CREDIT RISK MANAGEMENT IN THE BANK

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In the article the author considers the notion of credit risk, its factors and the need for the bank to determine it, as well as the importance of choosing the right credit policy. Credit risk management determines the effectiveness of the bank. In the article the author shows the tools of strategic management of credit risk of the bank.

Lending operations are core banking activities and the most profitable assets of credit institutions. Credit risk is defined as the risk of a credit institution suffering losses due to default, late or incomplete execution of the debtor financial obligations before the credit organization in accordance with the terms of the contract.

Credit risk involves the risk of a particular bank and the borrower's portfolio risk. Credit risk management determines the effectiveness of a commercial bank. The range of clients and volume of credit transactions has dramatically increased recently, which resulted in the need to establish full-fledged risk management systems. The most active work is being done to create units of assessment and management of retail and small business credit risk.

In many markets, banks have to operate in the economic environment, characterized by the existence of objective obstacles to good credit management, which demonstrates the importance of strengthening this type of management. However, banks often do not have any established credit risk management process. Risk management is a specific area of economic activity that requires deep knowledge of business analysis, methods to optimize business decisions, the insurance business, psychology, etc.

Commercial Bank credit policy provides the basis of all the credit management, it establishes objective standards and parameters to be followed by bank employees responsible for the provision and processing of loans and management. If the credit policy is correctly formulated, carried out and well-understood at all levels of the bank, it allows management to maintain proper standards of the bank loans to avoid unnecessary risks and correctly assess the opportunities for business development.

Strategic credit risk management is an activity designed to develop risky bank lending policies, including the definition of the fundamental objectives and the means to achieve them.

Strategic management can be seen as a continuous process of selecting and implementing the goals and strategies of the organization. The effectiveness of strategic management of credit risk depends on three main strategic goals of the bank: growth, protection and development.

The tools of strategic management of credit risk, in our view, include: the philosophy and mission of the bank, the overall credit risk strategy, credit policy in the realization of strategic goals and objectives of the bank in the management of credit risk.

The most productive approach to strategic management of credit risk lies in the definition of basic credit risk policies and preferences of banking activities in accordance with the chosen direction of development.

Strategic management of credit risk as a process can be presented in a sequence of several phases:

- ♦ definition of the philosophy and mission of the bank on credit risk;
- ♦ consolidated analysis of exogenous and endogenous factors affecting the system of credit risks;
- ♦ strategic planning for the desired conditions of the given risky positions;
- ♦ choice of credit risk strategy and the development of credit policies on the related credit risks;
- ♦ development of mechanisms for implementing credit risk policies and objectives of bank lending policies;
- ♦ monitoring and adjustment.

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The unstable situation in financial markets affects the need to raise attention to the borrowers. Traditionally, credit risks are associated with financial status, sustainability of business, reputation, liquidity and other factors. In an unstable banking system, more attention should be paid to how the client's business depends on the financial market. For example, additional credit risk arises from the leasing companies. However, there are customers who do not incur additional credit risks in the context of financial market instability. This is true for the food industry and the sphere of services, calculated at the average level of consumption. It is very important in determining the credit risk to take into account the specifics of the industry. In some industries the level of credit risk is significantly higher than in the economy in general. These industries include, for example, construction, agriculture and other sectors whose income is unstable. Some banks create additional reserves for loans to companies operating in such industries.

Effective management of credit risk is inextricably linked to the development of banking technology, which will enable to increase the speed of decision-making and simultaneously reduce the cost of controlling credit risk. This requires a complete base of partners and contractors. There is a need for reliable information on the borrower's credit history, so the credit bureau must play a significant role here.

Monitoring a specific borrower's credit risk is carried out over the entire period from the conclusion of the loan agreement to its fulfillment. The need for such controls is the fact that business conditions are often unpredictable and can be negative, and this may lead to changes in the borrower's financial position and their ability to repay the loan.

In banking practice a number of fundamental principles of checks are worked out, for example:

♦ periodical checking of all types of loans;

♦ checking all the critical conditions of each credit agreement

♦ frequent checking of major credits, etc.

Banks must constantly improve risk management to prevent deterioration in the quality of assets.

In conclusion we want to point out that the development of risk management in Russian banks promotes compliance with the standards of Basel and the Bank of Russia demands. The evolution of risk management involves both the improvement of organizational and functional structures and the increase in the quality of risk management, as well as the introduction of modern systems of identification, measurement, evaluation and monitoring of various types of risk.

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