



Improvement of The Assets of Commercial Banks

Norov Akmal Ruzimamatovich¹, Nazarova Muslima Nazarovna², Abdusattarova Shaxida Abutalipovna³, Beknazarova Nilufar Tulkinovna⁴, Akbarov Husniddinjon Mo'ysin o'g'li⁵

¹Associate Professor, Department of "Banking and Investment", Tashkent State University of Economics

^{2,3,4}Senior Lecturer, Department of "Finance and accounting", Tashkent State University of Economics

⁵Researcher of the Banking and Finance, Academy of the Republic of Uzbekistan

Abstract: *The article examines the improvement of the quality of assets of commercial banks and the factors influencing it on the basis of theoretical and practical data. Also, based on the study of foreign experience, it is argued that the increase in asset quality in banks will directly improve the quality of credit services provided by banks, reduce problem loans and the use of credit scoring system. A number of specific aspects of the use of credit scoring system in improving the quality of assets of commercial banks have been studied in detail on the basis of theoretical and practical data, scientific proposals and practical recommendations have been developed on the basis of author's approaches.*

Key words: *banking services, quality of banking services, bank assets, asset quality, bad loans, credit scoring system.*

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Introduction

Further development and liberalization of the economy is one of the priorities for further increasing the effectiveness of reforms, creating conditions for the comprehensive and rapid development of the state and society, modernization of our country and liberalization of all spheres of life. Particular attention is paid to deepening and ensuring the stability of the banking system, increasing the level of capitalization and deposit base of banks, strengthening their financial stability and reliability, further expansion of promising investment projects and lending to small businesses and private entrepreneurs.

The main goal of reforming the banking system is to direct the activities of banks to economic growth, financial stability, and in recent years, commercial banks have become a financial institution that directs financial resources in the field of financial intermediation.

The five priorities of the decree "Strategy of actions on five priority areas of development of the Republic of Uzbekistan in 2017-2021" adopted by the President are the priorities of economic development and liberalization aimed at strengthening the stability and reliability of promising investment projects and further expansion of lending to small businesses and entrepreneurs [1]. Further strengthening of the total capital and deposit base of banks contributes to the qualitative and quantitative increase in the assets of the banking system, expanding their opportunities to provide financial support to production processes in the economy, stimulate investment activity from domestic sources.

One of the most important and urgent tasks facing banks today is to use their assets in a way that benefits the customers they entrust to the bank. It should also be a structure that actively attracts customers for credit who are willing to use their funds effectively. It is precisely this task that

makes banks the main intermediaries capable of stimulating the growth of production in the economy, implementing economic structural changes, increasing their efficiency and level of competition.

The head of our state said, "... we must create an effective system for attracting foreign loans and investments, learn to use each loan accurately. The time has come to address this issue in seven dimensions, once and for all, and to think carefully about the consequences" [2]. In the current context of globalization, the financial stability of the banking system and commercial banks, efficient use of financial resources, various reserves created to prevent losses, in particular, special reserves to cover problem loans, their organization is the key to sustainable banking. It is especially important for banks to classify loans and create reserves for them. Proper reserve organization and its wise management will prevent the lack of financial resources in commercial banks, and the efficient use of financial resources can be an additional source of income for the bank if it is directed directly to the bank's profitable operations. This, firstly, serves to reduce the costs of banks, and secondly, expands the scope of additional income and activities for banks. In addition, it will serve the employment, increase incomes and welfare of the population. The formation of reserves in excess of the established norm may have a negative impact on the financial stability of the bank, ie the reserve established in excess of the norm may not cover the losses from problem loans. This also has a direct impact on the transparency of the bank. Therefore, one of the urgent tasks today is to develop the activities of banks, to identify and eliminate problems in a timely manner.

From this point of view, asset quality and its provision is one of the most important issues in commercial banks today. The existence of problems related to the quality of bank assets and their provision in the Republic of Uzbekistan and the need to develop scientific proposals and practical recommendations to address them determine the relevance of this chosen topic.

Literature review

Typically, the improvement of the quality of assets of commercial banks is determined by their structural structure, diversification of active operations, the amount of risky assets, return on assets, liquidity ratios and asset valuation methods.

Economist V.Usoskin paid special attention to improving the quality of loans and cash assets, which are the main types of assets of commercial banks. V.Usoskin proposes to improve the system of assessment of creditworthiness of customers in order to improve the quality of the loan portfolio, strict adherence to the principle of diversification in the formation of the loan portfolio [3].

N. Sokolinskaya believes that the main focus in asset management and quality improvement should be on their profitability and liquidity [4].

Well-known American economist Edwin Dj. Dolan divides the highly liquid assets of commercial banks into two groups: cash assets and secondary reserves [5]. E. Dolan's cash assets include cash on hand at commercial banks, balances on their Nostro correspondent accounts with the Central Bank, balances on Nostro correspondent accounts with other commercial banks and cash in the process of collection. In my opinion, E. Dolan's opinion on the high level of liquidity of cash assets is very reasonable, but we believe that there should be a stratified approach to the issue of recognizing cash in the process of collection as highly liquid assets. E. Dolan singled out the following four forms of secondary reserves:

- a. government securities;
- b. certificates of deposit from other banks;
- c. commercial securities;
- d. federal funds.

In our opinion, it is not logical to include bank investments in commercial securities as highly liquid assets. Because commercial securities do not have a clear material guarantee, especially in the context of our country, there is a problem of insolvency on the securities of many enterprises. Based on these views and considerations, we consider it necessary to exclude bank investments in commercial securities from the structure of highly liquid assets.

In addition to cash assets, K. Barltrop and D. Mc Noton include highly liquid assets, which are recalculated by the Central Bank on the balance sheets of commercial banks [6]. In our opinion, it is expedient to include recalculated drafts in the Central Bank as highly liquid assets.

Prof. According to Lavrushin, liquid assets of commercial banks include cash on hand, the balance of the commercial bank's Nostro correspondent account with the Central Bank, the balance of the commercial bank's Nostro correspondent accounts with other banks and money in transit [7]. OI Lavrushin believes that the liquid assets of commercial banks should allow to fulfill obligations on the unstable part of deposits. According to him, there is a stable share of all three forms of bank deposits, namely current deposits, savings deposits and time deposits, which should account for at least 75% of total deposits. Liquid assets, on the other hand, must be available in sufficient quantities to meet obligations in the amount of 25 percent of total deposits.

The high quality of assets in commercial banks will increase the quality of services provided by banks. Commenting on this issue, economist A. Rakhimov paid special attention to the fact that the high quality of services provided by banks is a guarantee of victory in the struggle for customers between banks [10].

Methodology

A systematic analysis of the literature was conducted in the study of the scientific and theoretical basis for improving the quality of assets of commercial banks. Also, the scientific conclusions of the research work carried out by foreign and local scientists in this area were studied and independent approaches were formed.

Analysis and results

Proper classification of bank assets, its constant monitoring, adaptation to changes in the banking system, the development of classification criteria are the key to the effective operation of banks. When classifying bank assets, measures are taken to prevent and reduce problem assets. One such method is to set up reserves for possible losses on loans (assets).

At this point, we need to analyze how the quality of bank assets affects the relationship between sensitivity and systemic risk. It is necessary to develop three model structures to sterilize collateral efficiency and to summarize the impact of problem loans and to take into account the impact of overall credit risk [11]. Thus, the creation of reserves by banks to cover possible losses on loans is an effective method to exclude the risk of sudden losses due to non-repayment of part of the loan, but requires a clear definition of the amount of credit risk that determines the amount of losses to be paid.

The problem of setting up reserves for possible losses on loans is primarily related to credit risks, as in banking practice, in some cases, "bad" loans cause banks to be declared bankrupt. The economic nature of credit risk is the starting point of the topic under consideration. It is difficult to determine the meaning and significance of reserves without understanding the nature of credit risk.

According to the Regulation of the Central Bank of the Republic of Uzbekistan "On requirements for the management of banking risks of commercial banks", credit risk is the risk of financial loss in banks as a result of partial or complete failure of the borrower to fulfill its financial obligations to the bank. The credit risk mentioned in the above instruction is limited to the period specified in the loan agreement.

The banking and credit system of the Republic plays the most important role in the implementation of measures for institutional, structural, technological transformation of the economy and further deepening of economic reforms. In this regard, the priority given by banks to lending to existing sectors and industries is to strengthen the economic potential of the country and provide important socio-economic results.

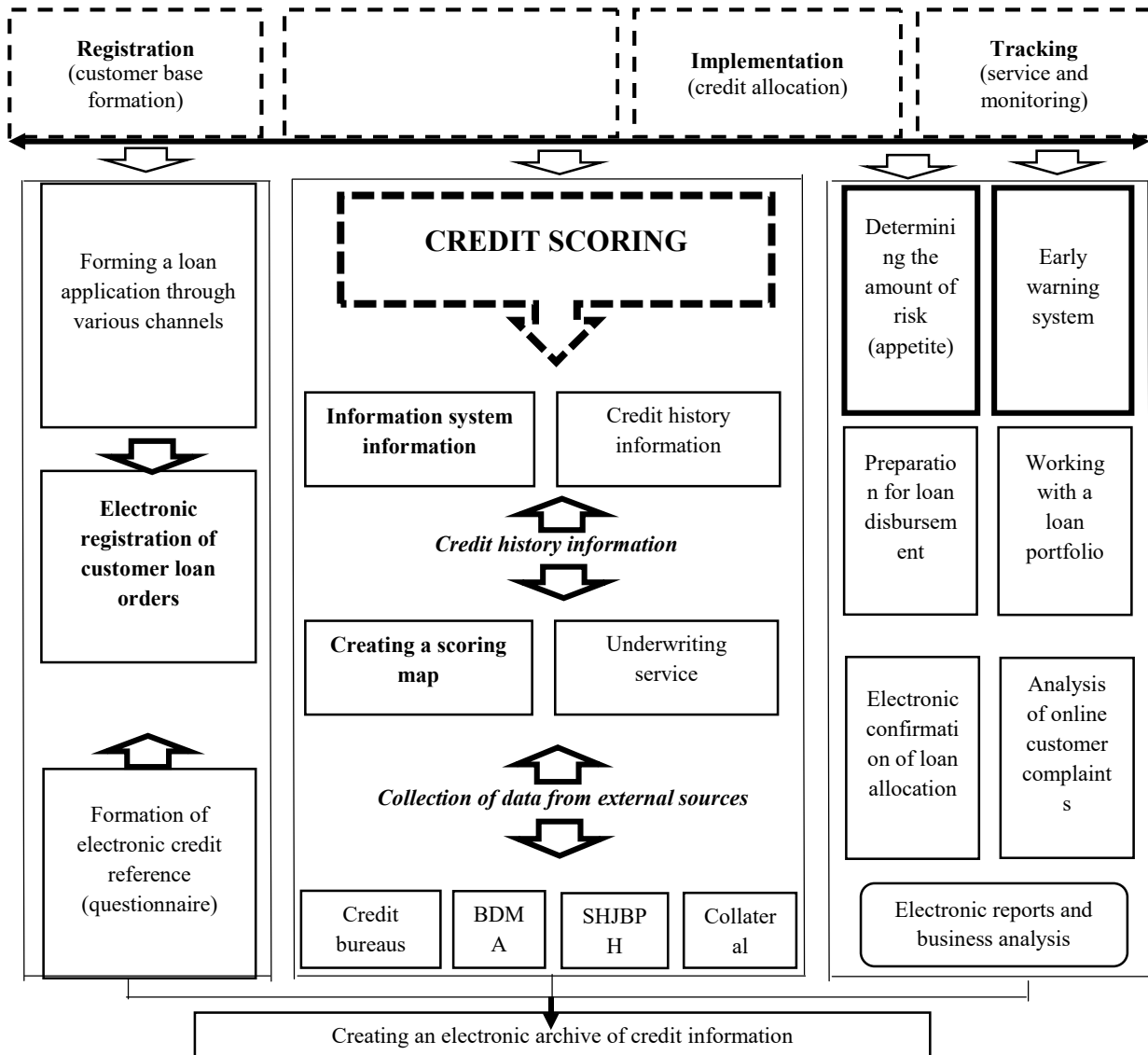


Figure 1. Mechanism of "credit conveyor" lending in commercial banks and directions of its introduction [13].

In turn, one of the most important areas of banking and ensuring financial stability is the credit operations of banks, and credit operations account for a significant share of bank assets. The profitability of credit operations - directly depends on the quality of credit risk assessment. It is important to ensure the quality of the bank's loan portfolio in improving the quality of assets, which has a significant impact on the quality of total assets and is one of the most important areas of focus for commercial banks today.

Credit operations are carried out by each bank on the basis of internal regulations on credit policy and other lending practices, developed on the basis of its activities and strategic goals. Today, in international banking practice, special attention is paid to increasing the volume of sustainable

assets through the introduction of an active lending mechanism for customers of commercial banks on the basis of the "credit conveyor" method, which is widely introduced as an important element of the digital banking concept.

At the same time, the practice of "credit scoring" began to be used in the modern banking system for the effective management of credit risks. This allows for in-depth analysis of the client, ie the borrower, and speeds up the loan disbursement process and reduces credit risk. In world practice, there are two main methods of assessing credit risks, which can be used separately and in combination with each other. In particular, the credit report prepared on the basis of the loan application documents provided by the loan officer and automated scoring systems, ie "scoring" analysis.

Credit Scoring is derived from the English word "score", which means an assessment of a borrower's ability to obtain credit. Credit scoring (English "score" score) - a system of assessing the creditworthiness (credit risk) of the borrower on the basis of digital statistical methods, widely used by banks, microfinance institutions. In this case, the basis for the decision to allocate or reject the loan on the basis of the points accumulated by the borrower on the basis of scoring models through the scoring system.

Scoring is essentially a method of grouping borrowers. If a credit institution does not study the characteristics that distinguish groups, this will lead to an increase in credit risk. The idea of grouping in statistics was developed in 1936 by R. Fisher on the example of plants. In 1941, Durand first used this method to classify loans as "bad" and "good." The first scoring and consulting company Fair Issak (FICO) was established in the early 1950s. A number of sources are used by banks in creating Scoring models. These include the borrower's credit history, the borrower's survey, the borrower's financial statements, and more.

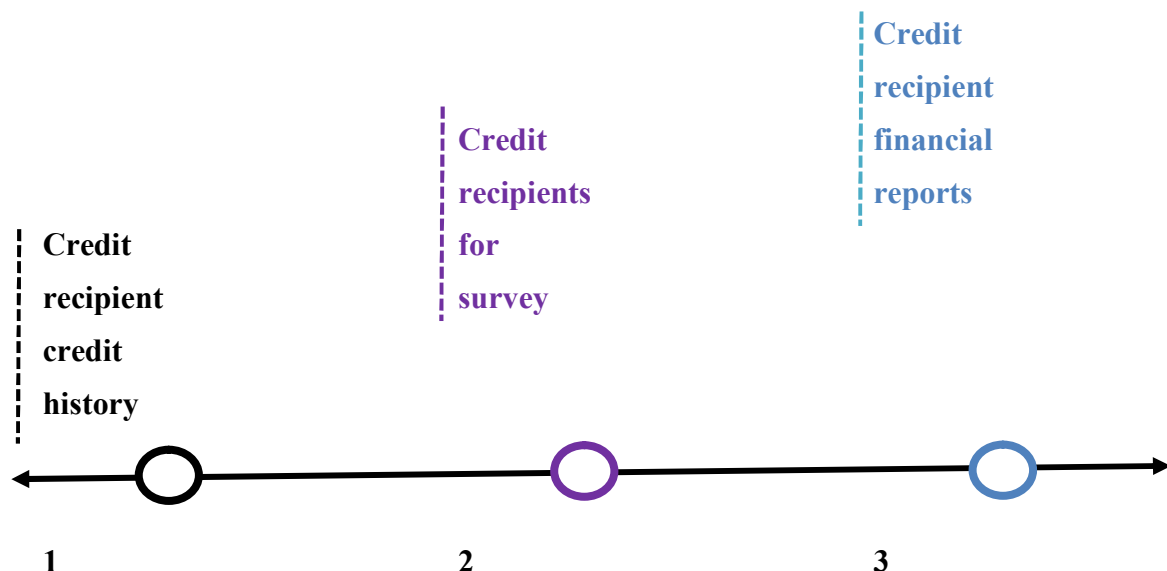


Figure 2. Resources for creating a scoring model ¹

The most important step in the scoring analysis process is to develop a model for scoring analysis. In particular, scoring analysis models may be different for each bank, each state, or each region. That is, credit institutions develop scoring analysis models based on their own characteristics based on their credit policy. Today, commercial banks in the country are also working hard to introduce

¹ Author's development.

scoring systems as a necessary tool for the development of retail lending. International experience shows that the widespread development of the scoring analysis system and its use in the country will have a positive impact on improving the quality of assets of commercial banks, including reducing credit errors.

The assets of the banking system in 2020 will reach 366.1 trillion. soums and increased compared to previous years, an increase of 335.3% compared to 2016. At-risk assets also saw a corresponding increase in credit growth. Although the bank's capital has also increased, it can be seen that its capital adequacy has decreased. The amount of both non-performing loans, which represent the quality of assets, has increased. Deterioration in asset quality indicates that it is moving into a troubled asset.

It is important to study the problem loans of banks, including the constant monitoring of their share in the loan portfolio, assets, the development and implementation of specific measures to reduce it. Problem loans in the Republic of Uzbekistan are growing from year to year, if in 2016 the problem loans amounted to 0.7%, by the end of 2020 it was 2.1%. This can also be seen in the ratio of problem loans to assets and risky assets. It can be seen that the quality of assets in commercial banks is relatively declining.

Table 1 Information on assets, loan capital and problem loans of banks of the Republic of Uzbekistan [14] (trln. sum)

№	Indicators	2016	2017	2018	2019	2020	Change (2020/2016)	
							trln. sum	%
1	Assets	84,1	166,6	214,4	272,7	366,1	282	335,3
2	Risky assets	57,4	106,5	155,0	223,0	316,8	259,4	451,9
3	Loans issued	52,6	110,6	167,4	211,6	277,0	224,4	426,6
4	Capital	9,0	20,7	26,7	51,0	58,4	49,4	548,9
5	Problem loans	0,39	1,32	2,14	3,17	5,78	5,39	1382,1

Upon repayment of an overdue loan, the borrower is unable to repay the amount and the bank incurs certain losses. If the reserves are kept to a minimum, in such cases, when problem loans arise, they cover a certain part of it and do not cause much damage to the bank. One of the last measures to reduce problem loans is to collect payments on guarantees and sureties received, to cover them through the sale of mortgaged property.

Table 2 Problem loans of banks of the Republic of Uzbekistan in assets, in risky assets, in loans share [14] (per year, %)

№	Indicators	2016	2017	2018	2019	2020
1	Share of non-performing loans in total assets, in%	0,5	0,8	1,0	1,2	1,6
2	Share of problem loans in total assets at risk, in%	0,7	1,2	1,4	1,4	1,8
3	The share of problem loans in total loans issued, in%	0,7	1,2	1,3	1,5	2,1

There are a number of unique advantages of using Scoring analysis based on a new approach using modern methods to prevent the emergence of problem loans in commercial banks. In this regard, it

should be noted that the Decree of the President of the Republic of Uzbekistan PF-5992 dated May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" The bank also set tasks for the introduction of modern information technologies, including automated scoring systems, which will serve to simplify, accelerate and increase the transparency of the bank's lending process.

It should be noted that today "macroeconomic and financial conditions for commercial banks can change as quickly as the financial crisis of 2008 and the recent debt crisis in Europe. Therefore, ensuring the quality and profitability of assets in banks in response to the changing environment remains an important issue. The main problems of banks are the need to dynamically optimize the composition of assets and liabilities, ensure the profitability of operations and minimize risks "[15], and therefore banks always take appropriate measures to address these shortcomings.

Conclusions

In short, the special attention paid to improving the quality of assets in commercial banks will lead to the effective operation of banks in the future, which in turn will increase the profitability of the bank and provide quality customer service. Improving the quality of assets in banks directly leads to a reduction in problem loans. Therefore, we can say that in order to reduce problem loans in banks, it is necessary to create a department or department. Employees of this department are directly responsible for the timely repayment of loans to bank customers.

In addition, the interest rates on loans issued mainly in commercial banks of the Republic are fixed. This has a negative effect on the development of the scoring system in a sense. According to foreign experience, the customer's scoring score (price) also directly affects the interest rate of the loan. In particular, a high scoring score not only reduces credit risk, but also lowers the loan interest rate. This will make the borrower more interested in repaying the loan on time, thereby further improving their scoring score. In turn, such action of the borrower directly serves to improve the quality of bank assets.

In order to increase the popularity of banking services, expand the range of banking services for individuals and businesses, simplify and accelerate lending processes, banks are developing financial services based on the findings of the groups "Online Microcredit", "Modular Credit", "Underwriting". The widespread introduction and practical application of the "credit scoring" analysis system will increase its relevance. This will help banks to develop their own "credit scoring" system and widely introduce an automated analysis system, taking into account the bank's credit policy, world experience and national characteristics, which will have a significant impact on the quality of banking services and loan repayment.

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