

Ways to Determine and Reduce Investment Risks in Banks

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Abstract. This paper reveals the essence and necessity of attracting investment in the economy, the theoretical basis of the causes and types of investment risks, as well as analyzes the methods of analysis of investment risks in the Republic of Uzbekistan and the mechanism of their implementation. The author has developed proposals and recommendations related to the prospects of improving the effectiveness of investment risk management, which determines the relevance of the topic of this research.

Keywords: Financing, investment, activities, high-risk activity, banks, market.

I. INTRODUCTION

Financing of investment activities is a high-risk activity of the bank, and the management of this type of risk is a complex and multi-level process. Therefore, credit institutions involved in investment financing, including commercial banks, need to develop specific models that facilitate the risk management process in order to manage risk. In the future, given the expected needs for modernization of enterprises and the financial capacity of the Uzbek economy, further growth of investment loans in the total loan portfolio of the banking system is expected. This necessitates the risk management of commercial banks in financing investment projects. These aspects reveal the relevance of the dissertation topic.

II. LITERATURE REVIEW

The object of the master's dissertation is the activities of a private joint-stock commercial bank "Davr-Bank" related to the effective management of investment operations. The subject of the study is the investment operations of commercial banks and the risks that may arise in them, as well as the economic relations they carry out to manage them.

Western economist U.Sharp describes investment as follows: "Divorce today with a certain amount of money in order to get more money in the future. Real investments are mainly investments in tangible assets (land, equipment, plants). Financial investments are contracts written on this paper. These include ordinary shares and bonds. In a developing economy, the bulk of investment is in real investment. In a developed economy, the main part of investment is the large-scale development of financial investment institutions, which leads to the growth of real investment. These two forms of investment are not competing, but complementary." [1]

In financial theory, an investment is the acquisition of real or financial assets, ie the purpose of today's expenditures is to generate income in the future. In other words, an investment is the exchange of a certain value for a future value that is more uncertain. [2]

Lawrence Dj. Gitman and Michael D. Jonk's Fundamentals of Investment describes investment as follows: "Investment is the purchase of shares and bonds for financial gain: they define real assets, such as the purchase of machines to produce and sell a good. In a broad sense, investment provides the mechanisms needed to finance the growth and development of the country's economy. "

Also, the basics of risk management in investment projects, the general theory of risk management are described in the book "Risk management of the investment project", edited by the Russian economist M.V.Gracheva. It describes the main stages of risk management in investment projects, certain approaches to project risk classification, qualitatively described and classified project risk management tools, and the basics of economic-mathematical models of risk management in investment projects, in particular, sensitivity analysis, simulation modeling scenario approach.

Uzbek scientists BSMamatov and D.Yu.Khojamkulov, who conducted research in this area, described the economic significance of the organization and financing of investments, the main stages of the process of investment financing, the role of foreign investment in economic development. The role of the investment climate in the development of investment organization and financing, capital construction in investment activities, syndicated lending of investment projects, assessment of financial and economic efficiency of investments were also studied. [3]

Economist N.Simonyants as an investment activity of commercial banks «universal and specialized commercial banks to finance investment projects on the basis of loans and shares, organization and placement of securities in the primary market, asset management, management of investment companies, real estate transactions, consulting recognizes activities aimed at analytical and broker-dealer operations. [4]

Another study by economist A. Naryana states that risk management processes in the investment activities of commercial banks are carried out at the following stages:

- determine and analyze the nature of the risk;
- Evaluation and calculation of risk-related losses;
- development of risk management recommendations, risk reduction through the authority of risk management officials;
- control over the preparation of reports on risk management in accordance with the established criteria and rules;
- income depending on the level of risk (high risk high return, low risk low return);
- Risk coordination of income. [5]

In addition, another foreign economist, P. Rose, takes a broader approach to the concept of banking risk, noting that it consists of six main types of risk: credit risk, non-profit risk, liquidity risk, market risk, interest rate risk, and insolvency risk. P. Rose also considers the above six risks as very important and decisive risks in banking, and political risk and currency risk as risks of secondary importance for the bank. [6]

Russian economist A. Shapkin describes the risk of loss of all or part of the value of the borrower's property as an "emergency risk" arising in the investment activities of commercial banks. In his view, the "emergency risk" usually leads to the bankruptcy of the enterprise and the loss of full solvency, as in this case there is a risk of losing not only all the funds invested in the project, but also its property. The following figure shows the types of investment risks.

III. ANALYSIS AND RESULTS

Insufficient resource base of commercial banks limits the ability to finance investment projects. The fact that the market infrastructure in our country is not yet well developed also increases the risks of the project. It is also necessary to further strengthen the favorable legal conditions, guarantees and economic factors for attracting foreign investment in our country. Identifying and analyzing the types of risks in project financing, their distribution among project participants and the development of risk mitigation measures have a positive impact on project effectiveness.

Each successful investment project makes a positive contribution to the development of the republic's economy. With this in mind, it is very important for every project participant and investor to know the content, essence, management tasks, ways and means of risk reduction in investment risk management.

The following figure provides information on investment loans provided by commercial banks of the Republic of Uzbekistan.

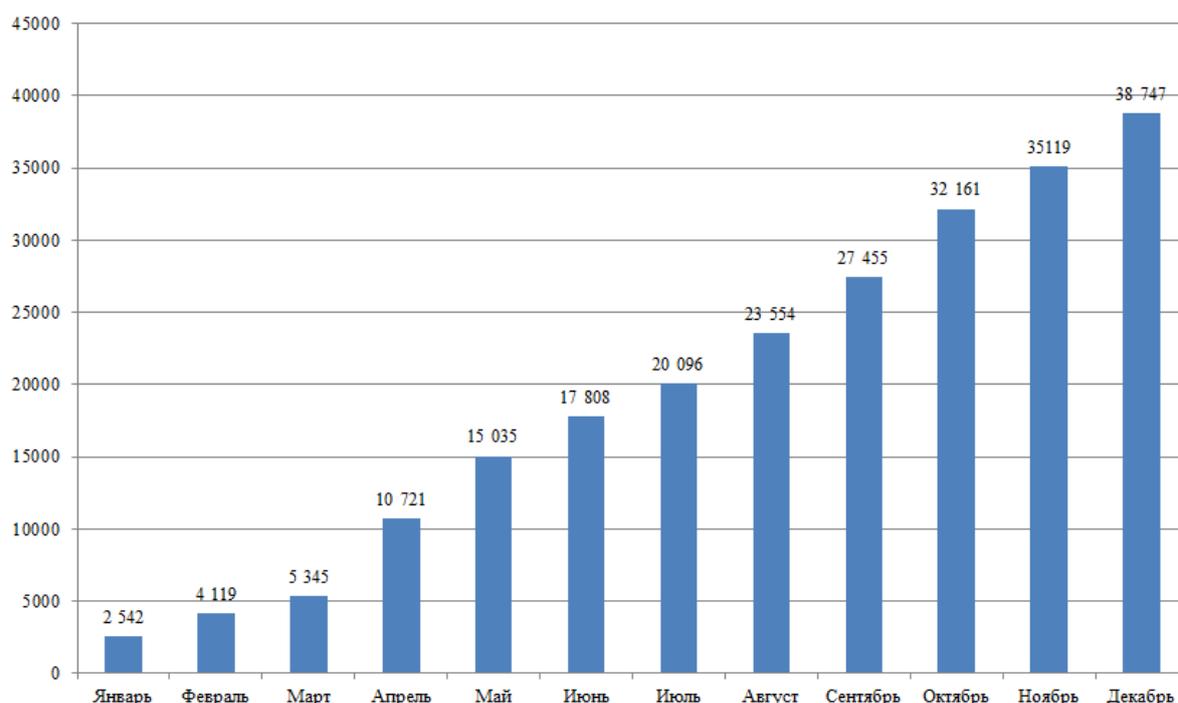


Figure 1. Investment loans issued by commercial banks of the Republic of Uzbekistan in 2018, billion soums

Source: Data of the Central Bank of the Republic of Uzbekistan

According to the data, in 2018, commercial banks will spend 38.8 trillion soums for the modernization of production, technical and technological renewal, the organization of production of competitive products on the basis of modern technology. soums or 2.4 times more than in 2017.

At the same time, the investment activity of banks was primarily focused on ensuring timely and full financing of projects included in the Sector Development, Localization and Regional Development Programs.

Along with all commercial banks, Davr-Bank, a private joint-stock commercial bank, is actively involved in these processes. Davr-Bank, established by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 924 of September 29, 2001, has been actively involved in the process of economic reforms in the country and gained a place in the banking services market.

At present, the bank has 7 branches covering the entire territory of the country. The number of bank customers exceeded 20,000. The clientele includes enterprises, organizations and associations operating in various sectors and industries of the economy, small business and private entrepreneurship, as well as individuals.

The activities of Davr-Bank over the past year consistently implement the most important priorities of the country's socio-economic development program, strengthen the stability of banks set by the Central Bank, increase capitalization, achieve high international ratings, free the population and businesses. increasing the attraction of funds to bank deposits, improving the quality of bank assets and loan portfolio, further intensifying the bank's participation in investment processes. The bank's total capital increased by 124.4 billion soums.

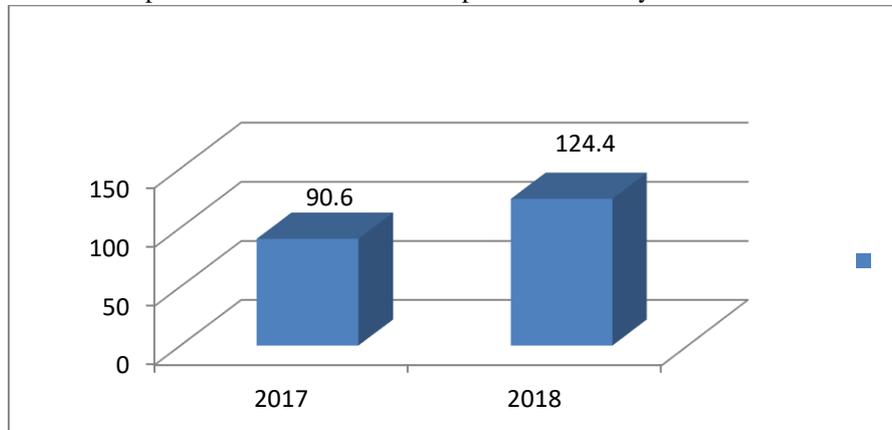


Figure 2. Dynamics of bank capital of PJSCB “Davrbank”, billion soums [7]

The picture above shows the dynamics of the bank's capital of PJSC "Davrbank".

In order to ensure the implementation of the Resolution of the President of the Republic of Uzbekistan dated July 28, 2009 "On additional measures to encourage the increase in the share of long-term loans of commercial banks to finance investment projects" , Loans in the amount of 0 billion soums.

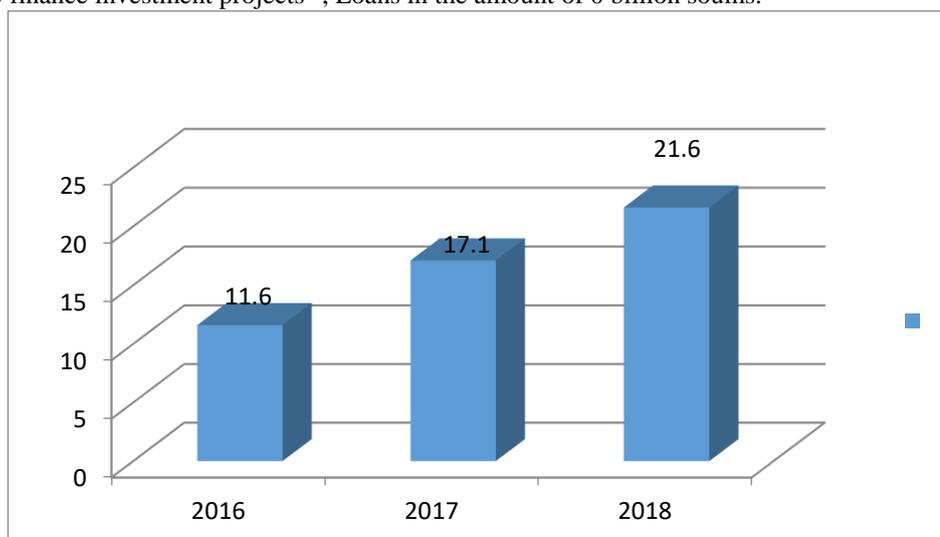


Figure 3. Dynamics of credit investments of PJSCB “Davrbank”, bln. Soum [7]

According to the data, the volume of bank loans directed to various sectors of the economy as of January 1,

2019 amounted to 615.0 billion soums. This figure is almost 2 times higher than on January 1, 2018, and 3 times higher than on January 1, 2017.

Since its establishment, Davr-Bank has been focusing on financing investment projects aimed at developing sectors of the economy. In particular, the Bank actively finances investment projects in the energy, light, food, pharmaceutical, transport, construction and other sectors.

The following figure shows the dynamics of investment loans made by the bank.

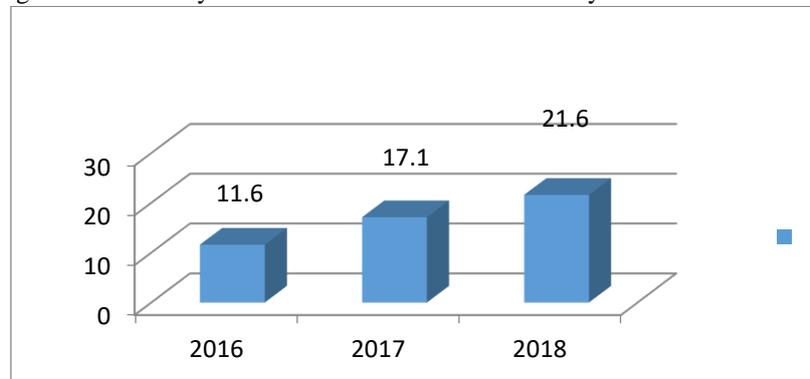


Figure 4. Dynamics of investment loans of PJSCB "Davir-bank", billion soums [7]

In order to ensure the implementation of the Decree of the President of the Republic of Uzbekistan dated July 28, 2009 "On additional measures to encourage the increase in the share of long-term loans of commercial banks to finance investment projects" in 2018, the Bank allocated loans worth 21.6 billion soums. As a result, new enterprises were established and many new jobs were created.

Ensuring sustainable economic growth in the current conditions of economic development depends on the active participation of the banking system in the investment process, primarily lending to the real sector of the economy. This involves the intensification of investment activities through the widespread attraction and effective use of domestic and foreign investment to modernize production, technical and technological re-equipment, development and introduction of new technologies, on the basis of which to implement programs to ensure rapid economic development. Specific assistance and support provided by foreign investments, international financial institutions and banking structures is important in these processes.

IV. CONCLUSIONS

1. One of the most responsible and important types of work to be done before making an investment is to justify the cost-effectiveness of the investment project.
2. Methods of assessing the effectiveness and risks of investments are methods of determining the feasibility of long-term capital investment in order to assess the profitability of various facilities (projects, measures) and the prospects for their recovery.
3. The existence of investment risks implies the need to choose one of the most probable solutions, in this regard, in the process of making such solutions, all possible alternatives are analyzed, of which the most profitable and the lowest level of risk is selected.
4. Assessment of investment risks consists in determining the magnitude (level) of risk.
5. A comprehensive study of various risks using approaches and methods at the stage of investment project development is carried out only for the purpose of project risk analysis at the beginning of the project life cycle.
6. Investment risk management includes the development and implementation of recommendations and measures to reduce the initial level of risk to an acceptable level, which are justified for this project.
7. The application of the following methods of risk identification and assessment in the development of the investment project will facilitate the determination of the effectiveness and high profitability of the project and the adoption of measures aimed at it.
8. Current international trends provide new, modern and innovative opportunities for Uzbek banks, as well as certain risks.
9. The indicators used to evaluate investment projects should reflect the main aspects and conditions of their application. These indicators can be combined into financial and economic, normative, resource indicators.
10. It should be noted that the financing of investment projects is a high-risk activity of the bank, and the management of this type of risk is a complex and multi-level process.
11. Financing of investment projects is a type of lending in which the lender bears some or all of the risks

associated with the implementation of this project.

12. Since the establishment of Davr-Bank, PJSC has been focusing on financing investment projects aimed at developing sectors of the economy.
13. Ensuring sustainable economic growth of the country in the current conditions of economic development depends on the active participation of the banking system in the investment process, primarily lending to the real sector of the economy.

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