

WAYS TO IMPROVE LENDING PROCESSES IN COMMERCIAL BANKS

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ARTICLE INFO.

Keywords: bank assets, lending processes, credit, loan portfolio, risk, risk management.

Abstract

This article analyzes the theoretical and practical aspects of improving the lending process in commercial banks. One of the most important tasks in the banking system today is to provide high-quality and fast service to clients. The lending process plays an important role in meeting the financial needs of customers, and its effective management increases the bank's economic stability and competitiveness. The main stages of the lending process in commercial banks, factors affecting its effectiveness and existing problems were considered in the article. Also, there are recommendations on ways to improve the lending process, including the use of modern information technologies, automation processes and new methods of credit risk management. It is noted that the process of lending can be simplified and accelerated by digitizing the banking system and automating relations with customers.

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Introduction

The reforms carried out in the banking system of our country serve to further simplify the practice of lending, increase their economic efficiency and optimize interest rates, improve the activity of commercial banks, the quality and culture of lending in all respects.

In the strategy of reforming the country's banking system, "...improving the quality of the credit portfolio and risk management, following the moderate growth of lending volumes, conducting a balanced macroeconomic policy, improving corporate governance and attracting managers with international practical experience, financial "Ensuring the financial stability of the banking system by implementing technological solutions for risk assessment" is defined as one of the priorities.

One of the main activities of commercial banks one therefore, the effectiveness of banks' lending activity has a direct and strong impact on their financial stability. This own in turn, commerce banks The effectiveness of lending activities is determined by the effectiveness of credit portfolio management.

A decrease in the efficiency of credit portfolio management of commercial banks leads to a deterioration of credit quality and, therefore, to a decrease in the solvency and liquidity of banks. At the stage of modernization of the economy, the presence of a number of problems in increasing the

efficiency of credit portfolio management of commercial banks of our republic is evident. In some banks of our republic, there is an increasing trend of overdue loans in the total amount of loans.

In addition, a decrease in the weight of loans in the total volume of bank assets is observed in some commercial banks. These problems determine the relevance of this master's dissertation topic, the existence of significant problems in improving the management of the credit portfolio of commercial banks of our republic and the need to solve them.

Literature review

Many scholars of credit process theory, including Akhmetov and Sobirov (2019), have focused on the analysis of credit risk management and its impact on banking operations. According to their research, the efficiency of the lending process is one of the main factors that ensure the stability of the bank (Akhmetov and Sobirov, 2019).

The implementation of digital technologies is one of the important factors for modern commercial banks. Vafojev (2021) shows the importance of automating the lending process and using blockchain technologies in his research. According to his research, by using modern information systems, the lending process is accelerated and risks are reduced (Vafojev, 2021).

Credit risk management is an important part of the lending process. Khalilov (2020) examines the importance of using financial indicators and credit ratings in his work. According to him, it is necessary to minimize risks by using statistical analysis and databases when making lending decisions in modern banks (Khalilov, 2020).

Karimov (2022) studies the lending process in European and US banks and analyzes innovative approaches to risk management. His research recommended the introduction of alternative lending platforms to reduce credit risks (Karimov, 2022).

Tursunov (2023) analyzes the lending process in commercial banks in Uzbekistan and studies the specific problems arising in the country's banking system. According to him, one of the important factors is to strengthen the legal framework and retrain personnel to expand lending opportunities for small businesses and residents (Tursunov, 2023).

In general, the literature devoted to the improvement of the lending process in commercial banks shows that the introduction of modern technologies, effective credit risk management and the use of international experience are important for improving this process. For the banking system of Uzbekistan, it is necessary to integrate international experience taking into account national characteristics.

Research methodology

Economic research methods were used to systematically analyze the data using a systematic approach to studying the problem.

The methodological basis of the research is formal logic, statistical and comparative analysis methods, systematization, classification and expert assessment, grouping, comparative method and content analysis, graphical interpretation methods, etc.

Analysis and results

In the conditions of further deepening of economic reforms and liberalization of the banking system, credit operations occupy an important place. Due to the fact that credit operations of commercial banks are activities that shape bank income, ensuring the stability of the quality level of the loan portfolio is one of the main tasks of banks today.

Lending is a type of activity of primary importance for commercial banks, because the decrease in the quality of the loan portfolio of commercial banks negatively affects their financial stability, that is, the

increase in the weight of overdue loans in the volume of loan deposits sharply reduces the bank's liquidity. leads to a decrease.

Therefore, effective management of the loan portfolio of commercial banks allows to meet the needs of economic entities for credit funds.

An increase in the amount of bank loans directed to the development of the economy in our republic, an increase in the number of different ownership and business entities that use them, rational placement of loans given by banks, increasing their efficiency, timely collection of interest on the given loans the tasks of provision justify the urgent issue of constant monitoring of the bank's loan portfolio.

Due to the fact that credit operations occupy the main place in the activity of banks, the correct organization of their loan portfolio is one of the main factors that create an opportunity for efficient and stable operation of banks. Deficiencies in credit operations can lead to a decrease in the income of banks, and in some cases, their bankruptcy. Therefore, monitoring the credit portfolio of banks and its quality is a guarantee of the effective operation of commercial banks.

The President of the Republic of Uzbekistan dated May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" provides for "improving the quality of the credit portfolio and risk management, increasing the volume of lending to a moderate level" implementation, balanced macroeconomic policy, improvement of corporate management and attracting managers with international practical experience, ensuring financial stability of the banking system by implementing technological solutions for assessing financial risks" mainly in view of the analysis of lending and loan portfolio quality in commercial banks if we throw

Banks allocated 251 trillion soums of loans in 2023, or 24% more than in 2022, to meet the economy's demand for credit and provide financial support to business entities. In this case, 60% of these loans were allocated to business entities and 40% to the population.

In particular, it was noted that in 2023, the share of loans allocated by private banks in the total allocated loans will increase from 31% to 43%, and the share of loans allocated to corporate clients will increase from 25% to 34%. Also, during the reporting year, revolving loans of 57 trillion soums were directed to ensure the continuity of the activities of business entities and replenish working capital. The rate of return of previously allocated loans to bank circulation increased by 7 percentage points compared to the end of 2022 and reached 74% by the end of the reporting year, which served as the main source of financing the economy in the context of the increase in the cost of external resource funds.

During 2022, banks allocated loans in the amount of 390 trillion soums or 22 percent more than last year. 74% of these loans (289.1 trillion soums) are corporate and 26% (100.9 trillion soums) are loans allocated to the population. In 2023, loans in the amount of 471 trillion soums or 21 percent more than last year were allocated. 68.5% of these loans (322.8 trillion soums) are corporate and 31.5% (148.6 trillion soums) are allocated to individuals (Table 1).

Table 1 by commercial banks to individuals¹

Indicator name	01.01.2023	01.01.2024	Change, (in percent)
Total credit balance	390,049	471,406	21%
Loan balance allocated to individuals	100,949	148,621	47%
Mortgage loans	46,460	58,177	25%
Microloans	14,651	24,525	67%

¹Compiled by the author.

Consumer loans	23,177	44,589	92%
Education loans	2,057	4,745	131%
Loans for business development	14,567	16,395	13%
Other loans	36	191	423%

37 percent of corporate loans (or 51 trillion soums) are revolving loans allocated to replenish working capital. Also, 31 percent of allocated loans are short-term and 69 percent are long-term, and in terms of currencies, 65 percent of loans are in national currency and 35 percent are loans in foreign currency. 322 trillion by commercial banks as of 01.01.2024. loans were allocated more than soums, and the return rate was 74 percent.

Table 2. Credit balance allocated ²by commercial banks to legal entities

Indicator name	01.01.2023	01.01.2024	Change, (in percent)
Total credit balance	390,049	471,406	21%
Credit balance allocated to legal entities	289,100	322,784	12%
Loans allocated to legal entities that are not credit organizations	272,485	308,765	13%
Leasing and factoring	1,564	2,034	30%
Interbank loans	1,154	1,165	1%
Microcredits	9,166	5,281	-42%
Syndicated Loans	4,730	5,539	17%

As a result, the balance of loan deposits allocated by banks increased by 21% or 81 trillion soums compared to the beginning of 2023 and reached 471 trillion soums as of January 1, 2024.

The part of the balance of these loan deposits allocated in national currency increased by 2 percentage points compared to 2022 and reached 55 percent, while the weight of loans allocated in foreign currency decreased by 2 percentage points and made up 45 percent of the total loan portfolio.

The decrease in the share of loans allocated in foreign currency in the loan portfolio is due to the increase in the cost of resources attracted from abroad, the increase in the return rate of foreign currency loans (from 69% to 89% in 2022) and protection of business entities from risks related to the exchange rate. it is explained by the increase of experience.

The balance of allocated loans by economic sectors increased by 10.7% to 140.2 trillion soums in the industrial sector, 12.3% to 47.3 trillion soums in agriculture, and 15.7% in the transport and communication sector. increased to 34.3 trillion soums, increased by 12.5% to 32.5 trillion soums in the field of trade and catering, and increased by 18% to 12.3 trillion soums in the construction sector. The improvement of the corporate management of commercial banks, the entry of digital foreign banks into the country's banking market, and the increase in the scope of remote customer service create the basis for the increase in the volume of lending to the economy based on market principles.

In particular, during 2023, the balance of preferential loans¹³ grew by 5% (6 trillion soums) and reached 145 trillion soums at the end of the year, but its share in total allocated loans decreased from 36% at the beginning of last year to 31% at the beginning of this year. decreased to percent.

In 2023, special attention was paid to attracting long-term internal sources of financing to the banking system against the backdrop of the increase in the price of resources in the external resources market and the increased competition for attracting them.

²Compiled by the author.

In particular, in 2023, the total liabilities of banks reached 555 trillion soums and increased by 16% or 78 trillion soums compared to 2022. 48% of the increase in liabilities was formed due to borrowed funds, 32% to deposits, 7% to local interbank loans and deposits, 4% to subordinated debts, and 9% to other liabilities.

In particular, during 2023, in order to prevent the negative effects of problem loans on the financial stability of the banking system and to reduce their weight, the loan portfolios of banks were regularly analyzed by banks, regions, and segments.

Based on the results of the analysis, instructions were given to the managements of the relevant banks to eliminate the weaknesses in the system. Also, in order to improve the effectiveness of the collection of problem loans in the regions, working groups consisting of senior employees of commercial banks were established under the leadership of the Central Bank vice-chairmen, and the cases of collection of problem loans were studied in the regions, and the Cabinet of Ministers, the General Prosecutor's Office, the Central Bank and the Chamber of Accounts jointly a set of assignments was approved, and a vertical control system was established based on the organization and coordination and evaluation of the activities of officials in the regions.

The share of non-performing loans (NPL) in the banking system amounted to 3.6 percent (14 trillion soums) as of January 1, 2023, and decreased by 1.6 percentage points compared to the same period last year. In this regard, the NPL share of corporate loans decreased by 1.3 percentage points to 3.5 percent in 2022, and in retail loans decreased by 3 percentage points to 3.8 percent. By the end of 2023, the share of problem loans in the total loans in the banking system has decreased to 3.5 percent (3.6 percent at the end of 2022).

As of January 1, 2024, 80% of commercial banks' loan portfolio is "standard", 16% is "substandard" and 3.5% is problematic (1.5% is "unsatisfied", 1.1% is "doubtful" and 0.9% is "hopeless") are classified as loans.

In 2023, banks created additional reserves in the amount of 2.4 trillion soums on assets (without the "standard" loan portfolio), and the level of coverage of problem loans with reserves increased from 80 percent in the corresponding period of the previous year to 82 percent as of January 1, 2024. rose.

In the distribution of problem loans by segments, 85 percent of them (14.1 trillion soums) belong to business entities, and 15 percent (2.5 trillion soums) to individuals.

1.0 trillion soums (40 percent) of non-performing loans of the population are loans for business development, 709 billion soums (28 percent) are mortgage loans, 470 billion soums (18 percent) are microloans, 271 billion soums (11 percent) of car loans and 89 billion soums (3 percent) of other consumer loans.

Below we present our scientific and practical recommendations for the development of strategies aimed at increasing the credit efficiency of commercial banks:

- according to the characteristics of the industry, it is necessary to include in the working groups of the credit commission employees who have skills and experience in working with economic law and processes and project estimate documents in the implementation of such forms of lending and lending as "mortgage" and "leasing";
- in order to increase the responsibility of the members of the credit committee, it is necessary to develop new, improved drafts of the Regulations defining the rights, powers and obligations of the credit committee in commercial banks;
- development of methodological recommendations on the rules for concluding contracts on the types of services of commercial banks and the forms and types of lending in order to achieve the structure of contracts regulating "bank-client" relations from the point of view of legal and economic literacy,

as well as the types of services model forms of contracts analyzed from the point of view of economic and legal literacy should be developed and recommended for use in the activities of all commercial banks;

- one of the credit performance indicators is interest income. According to the results of our research, in some of the studied commercial banks, despite the increasing role in lending to the economy and the scale of loan deposits, the decrease in interest income was observed. The reason for this situation is expressed in the presence of problems in the circulation of credit funds in the activity of economic entities, that is, the risk of ineffective termination of the credit relationship. In order to overcome this problem, in our opinion, it is necessary to segment credit relationships by carrying out inventory measures for each relationship that generates interest income.

Conclusion

Scientific research in the process of improving credit portfolio management in commercial banks directed the following science conclusions formed:

1. In improving the practice of credit portfolio management of commercial banks, it is important to reduce the credit risk by analyzing the cash flow of the borrower;
2. Credit transformation of deposits is important in the management of the credit portfolio of banks, in which it is recommended not to allow the weight of transaction deposits to exceed 30 percent of gross deposits, to introduce limits on the part of deposits directed to credit operations;
3. The possibility of reducing the interest rate on loans due to the interest margin is determined by the decrease in the cost of bank products, and in this case, the general lower limit of the amount of the interest spread is considered a sufficient level of interest margin;
4. Evaluation of transition matrices between ratings (migration matrices) and extrapolations based on them allows accurate assessment of transition to default status for high-rated credit portfolios, including low-default credit portfolios.

In our opinion, the following measures should be implemented to improve the lending processes of commercial banks of our republic:

1. It is necessary to form a system of indicators that will allow to evaluate the effectiveness of innovative credit products introduced into the practice of banks;
2. It is necessary to form a system of quantitative assessment of the impact levels of factors affecting the efficiency of innovative loans (price of resources, changes in macroeconomic monetary indicators, changes in loan capital market rates, etc.);
3. In order to put into practice the form of forfeiting credit, it is necessary to allow the enterprises of the real sector of the economy to issue commercial promissory notes;
4. When granting overdraft loans, a clause must be included in the loan agreement that ensures that the overdraft loan debt is not transferred to the next month;
5. In factoring, the condition of purchase of goods documents (with or without the right of recourse) should be clearly indicated;
6. High-risk innovative loans are granted only to the state with a high level of solvency it is necessary to give to customers who do not have overdue debts in front of the budget;
7. The period of renewal of revolving loans should be clearly specified in the loan agreement.

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