem of terminology in the field of risks and their classification is still relevant. Despite the apparent similarity, different authors formulate the concept of risks differently, and the classification criteria are not clear enough and scientifically grounded.

The analysis of the sources showed that the main part of the definitions of various types of risks is contained in the legislation regulating banking activities. At the same time, there are specific types of risks applied to banks: currency, credit, operational, reputational, liquidity risk, interest rate, innovation, individual, systemic, strategic, insurance, information security risk and others.

Most definitions define risk as corresponding to a specific type of risk in the area. Therefore, the concept of the word "risk" available in the economic literature is quite diverse.

The economic essence of risk is of a complex nature and is associated with decision making under conditions of uncertainty. Risk is a historical phenomenon and combines the experience of many generations in different conditions, which has a positive or negative impact on the results of activities. [3, p.35]

In domestic practice, the theory of risk has become widespread among the scientific community only as a result of the development of commerce and the transition to market relations. The companion of any business activity is a risk. The problem of risk reduction does not lose its relevance since, due to constant technological progress, financial globalization and periodic economic crises, new types of risks appear. In the conditions of a crisis economy, the solution of this problem is given considerable attention by credit organizations and central banks, which have the functions of a regulator.

The banking system is an essential element of the national and international economy, as it performs the essential functions of accumulation and redistribution of capital, as well as changes and regulation of settlements, ensuring the continuity of production of goods and services, thus stimulating investment activity, consumption and demand [2, p. 34].

Stable functioning of the banking system is required to ensure sufficient development and growth of economic sectors. It is vital to prevent the emergence of crisis phenomena within the bank system in order to minimize their spread to other sectors of the economy. This determines the need to control and optimize the risks to which the banking system is prone [4, p.82].

The main reasons for the emergence of banking risk include the following: crises in the economy, inflation processes, external debt, bank income, innovations in the financial sector, and others.

The core of banking is risk-taking. If the risks can be controlled, then commercial banks are stable in their business. However, the likelihood of incurring losses reduces the potential for excess profits. Profitability and risk have a straightforward relationship [1, p. 2].

Currently, the economy is often prone to crises; therefore, the issues of researching banking risks are relevant for modern scientists, banking specialists, as well as for legal entities and individuals who use the services of banks.

Crises affecting banks affect the interests of a wide range of customers who have entrusted their funds to banks. In this case, banks risk both their own and borrowed funds. Severe financial losses of participants are harder to bear than crises of production since they are linked to each other by monetary obligations.

Until recently, proper attention has not been paid to the problems of banking risks. This is directly related to the fact that for almost sixty years the state-owned banks haven’t felt risks in their activities. In modern society, due to the fact that banks take an aggressive position towards each other, conducting more risky transactions and operations, attention to banking risks only increases. The most popular banking science and practice are the ideas of preventing and reducing risks. However, the question of the essence of banking risks remains controversial at the present time.

The lack of consensus among researchers about the essence of banking risk indicates the multifaceted and heterogeneous nature of this concept. Having comprehended various scientific views on the concept of the term "bank risk", we have clarified and concretized its definition, which more accurately reflects the positive side of risk.

Banking risk is an inherent condition for the implementation of an action or inaction with probable unsatisfactory consequences, expressed in the possibility of obtaining a negative result in the banking sector and requiring a decision on the need to implement optimizing actions.

The peculiarity of the banking business is risk management. It is essential to be able to predict and manage banking risks, and assess risks in the financial market in time. The study of the main types of banking risks and their minimization is an essential task for commercial banks. But only thanks to the correct classification of banking risks, they can be qualitatively assessed and subsequently managed and controlled.

Today, domestic commercial banks use a risk management system to minimize the difference between expected and real profits. Modern management systems are based on the requirements of the Central Bank and the recommendations of the Basel Committee.

Thus, we can conclude that banking activities inherently carry risks. This is due to the uncertainty of the external environment in which it is located. To achieve a high-quality level of risk management, a clear definition of banking risks and their classification are required. The risk situation that arises in the banking sector is characterized by the following parameters: the impact of the external environment, lack of time and lack of information.

Despite the rapid spread of the practice of risk management in banks, there are still different interpretations of their concept. The problems associated with uncertainty and banking risks are complex and varied.

Banking risks are a complex system that includes a set of factors (sources of origin, criteria and principles) that interact both inside and outside the bank and are in constant motion and evolution.

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