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THEORETICAL CONCEPTUALIZATION OF BANKING RISK MANAGEMENT

Abstract. The article explore the theoretical aspects of banking risk management, its purpose, objects, subjects and advantages are singled out. Effective banking risk management should be considered as the main task of banking institutions in their development. From this research of theoretical foundations of banking risk management, we consider it a new direction of scientific research in Ukraine, so the theoretical and methodological developments of these problems are relevant today. In order to solve these problems, we propose to distinguish between «management of banking risks» and «banking risk management». In the research of the theoretical foundations of banking risk management, the interpretation of these basic concepts was proposed. Consequently, the authors proposed defined «management of banking risks» as a process that includes methods and techniques for identifying, assessing, monitoring, controlling and forecasting bank risks, in order to achieve the main objectives of the banks. And «banking risk management» defined as a set of principles, means and forms of management of the bank's activities related to risks. For the development of the theory of banking risk management the authors proposed identified and characterized his subjects and objects. It is determined that the object is risks of banks and economic relations at risk, and the subject is the employees of the structural units, which, through the application of knowledge, skills, information and financial resources, participate in the management of banking risks. In addition, the advantages of effective risk management in the activities of banks are determined. The lack of research on the theoretical aspects of banking risk management can lead to deepening of theoretical and methodological problems and may negatively affect in the practical activities of banks.

Keywords: management of banking risks, banking risk management, bank, subjects and objects of banking risk management.

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ТЕОРЕТИЧНА КОНЦЕПТУАЛІЗАЦІЯ БАНКІВСЬКОГО РИЗИК-МЕНЕДЖМЕНТУ

Анотація. Досліджено теоретичні аспекти банківського ризик-менеджменту, виокремлено його мету, об'єкти, суб'єкти і переваги.

Ефективний банківський ризик-менеджмент варто розглядати сьогодні як одне з першочергових завдань банківських установ у реалізації стратегії їхнього розвитку. З проведеного дослідження теоретичної концептуалізації ризик-менеджменту можемо вважати його порівняно новим напрямом наукового вчення, саме тому теоретичні та методологічні розробки в цій сфері мають беззаперечну актуальність. З метою вирішення цього завдання запропоновано розрізнити поняття «управління банківськими ризиками» і «банківський ризик-менеджмент». У контексті дослідження концептуальних засад формування банківського ризик-менеджменту запропоновано визначення ключових понять: «управління банківськими ризиками», під яким розуміється процес, який включає методи і прийоми з ідентифікації, оцінки, моніторингу, контролю та прогнозування настання банківських ризиків, задля досягнення основних бізнес-цілей банківської установи, і «банківський ризик-менеджмент» визначено як сукупність принципів, засобів і форм управління всіма спектрами діяльності банку, пов'язаними з ризиками. Формування теорії дослідження банківського ризик-менеджменту вимагає визначення та характеристики його суб'єктів і об'єктів. Так, визначено, що об'єктом виступають банківські ризики та економічні відносини в умовах ризику, а суб'єктом — працівники структурних підрозділів або органи управління, які прямо чи посередньо за допомогою застосування знань, навичок працівників, інформаційних, матеріальних та фінансових ресурсів, беруть участь задля виконання стратегії управління банківськими ризиками. Окрім того, виокремлено переваги ефективного ризик-менеджменту в діяльності банківських установ. Відсутність ґрунтовних досліджень теоретичних аспектів банківського ризик-менеджменту може призвести до поглиблення теоретико-методологічних і методичних проблем, що можуть знайти відображення у практичній діяльності банків і негативно вплинути на стан банківської діяльності.

Ключові слова: управління банківськими ризиками, банківський риз-менеджмент, банк, суб'єкти та об'єкти управління банківськими ризиками.

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Introduction. The intensity of the development of the banking sector forces us to pay more attention to the activities of financial and credit institutes. In this regard, risk-management is especially important in the controlling of any bank, because it is not only a way of preventing losses, but also a way of obtaining additional incomes. Considering the increasing of the size of risks to banking activities, the problem of banking risk-management becomes actual at the present stage. In our opinion, in the process of evolution of the risks, the development of risk-management took place, which is necessary in almost any activity, and especially in banking. Because in banking management, control decisions are quite risky, difficult to predict, as the financial sphere is quite sensual, not only to social and economic but also to political factors. Thus, the problem of effective risk-management, which would meet the requirements of national and global markets, comes to one of the first places in terms of importance in the activity of bank institutions.

Research analysis and problem statement. A significant number of scientific works of both foreign and domestic scientists is devoted to the study of issues of banking risk-management. It indicates the acute necessity and relevance of this problem.

The problematic scientific tendencies in the banking sphere are confirmed by the absence of a comprehensive systematic research of the conceptual principles of banking risk management, due to many reasons. First of all, there is no single scientific approach to the formation of the theory of banking risk-management, also in modern conditions there is a lack of fundamental theoretical research of risk-management in Ukraine and practically absence of such researches of banking risk-management, which can be explained by a short period of functioning of risk-management in activity of domestic banks.

The purpose of the article. Investigate the theoretical aspects of banking risk management, in particular the ontological essence, objectives, objectives and form a theoretical concept of banking risk management.

Research results. The research of the conceptual foundations of banking risk-management is impossible without a detailed philosophical understanding of its scientific provisions, namely the systematic coverage of the economic essence and content, characteristics of functions, principles and methods. Also, there are no formed theoretical and methodological tools for research in this area of economic relations. Thus, the scientific paradigm for solving mentioned problems is the results of thorough and multi-vector theoretical research. A significant part of scientific work regarding risk-management, in particular in banking, has been published during the last twenty years and the vast majority of them are ontological direction. Specifically, insufficient research of the etymological source of knowledge of risk-management and mainly applied developments has led to the contradiction of scientific assertions about the essence of banking risk-management, role in activity of banks, its tasks, principles and functions. The epistemological aspect of the theory of risk-management also occupies a special place. It is possible to combine all aspects of research into an integral theory only with the help of using the methodology of cognition of phenomena and processes.

In the modern domestic economic literature there is practically no definition of the concept of «banking risk-management», which is due, in our opinion, for several reasons. Firstly, banking risk-management is a «young» sphere of activity in Ukraine, and therefore unexplored from the standpoint of methodology. In foreign works, the study of bank risk-management is mainly applied. In addition, scientists chiefly focus on the interpretation of the definition of «controlling of risks». At the same time, they do not pay due attention to the definition of bank risk-management. Thus, the vast majority of scientists still identify the concept of «controlling of risks», «bank risk controlling» with «risk-management». That is why we will dwell in more detail on the concept of «controlling of risks». Given the diversity of interpretations of the economic content of the category «risk», several areas can be identified to define the concept of «controlling of risks». The first approach involves determining of the definition of «controlling of risks» as the process of reducing losses, conditioned by risk.

Thus, in the Economic Encyclopedia the concept of «controlling of risks» is defined as the activities of enterprise, organization, institution aimed at overcoming the uncertainty of alternative choice, reducing losses caused by risk [1, p. 744]. This interpretation, in our opinion, is quite narrow, because in the process of controlling of risks the main essence is not to reduce losses, but first of all assessment, control, as well as prevention of risk situations, etc. I. Blank, under the controlling of financial risks of the enterprise, considers «a system of principles and methods of development and realization of risky financial decisions, which provide a comprehensive assessment of various types of financial risks and neutralization of their possible negative financial consequences» [2, p. 530].

The second approach interprets the concept of «controlling of risks» as a complex of methods of impact on risk. Thus, in the works of O. Kyrchenko, I. Gilenko, A. Yatchenko [3, p. 414], V. Granaturov [4, p. 29], V. Vitlinsky [5, p. 318], special attention is paid to minimization of risks. In our opinion, controlling of risks includes not only measures aimed at minimizing risks, but also such important components as assessment, forecasting, control, etc. This is why these interpretations of the studied concept do not fully reflect its essence, because they consider only a certain part of the process of controlling of risks.

The third approach includes scientists, who define the concept of «risk management» as the process of certain related stages. Thus, L. Primostka [6, p. 38], V. Shpandruk [7, p. 242] define the concept of «controlling of risks» as a process aimed at detection (identifying), measuring (evaluating), controlling and monitoring risk positions.

According to the normative documents of the National Bank of Ukraine, «controlling of risks is a process by which the bank detects (identifies) risks, evaluates their size, monitors them and controls its risk positions, as well as takes into account the relationships between different categories (types) of risks» [8, p. 370].

Therefore, mentioned above scientific approaches differ from each other. As for the concept of «banking risk-management», scientists also do not have a single opinion on the interpretation of this concept. That is why it is necessary to single out approaches to the definition of this concept. The first approach includes some scientists: O. Boldyrev [9, p. 117], M. Kornev [10, p. 36], which identify «risk — management» with the concept of «controlling of risks».

According to the regulatory documents of the National Bank of Ukraine, «risk-management is a controlling of risks system that includes management strategies and tactics aimed at achieving the main business goals of the bank» [8]. From these approaches it is possible to draw conclusions about the identification of risk-management controlling of risks, what, in our opinion, is not accurate enough.

The second approach deserves attention, in which scientists, in particular A. Starostin, V. Kravchenko [11, p. 10] interprets the concept of «risk-management» as the management of the organization. In the document «Working Draft for ISO Guide. Risk Management Terminology «prepared by ISO, risk-management is defined as follows» coordinated activities for the management of the organization and its control taking into account the risk» [11, p. 10].

In English, for convenience, instead of the long phrase «risk-based management» use «risk-management» (risk management), what in translation transformed into risk management (controlling of risks). This is not a fundamental error, but it must be considered that it is not direct controlling of risks (management of uncontrolled events or circumstances), but the management of the organization (in our case — the bank) taking risk into account. Proof of this approach is that the theory and practice of risk-management is part of the theory of decision making and is a complex applied discipline which combines statistics, operations research, economics and psychology.

Thus, based on the fact that the responsibility for the functioning of the system, reaction to the situation with risks and making appropriate decisions is the competence of management, it can be argued that bank risk-management in the broadest sense is part of the bank management and therefore the management of the bank in general.

We see from these definitions that the concept of «risk-management» should be interpreted as the management of the enterprise, taking into account the risks.

Thus, in our opinion, it is necessary to clearly distinguish between the concepts of «bank controlling of risks» and «bank risk-management». Banking controlling of risks is a process that includes methods and techniques for identification, assessment, monitoring, control, mechanisms of neutralization and forecasting of banking risks, in order to achieve the main business goals of the banking institution.

Banking risk-management is a set of principles, tools and forms of management of all areas of the bank's activities related to risks. Therefore, risk-management should be considered a bank management system that will include a controlling of risks process.

Risk-management abroad has long been recognized as an effective tool of modern management. At the present stage, risk-management should be defined as one of the main areas of modern banking management, which would study the problems of bank management, taking into account the various risks, the task of which would be to create an effective controlling of risks system, based on certain concepts, laws, principles and methods. Therefore, it is necessary for each banking institution to determine the purpose, objectives and principles of banking risk-management.

I. Blank affirms that the main purpose of financial risk controlling is «to provide the financial security of the enterprise in the process of its development and preventing a possible decline in its market value» [2, p. 531]. L. Primostka notes that the purpose of risk controlling is to optimize the relationship between the level of risk and the expected economic benefit, which is compensation for the risk taken by the bank [7, p. 38]. V. Klopa defines the purpose of risk controlling of a commercial bank in promoting the increase in the cost of equity, while ensuring the achievement of the goals of many stakeholders [12, p. 191]. But if you think in detail what can lead to the bank's position to minimize or avoid risks, then in the first place it will lead to the loss of market share, because all operations of a commercial bank can be considered risky, then in the implementation of this goal it will be necessary to discard the most risky operations or refuse

service, including lending to risky customers. This vicious circle can only be broken if the goal of minimizing risks in favor of managing them is abandoned in order to reduce the possible negative impact. Thus, the negative phenomenon is not the risk itself, but only the incorrect assessment and controlling of risk.

Thus, in our opinion, the purpose of banking risk-management is to ensure maximum efficiency of management of banking institution, taking into account, assessing and using banking risk controlling methods that can both negatively and positively affect the achievement of a commercial bank's strategic and tactical goals. But the priority is to ensure the financial stability of the banking institution, and to achieve the optimal ratio between risk and profitability.

Therefore, based on the above, it is worth highlighting the benefits of risk-management, in particular: 1) improves the financial stability and efficiency of activity of the banking institution; 2) allows to optimize the use of bank resources; 3) promotes avoidance of financial problems; 4) contributes to the training of bank staff, knowledge, skills and abilities in bank risk controlling.

Characterizing bank risk-management, it is necessary to identify the subjects and objects of bank risk-management. Thus, in our opinion, the object of management in banking risk-management is the activity of banking institutions and economic relations in conditions of risk. The subjects of risk management are employees, structural subsections or management bodies, which directly or indirectly, through the application of knowledge, skills of employees, information, material and financial resources, are involved in the banks risk controlling.

In addition, we consider it necessary to highlight the tasks of banking risk-management, namely: 1) substantiation of the essence of banking risk-management in riskology; 2) establishing close relationships in the management processes of banking institutions for effective risk-management; 3) identification of conditions under which risk-management will be most effective; 4) development of a systematic approach to risk assessment and management; 5) improving the management of the banking institution by creating an adequate organizational structure and functional providing.

The main idea of banking risk-management is proved on the basis of the development of the conceptual apparatus, systematized in the form of a theoretical model (*Fig.*).

A component of banking risk-management is the process of risk controlling in banking institutions, because a certain managerial influence is not a one-time action, but a series of continuous interconnected actions. That is why in this process it is necessary to highlight certain stages. However, there is no unity in the literature and regulatory sources in distinguishing the stages of the risk controlling process. Thus, the NBU distinguishes the following stages: risk identification; risk measurement; risk control; risk monitoring [8].

In work [11] the number of stages of bank risk controlling was increased, in particular there was such a stage as the choice of risk controlling methods, which in our opinion is quite appropriate, but we cannot agree that such a stage as risk monitoring is not included, because this is a very important moment for any bank. The same applies to control.

In our opinion, it is necessary for banking institutions to identify seven stages of banking risk controlling, in order to clearly understand the essence of the bank's risk-management, in particular: clarifying the nature of risks, risk detection and identification, risk assessment (quantification), selection of risk controlling methods, monitoring, control and evaluation of results. In addition, in our opinion, it is worth distinguishing between banking risk-management at both the micro and macro levels. At the macro level, so at the level of the banking system, the main mechanisms of influence on banking risks are: minimum amount of capital, requirements for composition and capital sufficiency regulations, requirements for disclosure of information on the financial condition and general risks of the banking system, regulatory requirements for quantitative risk assessment, etc. At the level of banking institutions, in addition to external ones, internal risk controlling mechanisms are used. They include internal models, assessment of risks and risk controlling methods, as well as the organizational structure of risk-management of banking institutions, regulatory support, staff qualifications, etc. All this makes up the system of bank risk-management.

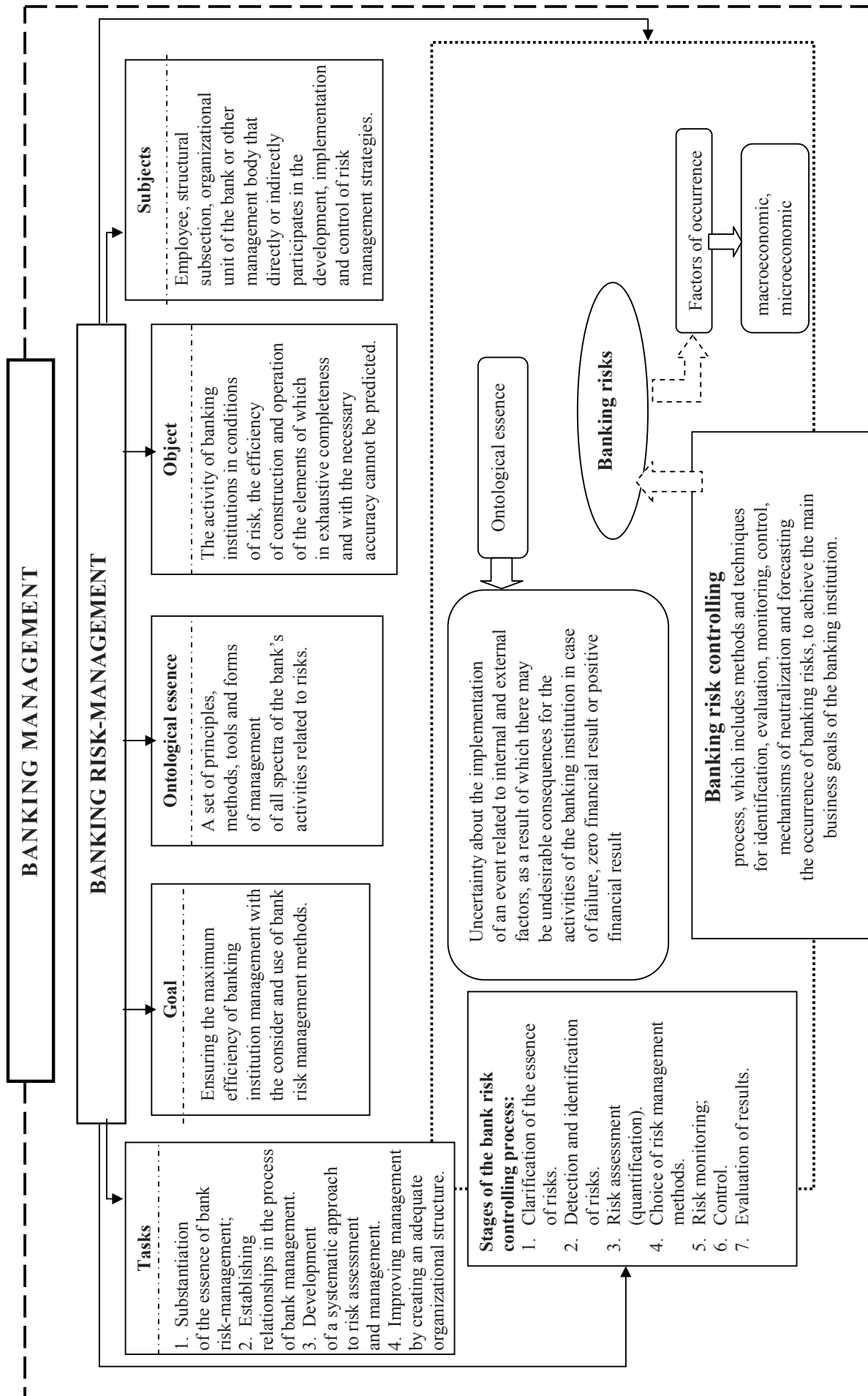


Fig. Theoretical concept of banking risk management

Notes: Developed by the authors.

However, trying to use risk-management in their activities, commercial banks of Ukraine are faced with the need to take into account certain circumstances that complicate their actions, in particular:

1) Ukraine does not have a developed infrastructure for risk-management (namely institutions and tools for bank risk controlling);

2) in our society the culture of risk is just beginning to form. A clear example of this is the distrust of the banking sector. The existence of a culture of risk can be judged from the extent to which management is aware of what risks are accepted by the banking institution. In addition, it is necessary to have an open discussion and understanding of the risks by all employees of the bank;

3) the size and ratio of different types of banking risks of Ukrainian and foreign banks and the motivation for the introduction of risk-management in the activities of domestic banking institutions differ significantly. Thus, the specificity of the Ukrainian economy lies in the magnitude of certain types of risks and the underdevelopment of risk protection instruments;

4) in Ukraine there is a significant influence of political risk factors, because it is the unstable political situation that leads to the liquidity crisis of the banking system. These circumstances cause inadequate riskiness and inadequate caution of banking institutions.

Conclusions. Thus, to understand the economic essence of banking risk-management and identify its specifics and place in banking, the main developments of economics were used, the systematization of which allowed to form a comprehensive approach to the concept of banking risk-management and comprehensively explore it as an important segment of banking. In this context, the subjects and objects of banking risk management, goals, objectives and benefits are identified, which are systematized in the form of a theoretical model.

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