

The Role of Innovation in The Development of Banking

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Abstract: This article discusses the theoretical views of improving the efficiency of management of innovation processes in commercial banks, thanks to this, the issues of the development of the credit system have been studied. Practical proposals on Innovative activities of banks are also given, characterized by high uncertainty, which in turn requires the use of flexible and adaptive risk management models.

Keywords: Innovation activity, commercial bank, credit, bank loan portfolio, loan portfolio management, profitability, risks, diversification.

1. INTRODUCTION

The pace of economic development of any state has always been determined by the level of development and mastering of new technologies, and in the conditions of the modern technological revolution, innovation processes are turning into one of the main and constantly operating development factors.

Currently, many countries are restructuring their economic management systems, taking into account the requirements of globalization and sustainable development. Recognizing the significance of these requirements for assessing current trends, one should agree with those who argue that they cannot serve as universal characteristics of a new stage of political, economic, social, and other processes. A more accurate description of this stage of economic development will be the definition of "innovative development". This is confirmed by the program line of the government of the Republic of Uzbekistan, aimed at the transition of the country's economy from a raw material to an innovative growth model. The activities of all economic entities, including banks, should be subordinated to this program line.

In accordance with the changing conditions of the external environment, commercial banks, as full participants in market relations, are forced to adapt to these conditions, becoming the driving force behind innovative processes. These processes must be manageable and proceed systematically within the framework of a functional innovation strategy integrated into the overall development strategy of the bank. It is in banks that new forms of business, new methods of service, new products and financial instruments are born, aimed at meeting the growing needs of customers. Innovations are becoming the most important stabilizing factor not only for the development of banks, but also for the economic development of the state.

It can be shown that in the implementation of innovative activities there are factors that cause uncertainty and risk, incompleteness and asymmetry of information, etc. In other words, it is not always possible to provide an effective result of innovative activity in the market, which leads to the adoption and development of state policy aimed at curbing the consequences of market failures of innovative products. State policy should be aimed at legal support for innovation, infrastructure development and intellectual property. In Uzbekistan, there are still not enough venture funds that provide financing for innovative products, and proper information support for innovations is not provided. In addition, there is clearly insufficient state support for the institutions of innovation, as well as for ensuring an effective link between university science and the banking sector and economic life. These issues require an immediate solution, which will contribute to the effective organization of innovative activities in banks and in production.

Under these conditions, research in the field of risk management tools for the innovative activity of a commercial bank becomes relevant, which determined the choice of the topic of the dissertation work.

2. LITERATURE REVIEW

There are a number of approaches to the issue of defining the concept and essence of the loan portfolio of a commercial bank, which in various economic literature were interpreted differently by a number of foreign scientists, Russian scientists and domestic economists.

For example, the American academic economist Chris J. Barlton describes Diana McNaughton 's loan portfolio as involving a categorization of loans. This definition is part of the bank's loan portfolio.

The Russian scientist-economist N. Sokolinskaya describes: "The loan portfolio consists of the sum of short-term and long-term loans." In this definition, this situation, which focuses on the term of the loan, does not fully reveal the

essence of the loan portfolio. Because the terms and compliance with the requirements for loans issued by a bank can only be an important factor in determining the quality of a loan portfolio. A significant contribution to the development of the theory of innovative development was made by such scientists as S.Yu. Glazyev, A. Kleinekht , N.D. Kondratiev, M.I. Tugan -Baranovsky, J. Schumpeter , Yu.V. Yakovets and others.

The issues of developing the management of innovative activities of commercial banks were considered in the works of AA Ayupov, I.T. Balabanova, AC Borisov, V.I. Vagizova , VS Vikulova, Yu.N. Zakharova, PA Isaeva, JT.B. Koch, JI.P. Kurmanova, O.I. Lavrushina, A.V. Muravyova, T.V. Nikitina, I.M. Podlozhenova , T.IO. Popova, I.A. Semagina , E.A. Utkin and other scientists.

E.A. Grishina , I.N. Demchuk , V.A. Kondratov, V.I. Korneichuk, A.I. Polishchuk, Yu.Yu. Rusanov , T.A. Ustinova, V.I. Chalenko and others.

Another well-known Russian scientist-economist O.I. Lavrushin describes that "the concept of a loan portfolio in the banking business usually means the amount of loans of a particular bank." At the same time, he believes that the formation of a loan portfolio in a bank and its analysis will increase the chances of lending to customers, which will make it possible to accurately develop the strategy and tactics of a commercial bank.

According to L.I. Abalkin , G.S. Panov, the loan portfolio of commercial banks is a classification of loans by quality and composition. This definition, in our opinion, has a positive approach to disclosing the essence of the loan portfolio. On the positive side, they highlight the need for factor-based categorization, depending on the quality composition of loans.

Local scientists - economists in this area are Sh.Z.Abdullayeva , T.S.Malikov , S.Kh. __ N.F. Karimov. Scientific research and others deserves attention.

According to Sh.Z. Abdullayeva, the loan portfolio of banks is the sum of bank claims on a scale of loans, which are classified according to certain criteria based on various credit risks. In his definition, the scientist- economist specifically referred to the classification of loans based on certain criteria and, at the same time, credit risks.

3. RESEARCH METHODOLOGY

As a theoretical and methodological basis for this article, conclusions, suggestions and recommendations in relevant areas were taken by studying general economic literature and scientific articles, research by economists on the effective management of a loan portfolio in commercial banks, analyzing their feedback, peer review, monitoring processes, a systematic approach to economic phenomena and processes, a comparative analysis with the author's experience.

4. ANALYSIS AND RESULTS

To understand the current situation in the country's economy as a whole and in the banking environment in particular, an excursion into the history of the issue is interesting in order to understand how the formation of an innovative economy began. And this digression should begin with an appeal to the name of the Austrian scientist J. Schumpeter, who developed the theory of economic development. Development, according to Schumpeter, is the process of discontinuous change and imbalance caused by innovation: "the introduction of new combinations".

Innovation plays a central role in Schumpeter's theory. He expressed it by establishing a new production function. This may be the production of new types of goods, new forms of organization of production, for example, a merger, the opening of a new market, etc." The scientist firmly connected the concept of "innovation" with entrepreneurship. "Persons who introduce new production functions that differ from the reproducible old production functions and change the proportions and quantities of factors of production within the boundaries of the latter are called entrepreneurs."

Schumpeter pointed out that only persons with the appropriate qualities can implement innovations. These specific qualities, according to the scientist, are:

- self-reliance
- risk preference
- value of own independence,
- orientation to one's own opinion,
- the need to achieve success (despite the fact that the inherent value of money for him is small),
- the desire for innovation.

Despite the difficulties and riskiness of entrepreneurial activity, innovations are a source of development: "... if one or several entrepreneurs have succeeded, then ... these first entrepreneurs may be followed by others ... Their success,

in turn, facilitates the activities of other entrepreneurs by more and more complete removal ... of obstacles due to the emergence of more and more new entrepreneurs, and so on until the new becomes familiar and real, and its perception will not be a matter of free choice. And further: "However, the 'first' entrepreneurs remove obstacles for 'others', not only in the branch of production in which they appear, but in accordance with the nature of these obstacles ipso facto (for this reason) also in other branches: the enterprises of these branches can copy many innovations.

Thus, according to Schumpeter, the entrepreneur is the main element of economic development. It is thanks to this that technological progress occurs, and the economy receives an incentive to develop.

Schumpeter expressed the innovation process as a category of dynamic competition, which can be revealed in several aspects. Some firms independently develop innovations, taking on all the risks associated with this, others try to follow innovative firms. This process covers more and more firms until the innovation becomes the property of the industry. Those companies that were the first to introduce innovations become leaders and win the competition, and those that have not received competitive advantages go bankrupt.

A significant contribution to the study of innovative processes belongs to N.D. Kondratiev, who were allocated "long waves of the economy" lasting 50–60 years. The scientist argued that the period of new technical changes falls on the beginning of a new upward wave, indicating that "these changes are expressed in profound changes in the technique of production and exchange (which, in turn, are preceded by significant technological inventions and discoveries)". In his opinion, technological innovations can be the result of the influence of two factors: firstly, the presence of inventions and discoveries associated with scientific and technological progress, and, secondly, the possibility of applying such inventions in economic activity.

A number of scientists believe that the innovative activity of an economic entity is determined by the deterioration of the economic situation of the organization, which acts as a stimulating factor for innovation, that is, the economic situation is interconnected with the development of innovative activity, which is revived in a recession and depression.

This concept reflects the opinions of scientists on the nature of innovation processes from the standpoint of the cyclic nature of economic development. This concept has been called the "technology nudge" concept (Kleinknecht). Thus, innovations express rather than a factor of economic growth, but a system-forming factor that determines the cyclical nature of long-wave fluctuations.

The founder of the national school of innovative development was Sh.Z.Abdullayeva . In her book “ Banking Risks and Lending ”, she proposed a new classification of innovations according to the level of technical innovations, introduced the concept of the innovation cycle and revealed its internal structure, showed the relationship between scientific, inventive and innovation cycles, considered the mechanism for introducing innovations, described the income from innovations as the main incentive for the development of innovative processes.

According to T.S. Malikov , a new technological mode is born at the stage of growth of the previous mode, and for a long time develops in a situation of inadequate environment. The deterioration of the economic situation at the stage of decline of the existing technical and economic structure has a significant impact on the formation of a new situation. The depression covers both traditional and new industries. And only after the institutional structure has been transformed will it be possible to quickly spread the new way of life throughout the entire economic system. Thus, an idea has been formed about a new factor that reveals a change in technical and economic structures - a new institutional structure that creates the necessary conditions for the introduction of innovations.

A number of scholars have expressed their views on banking innovation. So, S.D. Ilyenkova divided banking processes related to innovation activity into three groups:

1. A simple intra-organizational innovation process, which is due to the fact that the innovation is developed and used in one bank.
2. In this case, one cannot speak of any new banking product, since in this case we are only talking about improving the technological operations of issuing an existing product or service.
3. A simple interorganizational process, which is aimed at creating a new banking product (service) for its further promotion to the market.
4. Expanded innovation process, which is formed as a result of cooperation between the bank and interested partners. The result of such a process is a complex banking product, for example, the "bank-client" system.

From the above review, it follows that competition in the banking market has the same patterns as among business entities in other sectors of the economy: those organizations that quickly master new information technologies and release new products (services) achieve competitive advantages. This requires internal structural changes and training of specialists for the perception of innovations.

The development of innovative activities of banks is hampered by a number of factors:

- distrust of investors and depositors to the activities of banks;
- high level of inflation, which leads to the depreciation of the capital of banks and the national currency;
- strong dependence of the banking system on the external capital market, which is associated with a possible loss of stability of banks;
- a significant increase in the volume of speculative transactions (for the purpose of profitability, banks actively penetrate into other areas of activity, however, not having sufficient experience in conducting such operations, they generate banking risks, which often leads to the opposite phenomenon - a decrease in the efficiency of banks);
- lack of sufficient opportunities for the development of credit operations as one of the main banking products.

Despite the reasons that can slow down the spread of innovations, there is a group of factors that can lead to their activation. These include such factors as the orientation of banks to a wide range of customers, the expansion of retail business, the growth of territorial branches. These trends lead to the development of technological innovations, modern management technologies focused on business processes, as well as new information technologies for making operational decisions.

In this regard, I.T. Balabanov identifies several reasons for the emergence of banking innovations in the modern economy:

- constant entrepreneurial thinking in order to win the competition;
- recurring financial crises, which encourage banks to pursue a tough policy aimed at ensuring the financial stability of the bank;
- international activity, allowing to receive information about banking innovations in foreign countries.
- As examples, I.T. Balabanov considers such banking innovations available for the Russian market as micro-crediting for pensioners, swaps storage, NOU account and others.
- Innovative processes in banks have led to the fact that customers and bank partners can manage their accounts remotely. Such a system originated abroad, where it was called online banking. Remote management of customer accounts can be carried out in the following ways:
 - e-banking (e- banking) using a personal computer;
 - Internet banking (Internet banking) using the Internet;
 - mobile banking banking), using a portable device;
 - telebanking (telebanking), using the phone.

G.S. Panova suggests that the emergence of financial innovations and the increase in new financial products (services) led to two groups of reasons:

- external, related to the constantly changing environment of the functioning of banks;
- internal, related to the increased riskiness of the banking business in comparison with other types of activities.

S.Kh. Norkobilov , as the first reason for banking innovation, considers close ties between banks and partners, which allows them to carry out profitable activities for both banks and customers. Customers are making increasingly high demands on banking products, so banks are forced to actively seek opportunities to improve the quality and price of services. The second reason for banking innovation, according to S.Kh. Norkobilov , is the competition between banking and financial institutions in the conditions of decentralization of the monetary market. Competition is a powerful incentive to seek innovations that can enhance competitive advantage. According to the apt expression of A.A. Kharin and I.L. Kolenkov , "competition should be a way of life."

In a competitive environment, when making managerial decisions, managers must promptly analyze the factors of the external and internal environment of the bank, determine their impact on performance and develop corrective measures for decision-making. This means that the transition to an innovative economy requires a good understanding of the factors of the market environment, and most importantly, the management of these factors. If the bank independently develops an innovative

Modern economic conditions imply the creation of a banking system that complies with international banking practice, based on improving the efficiency of banking activities in our country, preventing existing problems in the activities of commercial banks.

As in any activity, banking provides the possibility of obtaining a higher income by placing available funds on the basis of the least risk. Higher profitability, in turn, increases the level of risk in the operations that banks conduct, since banks work mainly with resources attracted from abroad. On the one hand, they are responsible to their

shareholders, and on the other hand, they have obligations to clients who have entrusted their funds and use banking services. For this reason, commercial banks operate with risks that are several times higher than the risks of other business entities.

Analyzing the specifics of the definitions discussed above, we believe that the loan portfolio can be defined as follows: the bank's loan portfolio is the sum of the total volume of loans issued by the bank, which are considered necessary for the bank's lending operations.

Table 1: Gross domestic product (GDP) in the Republic of Uzbekistan, volume and level of commercial bank loans

Specification Name	2019	2020	2021	2022
1	2	3	4	5
GDP (billion soum).	511 838.10	529,391.40	602 193.0	734,587.7
Banking assets (billion soum).	272,726.90	272 726.9	366 121.1	444 922.5
Assets to GDP ratio, in percent	53.30	51.50	60.80	60.57
Loan investments (billion sum)	211 580.50	211 580.5	276 974.8	326 385.6
The ratio of credit investments to GDP at interest	41.3	40	46.0	44.4

From the data presented in Table 1, it can be seen that, in 2018-2021, the gross domestic product of the Republic of Uzbekistan and commercial banks tended to increase the volume of loans issued. The volume of credit investments directed to the real sector of the economy as of January 1, 2022 is 326,385.6 billion soums , it can be seen that the volume of credit reached 41.4 percent in relation to GDP.

Despite the totality of studies of various aspects of the innovative activity of commercial banks, the issues of risk management tools for the innovative activity of banks are not sufficiently developed, which determined the choice of the topic, the purpose of the dissertation research task.

The purpose of the dissertation research is to substantiate the theoretical aspects and practical recommendations for improving the risk management of innovative activities of commercial banks.

In accordance with the goal, the following research tasks have been identified:

- highlight the most significant risks of innovative activities of commercial banks;
- develop guidelines for risk management of innovative activities of commercial banks based on the morphological method;
- highlight the risk factors of innovative activities of commercial banks;
- substantiate the relationship between the strategy of innovative development of commercial banks and the risk management system;
- develop guidelines for managing the strategic risk of innovative activities of a commercial bank.[9]

The subject of this dissertation research is the totality of economic relations that are formed in the banking services market, in the aspect of managing the risks of innovative activities of a commercial bank. The object of the study is the innovative activity of commercial banks of the Republic of Uzbekistan.

5. CONCLUSIONS

The theoretical and methodological basis of the research were the works of national and foreign scientists on the theory of innovative development of the economy, banking management and risk management, materials of scientific seminars and conferences.

In the process of performing the dissertation work, such general scientific research methods as a systematic and morphological approach to the study of economic phenomena, expert assessments, formalization and modeling were used.

The information base of the study was the regulatory legal acts of the Central Bank of the Republic of Uzbekistan, scientific publications; materials of periodicals and the Internet.

The scientific novelty of the study lies in the theoretical and methodological substantiation and development of methodological and scientific-practical recommendations for improving the risk management system for innovative activities of a commercial bank.

The following main results, reflecting the scientific novelty of the research, have been obtained and submitted for defense in the work:

- three significant risks in the innovative activities of commercial banks have been identified: operational risk, risk of loss of business reputation and risk of lower profitability, and operational risk among these risks is decisive;
- methodological recommendations have been developed for managing the risks of innovative activities of commercial banks based on the combinatorics of the components of the balanced scorecard and the stages of preparation and implementation of an innovative banking product (service), which allows us to consider the morphology of the risks of innovative activities of a commercial bank, their internal structure and make management decisions on this basis to reduce risks; the proposed approach is a new development, which significantly expands the possibilities of managing the risks of innovative activities of commercial banks;
- the risk factors of the innovative activity of a commercial bank are identified according to the stages of preparation and implementation of innovation, the ranking of risk factors using expert assessments is carried out, which helps to identify key risk factors and identify areas of risky activity of the bank in the morphological risk matrix of innovative activity;
- substantiated the relationship between the strategy of innovative activity of commercial banks and the risk management system, based on the coordination of the stages of strategic management of the innovative development of a commercial bank and the stages of risk management;
- developed methodological recommendations for managing the strategic risk of innovative activities of a commercial bank in the system: "strategic map of a new product - directed graph - directed graph adjacency matrix", which provides unlimited opportunities for modeling strategic risk in the implementation of an innovative development strategy and making effective management decisions to minimize it and neutralization.

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