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THEORETICAL FOUNDATIONS OF RISK MANAGEMENT IN INTERNATIONAL BANKING OPERATIONS

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Abstract

This article examines the theoretical foundations of risk management in international banking operations from a scientific and analytical perspective. The main types of risks arising in international banking activities, the causes of their occurrence, and their classification are analyzed. In addition, contemporary approaches to risk management are explored within the framework of international standards and models, including Enterprise Risk Management (ERM) and Basel standards. Based on international experience, the importance of effective risk management is substantiated, and theoretical implications are developed for the banking systems of developing countries, particularly Uzbekistan.

Keywords

international banking operations, risk management, credit risk, market risk, liquidity risk, operational risk, Basel standards, risk management.

INTRODUCTION

Globalization processes and the integration of financial markets have significantly increased the scale and complexity of international banking operations. Cross-border lending, foreign exchange transactions, international payments, and investment services create new opportunities for banks while simultaneously generating various risks. Consequently, the identification, assessment, and management of risks in international banking operations have become a strategic aspect of banking activities (Mishkin, 2019).

In international banking practice, risk management is regarded not only as a means of ensuring financial stability but also as a key factor in maintaining banks' competitiveness and long-term development. In particular, the experience of global financial crises has clearly demonstrated the necessity of effective bank risk management (Bank for International Settlements, 2022).

The purpose of this article is to comprehensively analyze the theoretical foundations of risk management in international banking operations, systematize the main types of risks, and highlight the importance of risk management within the framework of international standards.

The Concept and Importance of Risk in International Banking Operations

In economic literature, risk is defined as the probability of deviation from expected outcomes under conditions of uncertainty. In banking activities, risk is associated with the likelihood of financial losses, liquidity deterioration, or reputational damage (Saunders & Cornett, 2020).

In international banking operations, risks primarily arise due to external factors. Exchange rate fluctuations, dynamics of international interest rates, political instability, differences in legal environments, and macroeconomic changes represent the main sources of international banking risks. Therefore, international banking risks are more complex and multidimensional compared to domestic banking risks.

Main Types of Risks in International Banking Operations

Credit Risk

Credit risk is associated with the probability that a borrower will fail to meet contractual obligations. In international banking operations, this risk is intensified by country risk, transfer risk, and counterparty risk (Mishkin, 2019).

Market Risk

Market risk arises from changes in interest rates, exchange rates, and prices of financial assets. Currency risk is considered one of the most widespread types of risk in international banking operations (BIS, 2022).

Liquidity Risk

Liquidity risk refers to the possibility that a bank will be unable to meet its obligations in a timely manner. In international operations, this risk is closely related to instability in global financial markets and rapid changes in capital flows.

Operational Risk

Operational risk results from human factors, technical failures, errors in information systems, or fraudulent activities. The expansion of digital banking services has further increased the significance of this type of risk (Basel Committee, 2021).

Legal and Compliance Risk

In international banking operations, differences between national legal frameworks and regulatory requirements generate legal risks. Non-compliance with anti-money laundering and counter-terrorism financing (AML/CFT) regulations may lead to substantial financial and reputational losses for banks (Financial Action Task Force, 2021).

Theoretical Approaches to Risk Management

Enterprise Risk Management (ERM). The Enterprise Risk Management (ERM) approach предполагает the integrated management of risks within a unified system rather than separately. Within this framework, all types of risks are considered interconnected and aligned with the bank's overall strategy (COSO, 2017).

Basel Standards. The theoretical and practical foundations of risk management in international banking are largely defined by Basel standards. Basel III regulations aim to strengthen capital adequacy, liquidity ratios, and risk assessment mechanisms (BIS, 2022).

Risk Assessment Models. International banks employ various models to assess risks, including Value at Risk (VaR), stress testing, and scenario analysis. These models enable banks to evaluate their resilience under adverse economic conditions (Saunders & Cornett, 2020).

The Importance of Risk Management in International Banking Operations

Effective risk management contributes to ensuring financial stability, protecting capital, and increasing investor confidence. Moreover, it supports banks in achieving long-term competitive advantages in international financial markets.

For banks in developing countries, aligning risk management systems with international standards is of particular importance, as this enhances the resilience of the banking system to external shocks (IMF, 2023).

CONCLUSION

Risk management in international banking operations is an integral component of modern banking activities. Under conditions of globalization, the multidimensional and interrelated nature of risks necessitates an in-depth examination of the theoretical foundations of risk management. The integrated management of credit, market, liquidity, operational, and legal risks plays a decisive role in ensuring the stability of international banks.

Overall, the implementation of an effective risk management system based on international standards is considered a fundamental prerequisite for ensuring financial security, integrating national banking systems into global financial markets, and achieving economic stability.

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