

## OVERSEAS EXPERIENCE OF RISK ASSESSMENT OF COMMERCIAL BANKS

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**Abstract.** *In this article, thanks to the study of the banking systems of developed countries, sufficient importance is given to monitoring commercial banks, identifying negative changes in the practice of their activities, as well as scientific improvement of methods for the timely and coordinated application of control actions.*

**Key words:** *Risk assessment and rapid action systems, CAMEL system, assessment and analysis of financial condition.*

### ЗАРУБЕЖНЫЙ ОПЫТ ОЦЕНКИ РИСКОВ КОММЕРЧЕСКИХ БАНКОВ

**Аннотация.** *В данной статье, благодаря изучению банковских систем развитых стран, достаточное значение уделяется осуществлению контроля коммерческих банков, выявлению негативных изменений в практике их деятельности, а также научному совершенствованию методов своевременного и скоординированного применения управляющих воздействий.*

**Ключевые слова:** *Системы оценки рисков и быстрых действий, система CAMEL, оценка и анализ финансового состояния.*

In most developed countries, banking systems are objects of increased control and inspection compared to other systems of the economy, because commercial banks are responsible for the protection of the interests of national agencies, commercial enterprises and individuals who are their clients. In that place, the Central Bank defines the future and development strategy of the commercial banks in order to ensure credit operations that meet the requirements of the time. The main goal in the field of the credit system is to provide services to clients in the form of effective credit risk management of the bank, to ensure the financial stability of the banking system, and to develop the economy, which is the main goal of the services of commercial banks. The most effective way to achieve this is the effective management of credit risks.

Globalization of economic processes, development of information technology has a significant impact on banking business. Global computerization, the expansion of the network of Internet technologies gave an opportunity to create effective systems for providing accounting services to customers, speeding up accounting and payments, and increasing the control of cash flows. Assisted in the introduction of new banking products. At the same time, these changes led to the diversification of risks in banking activities. In such a situation, the banking offices also introduce new approaches to the assessment and analysis of the financial situation. Necessary changes have occurred in the assessment of the financial stability of banks by supervisory authorities in various countries. They have the following properties:

1. Currently, the main attention of supervisory authorities is focused on the risks of banking activity. Implementation of standardized assessment of management and internal control quality in control approaches and systems. At the moment, remote monitoring of such factors may not provide sufficient resolution. Therefore, on-site inspections in many countries attract more attention. Uses the practice of holding meetings with the heads of commercial banks.

2. Control organizations are developing statistical models of "high-speed traffic systems". The main purpose of these models is to identify possible problems in the activity of commercial banks and establish effective control to avoid them [1].

In the practice of control work in the USA and European countries, there is a comparison of the methods of assessment of the existing conditions of commercial banks, as well as prediction models, while the rapid action system works. The purpose of such a structure of the control system is to be constantly aware of the organization's activities. In this way, it is possible to influence the problematic areas of the bank's activity and make effective decisions. The special system includes a continuous process, from determining the control period of commercial banks' activities and developing a program for it, to determining the efficiency of its implementation and evaluating the bank's activities in this period. There are necessary similarities in the evaluation systems of the commercial banks of the supervisory authorities of different countries, which mainly include the following:

- the possibility of conducting on-site inspections, their frequent conduct and inclusion;
- remote control systems;
- types and content of reports to be adopted as part of control;
- availability of other sources of information;
- excellent technical equipment [2].

Risk assessment and rapid action systems have been introduced in various countries since 1980. We can see it in 1-table.

*1-table*

***Risk assessment and rapid employability in different countries [1.4]***

| <b>Country and regulatory authority</b>         | <b>Systems and year of introduction</b>  | <b>System type</b>  |
|---|--|---|
| French Banking Commission                       | ORAP (Organization and Fixation of Risk Prevention Actions), 1997 SAABAA (Statistical Method for Aggregate Analysis), 1997 | 1997 Distance rating system<br>Quick action system expected damage        |
| Germany: Federal Office for Banking Supervision | BAKIS (Information System), 1997   | Analysis system of financial coefficients and groups of some banks        |
| Italy: Bank of Italy                            | PATROL, 1993 A rapid employability system has been developed   | Remote rating system<br>Rapid employability system predicts deterioration |

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|---|--|--|
| Netherlands : Bank of the Netherlands             | RAST (error estimation tools), 1999 system in evaluation development   | Aggregate system of bank risk assessment Analysis system of financial coefficients and some banking groups |
| United Kingdom: Organization for Financial Policy | RATE (risk assessment and regulatory framework), 1998 Monitoring model of some banks, 1980                       | Aggregate system of bank risk assessment Analysis of financial coefficients                                |
| USA: Federal Reserve System                       | SEER Rating, 1993 SEER Risk Rank   | Quick Action System Prediction Ratings Assessment of rapid movement system deterioration                   |
| USA: Federal Deposit Insurance Corporation        | CAEL, 1985 (1999 revised in) SCORE (statistically calculated CAMELS rating in the field of remote control), 1995 | Bank control remote system The rapid motion system has progressive dynamics.                               |
| USA: Money Circulation Management                 | Bank Calculator (in progress)  | The rapid action system is divided into cases  |
| U.S.A.: Uchtalarevlik Khodalawangan               | CAMELS, 1998   | Rating system based on on-site inspection  |

As can be seen from the list, banking risk assessment systems supported in developed countries can be classified as follows:

- rating evaluation systems of commercial banks;
- remote monitoring (calculation of financial ratios and analysis of bank groups);
- statistical systems of risk systems in banking activity;
- statistical models of rapid motion systems.

The most widely recognized rating system in the world is the CAMEL system, created in the USA (1979). Its main components are capital adequacy (C), asset quality (A), management quality (M), profitability (E) and liquidity (L). Since 1997, when determining the rating price of banks, this system began to take into account the sensitivity to market risks (S). Thus the CAMELS system was born.

Each component of the rating system provides an assessment of the bank's activity based on the analysis of several factors affecting this component. Some factors are classified as several elements in the system. This means that the components that serve as a criterion for assessing the bank's risk are interrelated. For example, the degree of difficulty of the participants is used both in the assessment of bank capital adequacy (C) and in the assessment of the quality of participants (A). The final rating and the quantitative assessment of each component rating are carried out on a 5-point scale. The 1st rating is a high indicator and indicates that the commercial bank has a

strong position in the market. Hence, it can be very little monitored by bank supervisory organizations. The lowest rating of 5 means that the bank is in a crisis state, the quality of management is low, and there is a need for urgent intervention and corrective actions by supervisory organizations.

Remote monitoring systems are used in many countries to control the activities of commercial banks. The conditions for the operation of commercial banks are related to various changes that occur both inside the bank and on the external market. To take them into account, it is necessary to determine the dynamic changes of one-line indicators and coefficients by groups of banks. If the calculated indicator exceeds the specified lowest level, is in the dangerous range or has decreased compared to the indicators of the previous period, the analysis of financial indicators allows to determine the dangerous situation zone for the bank.

Analysis of banks by groups is carried out on the basis of financial indicators of groups of banks separated by a certain character. This makes it possible to determine whether or not a bank in a particular group has completely different working capacity from the banks in the group, and to find out the reasons for the existing difference. Banks are divided into groups according to various characteristics, namely, the number of active participants or the segments they work in. The bank's indicators are compared with the existing indicators in the group, and banks with declining dynamics are identified. In the late 1980s, the US Federal Reserve developed a system of monitoring certain banks to identify problematic banks. 39 financial, 35 market indicators (indicators) are studied in this system. In this way, it was possible to identify problematic changes in banking activity. This ensures that issues that are of particular importance are identified in the next inspection.

BAKIS information system was introduced in Germany in 1997 by the Federal Office for Banking Supervision and the Fund's bank. It is a standard system for rating banks. The purpose of this innovation is to quickly analyze the bank's financial situation, to identify trends in the level of credit, market and liquidity risk, and therefore to search for the main trends in the development of banking groups and the entire banking system. In the BAKIS information system, 47 indicators are calculated and analyzed on a monthly, quarterly, half-yearly and annual basis in accordance with a special program. These indicators include 16 credit risk indicators, 2 liquidity risk indicators and 10 profit risk indicators. The expert compares specific bank indicators with the indicators of banks belonging to the group [3].

In recent years, remote control systems have turned from the calculation of some indicators for the purposes of control audits into a means of assessing the daily risks in the banks' activities. It is actively and effectively used as a supplement to the existing control system, aggregating indicators in various statistical formats.

Risk assessment systems in the banking activity consist of a stable process, which continues from the initial familiarization with the situation of the bank to the determination of the effectiveness of the control measures, the stages of which are interrelated and complement each other. The approach is based on assigning weight coefficients to each of the banks and banking groups, and then evaluating each unit by type of risks and categories of risk control. The values of each unit are compared to the values of the groups of higher levels, and then the position in the

bank or group of banks is evaluated. This approach is currently being used in the UK and the Netherlands.

In the Netherlands, the allocation of large alliances in the Risk Aggregation Analysis System (RAST) is based on expert judgment. In this case, each unit covers more than 10 percent of the relevant indicator (income, profit, capital). The analysis of additional aspects of activity can be added at a level that is less important for the bank. But they should have the necessary importance for the point of control organizations - the bank under review. The same procedure is applied if their stable growth dynamics are observed or if they cause a serious risk.

The weighting of each organizational unit and type of functional capability is related to the formation of quantitative indicators or the risk of risk, and is classified as low, medium and high. Bank of the Netherlands 10 types of risk that a commercial bank may face (credit, valuations, interest rates, swap operations, loss of liquidity, transfer of operations, information, strategy, use of laws, reputational risks) and risk over distinguishes control from interest rate category (internal control, organizational factor and management). Risks are evaluated on a 4-point scale (1 point-low-level risk).

In general, the use of statistical methods "Preliminary detection systems" in the control of banking activities will be widely used in foreign countries in the next 5-7 years. At the moment, statistical models are conditionally divided into three groups: models that provide rental predictions and models that evaluate the probability of changes in rating indicators (SEER and SCORE systems in the USA). Models that predict the bankruptcy of financial institutions (SEER Risk Rank Bank Calculator in the USA, System of advance prediction in Italy), models of predictable losses (SAABA in France). It is clear that it is appropriate to use such systems to control commercial banks, identify negative changes in their operation practices in advance, and apply control actions in a timely and coordinated manner.

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