MANAGEMENT OF ECONOMIC RISKS IN BANKS: CONCEPT AND DEFINITION

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This article is devoted to the peculiarities of risk management in the banking sector. The author have examined current approaches to the definition of the concept of "risk management" and also have defined the approaches of the National Bank of Ukraine to its understanding. The content of the principles underlying risk management in banks has been defined. Six stages of bank risks have been substantiated.

Keywords: risk management, banking sector, bank risk management, stages of risk management.

The level of bank risk largely influences the efficiency of banking business, the potential of financial institutions in the maintaining of economic processes, the market value of capital and confidence in the bank by the regulators, partners and customers. For the successful operation of the bank it is necessary to have the understanding of the huge number of risks threatening its operations. The realization of this fact is the key to the stable operation of the banking institution. Banks are successful when the risks they have taken are rational, controlled, and are within the scope of their competence and control. Therefore, the priority task in banking activities should be to identify, assess and competently manage risks, as well as the pursuit to minimize them. Different types of risks in bank activities are caused by different factors, have different effects on bank activities and are determined and controlled in different ways. As market conditions and bank structure are different, there is no single risk management system acceptable for all banks. Each institution should develop its own program and system of risk management, according to its needs and circumstances. For example, a larger bank with more complex transactions and which has offices in different geographical areas should have a more developed and more advanced risk management system.

For the purpose of the organization and functioning of risk management systems in commercial banks and in order to ensure that the banks carry out their transactions within acceptable risk parameters and use a method which will protect the interests of depositors, creditors and owners of the banks, the National Bank of Ukraine has developed and approved "Methodical Guidelines for the Organization and Operation of Risk Management Systems in the Banks of Ukraine" [5].

These guidelines have been developed on the basis of the Laws of Ukraine "On the National Bank of Ukraine" [7], "On banks and banking activity"[8], as well as taking into account the leading international documents that regulate the principles of corporate governance and risk management in banks. This will allow to avoid irrational decisions and mistakes, as well as to use the resources of the bank more efficiently. According to the guidelines of the National Bank of Ukraine risk management is determined "as the risk management system, which includes the strategy and tactics of management, aimed at achieving the key business objectives of the bank. Effective risk management includes: management system, identification system measurement system and maintenance system (monitoring and control)"[5].

As the international practice proves, an effective risk management system brings to the bank a number of advantages, namely [4, p. 190]:

- improves the quality of strategic planning;
- allows to avoid sudden changes in value;
- increases the efficiency of the bank activity;
- enables the optimal use of the resources of the bank;
- contributes to greater transparency of management activities and improves communication;
- provides the senior management with information on main risks as well as regarding the resources that are allocated for the influence of the risks of high level;
- provides the managers with an efficient and coherent methodology for the study of the risks;
- improves accounting in banks;
- directs the top management towards the use of factors of risk opportunities in order to improve the value of the bank.

The generalization of the study of domestic and foreign economists allows to determine the range of tasks of risk management:

- the reduction of uncertainty in decision-making;
- the reduction of the initial level of risk to an acceptable one;
- the reduction of the costs associated with the risk;
- the definition and monitoring of the status of different spheres of activities or situations that arise as a result of possible undesirable changes;
- the achievement of a balance between the benefits of reducing the risks and the expenses necessary for that;
- the prediction of occurrence of risky situations.

In terms of risk management, banking activity comes down to risk taking and receiving appropriate compensation for it, that is, economic gain. In other words, risk management is generally not intended to eliminate the risk, but instead it aims to ensure that the bank will receive the appropriate compensation for taking the risk. The exceptions are some risks for which there is no relationship between their level and the size of the compensation for the bank (for example, in Methodological Guidelines for Inspection of Banks "System of Risk Assessment" of the National Bank of Ukraine [6], such risks include legal risk, reputation risk, strategic and operationaltechnological risk). The purpose of risk management is to enhance the value of the bank equity capital, while ensuring the achievement of the objectives of many stakeholders, namely:

- clients and counterparties;
- managers;
- employees;
- Supervisory Board and shareholders (owners);
- bank supervisory authorities;
- rating agencies, investors and creditors;
- other parties.

Risk management is an iterative, sequential process with clearly defined stages through which managers can clearly imagine the risks that commercial banks are faced with.

The process of risk management is a systematic use of available techniques, ways and methods of solving problems related to risks.

In world practice it is accepted to distinguish four interrelated stages of risk management:

- identification (detection) of the risk;
- quantitative and qualitative evaluation (measurement) of the risk;
- risk control;
- monitoring of the risk.

In particular, the above classification is followed by O.Prosovych and K.Protsak [10]. However, other researchers, such as V.Klyoba [4], O. Ivanylova [3], define six stages of risk management in the bank:

- setting up the context of risks;
- risk identification (detection and identification of risks and their sources);
- risk measurement (analysis and evaluation);
- impact on risk (the choice of methods and strategies);
- risk monitoring (daily monitoring of risk limits, control of the size of the main risks and risks that cannot be quantified);
- communication and consultation: regular provision of information about risks.

In our opinion, the classification of the stages of risk management suggested by Ioda E., Meshkova L. and Bolotyna E. in the monograph "The Classification of Bank Risks and Their Optimization" [2] is the most precise and detailed. Researchers distinguish the following stages of bank risk management:

- the identification of bank risks;
- risk analysis;
- risk assessment;
- ways to prevent or reduce risks;
- monitoring and control of bank risks;

- the assessment of the results.

It is recommended for each bank to develop a system of internal regulations regarding risk management. It is necessary to ensure the timely update of internal regulatory requirements of the bank in case of changes of legal, regulatory or normative character, the organizational structure of the bank and the changes in the level of bank tolerance to risk. The bank must inform all the responsible persons about the internal normative base of the bank, including through periodic training and professional development.

In order to rise the efficiency of creating internal normative base of the bank it is encouraged to involve the members of the Supervisory Council in the key stages of creating regulatory documents of the bank, those that need to be approved at the level of the Supervisory Board.

In particular, the main strategic areas of risk management are worked on through the program of risk management, which is approved by the Administration and agreed by the Board of the bank. This document contains relevant risk management policy regarding: liquidity, credit, interest, currency, market, operational, strategic, reputation risk, etc., which the bank produces (evaluates, supervises, controls) in the process of its activity.

The program should meet the requirements of the effective legislation and regulatory requirements of the National Bank of Ukraine, be consistent with the internal regulatory documents of the bank, include the identification of risks, methods and the procedures of evaluation, analysis and risk management, the procedures for risk management by the Administration Board, special committees, the subdivision of risk management and structural bank units. The program of evaluation and risk management must include the possibility of preventing their occurrence and introduction of a system of early response to risks. For this purpose, at the planning of the institution as a whole, particularly at carrying out each transaction significant in terms of volume, it is expedient to introduce the forecast system, at the project assessment stage of which the extensive research is conducted and the complex of risks that may arise is revealed. The identification of risks at the stage of forecast of transactions makes it possible to develop a set of actions for the prevention of risks and their management.

A successful activity of banks as a whole is largely dependent on the bank risk management. The purpose of this process is to limit or minimize them as it is impossible to avoid risks completely. Among the scientists there is no consensus regarding the understanding of the concept of "bank risk management" but the National Bank of Ukraine stipulates that risk management system includes the following elements: risk identification, risk measurement, control and monitoring of risks.

One of the main directions of modern bank management is risk management, the main task of which is to ensure an efficient risk management system. The National Bank of Ukraine defines risk management as the risk management system, which includes the strategy and tactics of management, aimed at achieving key business objectives of the bank. The process of risk management is a systematic use of available management techniques, ways and methods for solving problems related to risks. This process includes the following stages: identification of bank risks; risk analysis; risk assessment; ways to prevent or reduce them; monitoring and control of bank risks; evaluation of the results.

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