



## WAYS TO IMPROVE CREDIT RISK MANAGEMENT IN COMMERCIAL BANKS

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### Abstract

The main idea of the article is to recognize, reduce, prevent and improve credit / debt risks allocated by commercial banks to their customers, individuals and businesses. There are many types of risks facing banks and the most common of them is credit risk. Commercial banks study the financial situation of their customers by analyzing their place in society, but still expected and unexpectedly the financial situation of their customers becomes difficult, even aggravated. The article deals with forecasting, scoring and working closely with the financial condition of banking clients, finding ways to repay their loans. One of these ways is to teach their clients the basics of entrepreneurship and business and how to apply it in practice before lending.

**Keywords:** Banking system, commercial banks, risk management, calculation models and methods, business development, business and entrepreneurship, loans to individuals, loans, leasing, financing, consulting, education, social responsibility of banks to society.

### Introduction

While the world community has experienced the Global Financial and Economic Crisis for more than a decade, the crises related to the Coronacrisis are still ongoing and in many countries are still experiencing its impact. We are all witnessing the macroeconomic crisis and the financial hardships people are facing. In low-income countries, in particular, their living conditions have worsened, unemployment has risen, people have been left without income, and it is still unknown what their future will be like. New types of businesses have emerged, some types of businesses have not even been needed at all, and the situation of those involved in this business has deteriorated significantly. While some people earned their income during this crisis, some faced bankruptcy failure. There is a saying of commercial banks, "Your customer is rich - you are rich." If the customer has a lot of practice, the banks will make as much profit.





During the pandemic, banks increased their online services, while most of their assets were put at risk, including disbursed loans. In various countries, regulators have given commercial banks credit vacations for their customers, giving them time to ensure that their allocated loans do not become a problem. However, while some customers have asked for a longer extension of debt repayment, there have been cases where some have refused to repay even if they have the funds. We can see that the scoring system for entrepreneurs and individuals before lending, micro, small and medium business, and private entrepreneurship is weaker than large enterprises, they have limited financial knowledge in doing business, lack of financial resources, staff, and the need for tax and tax advice.

When studying the articles of many Uzbek scholars, the main focus is on updating the legal framework based on foreign practice, government incentives, benefits and preferences, the ability of banks in some districts and remote cities to issue loans, problems with opening bank accounts, business registration, lack of collateral focused. The share of problem loans of commercial banks is growing. In this regard, the regulator warns that banks need to curb and control the rate of increase in the share of NPL (Non-Performing Loans).

Based on theoretical knowledge, in practice, commercial banks have provided "door-to-door" loans, funded projects aimed at developing entrepreneurship, reducing poverty, and improving the quality of life of the population. On the one hand, if the population's demand for loans from commercial banks is met, on the other hand, the risk of loans allocated on the basis of credit criteria is high and falls into the category of problem loans. Although existing businesses have been operating for decades, growth rates are sluggish and they need to understand that they may not be able to repay their loans from banks, which could lead to a debt swamp.

Like many countries, Uzbekistan lacks confidence in the entrepreneurial potential of women, does not pay much attention to the growth of their entrepreneurial tendencies, and gender barriers make them the few women to enter the big business. Micro, small and medium business entities are widely used by commercial banks mainly short-term financing or lending practices, banks from their analysis consider venture and start-up business financing as a high-risk practice. At the national level, most non-bank financial institutions do not use their financial instruments due to the fact that the interest rates on financing and lending to businesses are much higher than the foreign experience.

Those of our compatriots who have worked in other countries and intend to start their own business turn to banking and tax specialists due to lack of knowledge and funds,





reluctance to start a business, even if they invest in continuing or applying the learned business in the country.

Banks, in turn, consider hedging their risks, reducing them, and know that it is the right way not to finance risky projects as a result of taking the Markov chain effect, that is, the emergence of interrelated risks.

Commercial banks forecast the customer's creditworthiness by analyzing NPV, IRR and PP indicators for past performance. Given the unpredictability of what will happen next, the Kovid-19 Pandemic also suggests that, first, corporate governance should serve the interests of not only shareholders but also employees, consumers, and society as a whole. It is expedient to promote accountability. Similar social responsibility can be seen in the largest and most capitalized banks in the United States, including banks in developed economies. Second, when bank customers start a new business, the banks provide business advice and guidance, and commercial banks set up separate business development funds to reduce credit risks.

## Methods

The bank's client is rich - the bank is rich, commercial banks will either have to organize training for their employees in running a business or entrepreneurship, or train customers using a ready-made outsourcing service. Banks will have to select independent observers from the banking sector and entrepreneurs to the Board of Directors and promote the development of entrepreneurship and business as the main responsibility of banks. Loans provided by the state from the Entrepreneurship Development Fund are preferential, long-term, venture and start-up loans, it is advisable not to include them in the category of problem assets in the bank loan portfolio and to cover them by the state.

State statistics should keep a list of enterprises in bankruptcy and default. Because today in the world of business and entrepreneurs it is expedient to keep a list of people who have turned bank assets into problem assets. Collector activities should be allowed. Increasing the number of competitive financial institutions in banks, the number of non-bank institutions providing financial services today is limited, they should be allowed by the Regulator.

Dividing trained, business-savvy individuals into clusters and segments, banks are still encouraging entrepreneurship in the regions, but that's not enough. At the same time, financial literacy can be achieved by teaching people how to increase their income in lucrative industries, including bank deposits, how they and their families can start their own businesses, pursue what they know, and earn income from government and corporate securities and foreign exchange trading.





- As a social responsibility, banks should also train specialists for the business sector at their own expense. Retraining of specialists of commercial banks in business and entrepreneurship and promotion of wide-ranging projects in business and entrepreneurship to their clients and non-clients;
  - Encourage clients to continue parents business or entrepreneurship based on knowledge and life experience;
  - Motivation to acquire knowledge, study and further improve the profession;
  - Improving the basics of business or entrepreneurship management, financial management system, risk assessment and management, enterprise balance and accounting, training to work with national and foreign covenants;
  - To give the bank's clients an idea of how there can continue parent's business, how to pass on the family business to the next generation and when, how easy it will be for them to continue their business, how to pay future entrepreneurs for own work, advice and guidance, mentor, successfully run B2B, the secrets of business negotiation and their application in practice;
  - State registration of ready business and business entities, communication with stakeholders, study and research of market conditions in the field of business and entrepreneurship;
  - To teach the types of market analysis, to create a business plan based on the analysis, to give an idea of the importance and accuracy of writing a business plan;
  - The importance of creating and choosing a name (business name) for business and entrepreneurship, the concept of entrepreneurship and business life, the principles of overcoming losses or achieving business stability "win-win" and brand building;
  - Ways of the practical application of benefits such as taxes and tax issues, budget revenues, benefits and preferences, subsidies and grants;
  - Share detailed knowledge on financing methods such as the purchase of working capital and fixed assets, letters of credit, leasing, project financing, securities, partnerships, clusters, segments and associations in the financing of selected business from own funds and bank loans;
  - To find a solution in difficult situations, to prevent stress, to give emotional feelings such as self-confidence;
  - Promotion of business based on competition and rivals, partnership and trust;
- They will learn ways to expand export potential, expand foreign exchange transactions through banks. It focuses on important processes such as starting a family business, passing on and passing on the business to the next generation, teaching the basics of entrepreneurship and practical concepts, or closing a business. Candidates selected and approved by banks will help entrepreneurs as project initiators, from the basics





of entrepreneurial activity to the business step by step, until they reach a profit (profit) and possibly into a large business category.

## Results

The article we have chosen focuses on lending or financing covenants with minimal losses, such as credit scoring, Loss Given Default, Probability Default, and Exposure at Default. It is calculated by the methods of calculating the damage to the bank in the future due to the financial difficulties of the covenant or its customers. Adding to all we suggest to commercial banks to conduct and organize training entrepreneurs or business owners and employees, the result will be reduce their risks by showing them the right way by increasing their knowledge, the risk of banks will be significantly reduced and banks will be more like-minded to their customers, entrepreneurship will be financially and morally encouraged in every way. Banks will have specialists who will penetrate not only the banking business but also other areas of the existing business system.

## Discussion

From the ideas presented in our article for the banks and the Board of Directors, shareholders, and stakeholders to establish an understanding about Social responsibilities. Risk management is the foundation of many corporate strategies. Reputation accumulated over the years can be destroyed in a matter of hours in events such as corruption scandals or environmental disasters. Risks can be reduced by creating a corporate culture of 'right behavior'. As a result of such actions, banks will further increase their reputation, customers and protect themselves from risks.

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