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RISK MANAGEMENT IN THE BANKING SYSTEM AND ITS IMPACT ON FINANCIAL STABILITY

УПРАВЛЕНИЕ РИСКАМИ В БАНКОВСКОЙ СИСТЕМЕ И ИХ ВЛИЯНИЕ НА ФИНАНСОВУЮ СТАБИЛЬНОСТЬ

Summary. *The presence of risk management systems in financial institutions, particularly in banks, was of primary importance not only for large economies and countries with developed markets. The banking system played the central role in any economy. Additionally, financial institutions around the world were so closely linked to the fact that one of the banks' inability to pay their debts could cause a chain reaction that will lead to the failure of the global financial system. At the same time, a large number of individuals and institutions, including customers, agents, borrowers, lenders, shareholders and other stakeholders may suffer.*

As history showed, the negative effects of the banking crisis could quickly affect the entire economy in terms of lending reduction and other mechanisms. These were just the basis of systemic risk.

Key words: *risk, financial institutions, bank, system, liabilities, individual, crisis, effective management.*

Аннотация. *Наличие систем управления рисками в финансовых учреждениях, особенно в банках, имело первостепенное значение не только для крупных стран и стран с развитыми рынками. Банковская система играла центральную роль в любой экономике. Кроме того, финансовые институты во всем мире были настолько тесно связаны с тем фактом, что одна из неспособности банков выплатить свои долги могла вызвать цепную реакцию, которая приведет к провалу глобальной финансовой системы. В то же время может пострадать большое количество физических лиц и учреждений, включая клиентов, агентов, заемщиков, кредиторов, акционеров и других заинтересованных сторон.*

Как показала история, негативные последствия банковского кризиса могут быстро повлиять на всю экономику с точки зрения сокращения кредитования и других механизмов. Это было всего лишь основой системного риска.

Ключевые слова: *риск, финансовые институты, банк, система, обязательства, индивидуальность, кризис, эффективное управление.*

It is known that businessmen pursue economic benefits by resorting to risks. The higher the expected benefits, the greater the risk. The activities of commercial banks are classified as the oldest forms of entrepreneurship and also contain a certain level of risk.

The financial stability of the Bank (hereinafter referred to as the Commercial Bank), in addition to the macroeconomic environment and effectiveness, is largely dependent on the risk assessment and management system. The effective risk assessment and management system will contribute to sustainable development at the stage of economic growth, and will reduce the amount of potential losses in the downturn. Such developments are the expected manifestations of the idea of financial stability. The work of Aldfield and Santomero [8] stated that the financial institutions generally deal with three groups of risks:

- risks, that can be avoided through simple business processes;
- risks, that can be transferred to other participants;
- risks, that should be actively managed within the organization.

The practice of risk aversion generally involved three types of action. The first is standardization of business processes and contracts, which enabled the organization to avoid ineffective and incorrect financial decisions. The next step is the diversification of borrowers during portfolio creation, which cuts the chain of losses. Finally, employees of the organization should be responsible for making decisions.

All of the above steps direct the organization to the financial situation where there was an optimal amount of risk arising from banking activities.

As already mentioned, there are also transmitted risks. For example, interest rate risk can be transferred through various interest rate instruments, such as: swaps and other derivatives. It turns out that various institutes have advantages in risk management, so it was not expedient for the bank to take risks

Nevertheless, there were at least two groups of assets that the risks arising from the bank must bear. The first group includes assets with complex and unique risks. According to Berger and Udel [3], there were financial instruments that are not presented in secondary markets and risk transfer is not possible. Risk management of such assets became the important part of the banks' professional activities. The second group includes property assets. Property assets were the main guarantees of loan repayment, so there must be effective systems for evaluating and selling property so that credit risk was not the biggest cause of losses.

The above classification of risks has been carried out according to the nature, and the types of risks in the banking business are mainly divided:

- systemic or market risk;
- credit risk,
- partner risk,
- liquidity risk,
- operational risk,
- legal risks.

Obviously, such a risk classification was not the only one, but it presents the risks in the field with the appropriate groups.

Since risk management was central to the context of financial stability of banks and the banking system, many authors and regulators pay much attention to the prerequisites for their formation. As a result of the imperfection of risk management, the banking system's crises were emerging.

A number of studies point to the weakness of the settlement, as in 2008. The main reason for the onset of the financial crisis. Not only the crisis caused many questions, but also the regulators felt the changes in the financial system that needed to be responded. Researchers noted that accessible and reliable data was overdue. The real problem was, in particular, the World Bank's data storage archived up to three years old, which did not give analysts around the world an opportunity to include fresh data in their work. Unlike it, commercial banks placed relevant reports on their websites once the quarter ends.

The greatest role in risk management and elaboration and definition of universally acceptable approaches belongs to the Banking Supervision Committee. The Basel Committee had deep roots in banking activities that come in 1973. Bretton Woods collapse, at this time, German banks reported that foreign currency deals exceeded the banks' capital several times. Many banks outside Germany had major losses in foreign exchange buying and selling. The aforementioned and other financial markets had led to ten major countries [5] to Establish Banking Regulation and Supervision Functions Committee in 1974 [4]. Later it was named as the Bank Supervision Committee. The Committee was aiming at discussing the issues of participant countries in banking supervision at periodic meetings, promoting the financial stability of the banks to which control innovations should be used. It tried to establish common standards for banking regulation and supervision, informed the participating countries of the developments in the financial markets and identify the risks emerging in the financial system. 1975 After the meeting, the Basel Committee sessions take place every three or four times a year. After the establishment of dozens, the committee was expanded to 28 countries and unions in 2009 and 2014. In the table 1 had been presented the member states and unions of the Basel Committee

Table 1

The member states and unions of the Basel

Argentina	Korea
Australia	Luxemburg
Belgium	Mexico
Brazil	The Netherlands
Canada	Russia
China	Saudi Arabia
European Union	Singapore
France	South Africa
Germany	Spain

Hong con	Sweden
India	Switzerland
Indonesia	Turkey
Italy	The United Kingdom
Japan	USA

The countries of the Basel Committee are represented by the central banks and official banking supervisors. There are countries that present a few structures.
The decisions of the Committee did not originally exist for the mandatory character of the Member States. It published the control criteria and advised them to use them. 2012 year. the Committee has begun to make observations on the effectiveness of systems embedded in banks of international importance.
Shortly after its foundation, in 1980, the Basel Committee related to capital adequacy. In that period, the Latin American debt crisis confirmed that international banks are risking international risks by their activities. The tens of governments have solved the long-standing problems with capital adequacy through the Committee. The major outcome of this agreement was the introduction of the weighted risk measurement method in banks' balance sheet and off balance sheet. This decision was made by the tens of governments to their banks in 1988. and demanded that until 1992, the proportion of capital-risk-weighted assets will be at least 8%. The capital adequacy requirement was sought not only by members of the Basel Committee, but also by countries whose banking system was pretending to carry out international activities. Then, many adjustments have been introduced into the capital adequacy ratio, changing the list of assets that are part of the capital, and the risks to which they are made.
2004 In June, the Basel Committee introduced the Capitalated Variables that are widely known as Basel 2. Basel 2 had three pillars,

1. Approval of the minimum amount of capital that was yet to be implemented at Basel 1,

2. review of the entity's capital adequacy and internal control;
3. Efficiently using discoveries as a lever of system discipline and healthy banking.

New approaches should allow the regulator to respond more closely to hidden risks and financial innovations that emerged after Basel 1.

The final version was published in 2006. Formatted as the combination of Basel 2 [1].

During the implementation of Basel 2, the Committee member countries met with numerous issues, in particular the risk calculation methodology, which generated legislative contradictions for local regulators. However, this issue has already taken place in 1996. The Basel Committee met, and the regulators were partly imagining solutions.

In 2008 the financial crisis has been proved that the Basel 2 essentials need to be revised. The banking system entered the crisis phase with huge liabilities and inadequate liquidity reserves. These issues were combined with weak governance and risk management.

The Basel Committee once again had to tighten the Basel 2 control area, 2010 Basel 3 was published in July [2]. This document changed capital and liquidity standards. Particularly, risk management control was tightened, the minimum capital requirement has been increased, reflects the following innovations:

- Capital wa divided into strata, which allowed avoiding impaired losses;
- An anti-cyclic reserve of capital that limited the likelihood of total credit losses to the bank;
- Leverage rate, which showed what percentage of loss can be extinguished at the expense of capital;

- liquidity requirements that were expressed through two indicators [6]: maintain sufficient cash resources that will enable you to fully meet your obligations during the thirty-day stress,

Net sustainability coefficient [7], designed to maintain longer-term stability.

Basel 3 tightening will significantly reduce the likelihood of the banking system and the activity of individual banks. Representatives from member states argue that it will never harmed its real sector of economy. Accepted toughets should be introduced in a timely manner in the member countries' banking systems for 2012-2019.

The Central Bank of Armenia is consistent with the requirements and recommendations of the Basel Committee, and in some cases the norms are more stringent in Armenia than they are offered. The banking system of Armenia did not remain in the spotlight on the use of modern risk management systems, but as in all countries, we have significant problems in this direction.

For the commercial banks operating in the Republic of Armenia, the most important was the credit risk assessment and management process since the professional direction of banking activity was lending. In 2015 December 31, by comparing with 2009 in the same period the total assets of the Armenian commercial banking system made 3,457,080 mln. AMD loans amounted to AMD 2,119,513 million. AMD, which was about 61% of total assets [9].

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