PROBLEMS IN LENDING INDIVIDUALS IN COMMERCIAL BANKS AND WAYS TO ELIMINATE THEM

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Abstract: In this article, banks are in the process of digital transformation Problems and current situation in improving retail banking services are analyzed. In particular, in the transformation of the banking system of Uzbekistan, the revision of the bank structure and the optimization of the bank's service processes, the one-step lending system through underwriters and the management of personal funds for users are the most important. comments on the applications. The results of this study are important in studying the factors influencing the development of retail banking services and eliminating problematic situations

Keywords: retail banking services, retail lending, underwriter, personal income, mobile application

Introduction

Lending to individuals is an important area for commercial banks, because through this, banks expand their customer base and stimulate consumer consumption in the economy. However, there are many problems with lending to individuals, which are associated with risks and high costs for banks. This article discusses the main problems in lending to individuals and suggestions for their elimination.

As a result of the digitization of the economy and the transformation of banks, which are considered the main branch of the economic system, the number of banking services is increasing day by day and becoming digital. The creation of opportunities for remote implementation of traditional banking services and online implementation of services has started the era of providing services through new and modern platforms for banks .

In this situation, it is evidenced by the transformation of banking activities, increasing efficiency through automation and digitization of banking services, and increased interbank competition. In order to effectively transform banks, one should not be afraid to be the first to introduce innovative banking products and services and to make sufficient investments in the sector.

In retail lending to individuals by banks, the borrower's income is one of the main parameters taken into account when making a decision on granting a loan by the bank and determining the amount that can be allocated.

The research focuses on retail banking segment customers in Uzbekistan with two important

aspects. That is, the first one implies a mechanism of pre-selection of customers in order to find suitable customers among slightly risky customers. The latter means positioning the bank in the most attractive location and segmenting customers to create the right product for its customers.

Literature review

Despite the fact that different industries have developed different strategies and approaches for selling products, the importance of a personal approach to selling products remains high. Undoubtedly, a personal approach to selling products requires two-way communication, which in the case of financial institutions involves a personal approach aimed at taking appropriate measures to convince the other person [1]. The satisfaction after selling the products cannot be ignored. It always serves as a basis for establishing long and profitable relationships [2].

The importance of marketing in supporting a personal approach to selling products depends on parameters that determine consumer satisfaction and perception of services [3]. It can be seen that many international banks do not have an easy way to sell banking products even with a marketing service. Because standardization is always subject to different normative frameworks, cultures, languages and social concepts.

Of course, the main document in determining the creditworthiness of the client is the certificate of income from the workplace. But in most cases, borrowers have other official and additional sources of income that can be shown as a source of loan repayment in the future. But the rules for accounting of such income are determined independently by banks. Therefore, if there are additional sources of income, potential borrowers should consult with the bank in advance about whether these incomes are taken into account or not. Because this may be important when choosing a bank for a loan, or you may have to do it through a third-party guarantor.

There are a number of problems associated with lending to individuals, which increase credit risks for banks. The main problems are:

- the difficulty of determining the solvency of borrowers: It is difficult to correctly assess the financial situation of individuals. Often, borrowers' sources of income are unclear or incorrectly estimated due to various difficulties [4]. This increases the risk of insolvency for banks;
- Inadequacy of credit history and rating system: The lack of credit history of some borrowers or inaccurate credit ratings negatively affects the decision-making process of banks [5]. In these cases, banks face the possibility of lending to high-risk borrowers;
- low financial literacy of borrowers: Often, individuals do not fully understand the terms of the loan or do not know the consequences of the risks associated with the loan. This reduces their ability to pay on time and increases the risk of insolvency for banks [6,7];
- loan interest rates and high costs: Sometimes banks set high loan interest rates, which negatively affects the ability of borrowers to repay. High costs or penalties for borrowers prevent timely repayment of the loan [8].

Methods

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, graphic interpretation methods, etc.

Result and Discussion

In accordance with the decision of the Central Bank of the Republic of Uzbekistan No. 24/5 dated September 28, 2019 "On Regulation of the Debt Burden of Borrowing Individuals", the following supporting documents and information are required to determine the average monthly income of the lender and the borrower has the right to use the data [9]:

- salary information confirmed by the employer;
- information on the amount of pension;

- information on accumulated pension contributions of citizens;
- information on the income of the borrower to the bank accounts;
- information on taxes paid;
- information confirming their income from interest, dividends, property rental and other permanent income.

That is, according to the law, when applying for a loan, the borrower can show the bank any of his official income, confirmed by relevant documents. These are basically the taxable income of an individual. A person may not have an official job, receive income from other sources and pay taxes on them.

Darhaq iqat, in cases where a person does not have an official job, but has an official income, he can get a loan from the bank. But, unfortunately, this is not the case in practice, all banks have a formal workplace requirement.

Here on April 5, 2023 by the President of the Republic of Uzbekistan Shavkat Mirziyoyev It was noted at the meeting of video selectors held in connection with the discussion of the "Mortgage program for 2023" that starting from May 1 , 2023, even people with insufficient official income will be able to get a mortgage loan . It was noted that money paid for rent, utilities and other expenses should also be taken into account [10] .

In Table 1 above, we provide information about what sources of income are taken into account or not taken into account at all by banks . That is, the sources of income of individuals that are the basis for granting credit and are not recognized are mentioned.

Pension payments are social benefits received by the client when he reaches a certain age / status / social status. The borrower confirms the receipt of pension payments on the basis of a letter on the appointment of a pension or a pension certificate and a statement from a bank account confirming the receipt of pension payments.

Dividends are the income received by the client who is a shareholder (participant) of a legal entity from the distribution of shares in the authorized capital of this organization in the interest of the legal organization. The following documents are submitted to confirm that the borrower has received dividends:

- minutes of the meeting of the participants of the legal entity on the payment of dividends;
- a document confirming the payment of tax on income in the form of dividends. In most cases, if the borrower has received such payments for at least one year and there is a possibility of receiving such income in the future, dividend income is included in the total income of the client.

Table 1

Types of income that are taken into account and not taken into account when granting retail loans to an individual

No	Earnings taken into account by banks	Income not taken into account by banks
1.	Salary - a fixed part (salary, monthly bonuses (for example, for category, for experience, etc.))	Income from securities
2.	Salary - the variable part (rewards and bonus payments received as a result of the implementation of certain plans and / or the achievement of certain results, commission income)	One-time insurance payments
3.	Vacation payments	Income from transactions in currency, securities, goods, movable and immovable property, etc.
4.	Dividends	Winnings and prizes from lotteries and gambling games
5.	Income in the form of stable insurance payments	Fines and penalties received

6.	Income from real estate rental	Bonus payments (except for the main and additional jobs)
7.	Pension payments	State benefits (except temporary disability benefits)
8.	Other income	Alimony
9.		Scholarships of educational institutions
10.		Rewards for donors
11.		One-time annual bonuses

Source. Compiled by the authors.

Income in the form of stable insurance payments is a fee paid using the insurance payment system by concluding a contract between the client and the insurance company on living up to a certain age.

Real estate rental income is the income that the client receives from renting out the property that he owns. The following documents may be required to confirm this:
- a certificate of ownership of the property to be rented;
- the current (and previous) rental agreement between the parties;
- an account statement confirming that the customer has received rent for the last 12 months;
- tax on the income received from the rental of real estate in the previous year (payment orders or other documents).

Thus, it is incorrect to consider the income other than the official monthly salary in the official workplace as the only source of income of the borrower.

Work aimed at introducing a modern risk-management system in banks has been accelerated, and underwriting and scoring systems have been introduced aimed at ensuring short-term consideration of credit applications of business entities and individuals [11].

According to the recommendations of the experts of the International Finance Corporation, the lending system in the bank was changed from a 3-tier system to a 1-tier system. Decision-making on credit allocation or rejection is now implemented in only one step at the Head Office (in the old system it was 3 steps). As a result of the suspension of branch and regional commissions, processing of credit applications has been significantly accelerated, the number of required documents has been reduced and simplified, and the influence of the human factor in decision-making has been drastically reduced. As a result, the number of employees participating in the lending process was reduced by almost 2.5 times. In the previous system, the number of employees participating in the review of credit applications was 14, while in the new system, the maximum number of participants decreased to 6.

The bank has established 3 departments consisting of underwriters (Retail loans, loans to small and medium-sized business entities and corporate clients). The activities of branch and regional commissions were suspended. Now, a system has been established in which credit applications are reviewed only at the Main Bank, by underwriting employees within the scope of their authority.

Provisional regulations for review and decision-making of credit applications by underwriters, block schemes, procedures for electronic circulation of documents, and a matrix clearly defined the authority of underwriters at the Head Office were developed, as well as specific regulations for review of applications (term) is set.

In the underwriting system, decisions on loans of small value (up to 3 billion soums) are made independently by a group of underwriters without the intervention of "officials" who work directly with the client, and loan documents take from 2 to 24 hours depending on the purpose and amount of the loan will be considered in the term. As a result of receiving information from a number of electronic databases (INPS and KATM) in the bank when considering loan applications of individuals, quick loan allocation was organized only through the application and passport.

In many cases, banks refuse to give retail loans to their customers. There are various reasons for making such a decision. In table 2 above, we consider what factors influence the bank's negative decision.

Most of the time, the reason for banks' refusal to grant loans to individuals is the clients

themselves, that is, they are doing something wrong. But in some cases, banks may refuse to grant a loan based on the client's requirements. One of the reasons for such rejection is that it does not comply with the bank's credit policy and requirements.

Each bank allocates loans to its customers based on its own credit policy and requirements. Often, people apply for a loan without paying attention to the terms of the loan . As a result, the fact that the loan conditions do not suit them will certainly cause the loan not to be granted. Each bank imposes certain requirements on borrowers based on its credit policy. For example, the minimum and maximum age of the borrower, lack of citizenship of the Republic of Uzbekistan or citizens of other countries.

Table 2

Reasons for rejection of loans to individuals

No	Reasons
1.	Non-compliance with the bank's credit policy and requirements
2.	Poor or non-existent credit history
3.	Low income or inability to confirm income
4.	High debt burden of the applicant
5.	Short work period or lack of work experience of an individual
6.	Lack of collateral for the loan or refusal to insure the collateral
7.	Providing fake and false information
8.	Obtaining a lower than required score from the bank's scoring system
9.	Convictions and the presence of offenses that are the basis for not granting credit
10.	Being on the blacklist of banks
11.	Suspicious or illegal behavior

Source. Compiled by the authors.

Even the bank employee does not have to explain to the applicant the reasons for rejecting his application for a loan. In addition, in contrast to the customer's bad credit history, the system does not even check the customer's application, which does not meet the bank's requirements, immediately rejecting it.

One of the most common reasons for rejection of personal loans is that the customer has a bad credit history or no credit history.

When reviewing an application for a loan, a bank employee or the bank's automated system "Credit Information Analysis Center" sends a request to the credit bureau. This credit bureau is an organization that collects information on loans and other obligations of bank customers, analyzes the financial activity of credit information subjects, provides credit information to users, calculates credit scores, and provides other services.

The following information is sent to the credit bureau:
- existing loans and existing indebtedness on them;
- information about debts in other microcredit organizations;
- information on term payments in retail stores;
- information about collateral and guarantees provided by the client (joint borrower).

If the applicant has overdue debts, the bank employee considers the applicant unreliable and may refuse to grant the loan to the client.

If the borrower has a low income or cannot confirm the legality of his income, i.e. cannot provide a confirmed annual salary, the loan will be rejected. In addition, in this case, not only the amount of salary and other income is taken into account, but also how much of it is used to pay the monthly payment on the loan. That is, bank specialists conduct calculations taking into account the income and expenses of the borrower, in which only official income is taken into account. Therefore, if the client's income is not official or cannot confirm his income, the bank may refuse to grant him a loan.

When making a decision on the allocation of a loan by banks, the borrower always evaluates

the possibility of making payments later. For this, the applicant's debt burden is considered. The bank calculates the ratio of the borrower's average monthly payment on all loans to his average monthly income. That is, all loan payments should not exceed 50-70% of income.

The following are taken into account in the calculations:
- the amount of the borrower's official income, i.e. it is official and confirmed;
- monthly payments on all loans from other banks;
- the borrower's payment on the new loan, etc.

One of the reasons why the applicant's loan is not approved is that the individual has a short work period or lack of work experience. Banks logically believe that the longer a person works in one place, the more responsible he is, the more likely the borrower will be able to repay the loan regularly. Therefore, banks pay attention to the fact that they have the minimum work experience at the last place of work.

Collateral insurance is mandatory when a borrower provides collateral for a loan. In most cases, banks offer insurance services of insurance companies that cooperate with them. It is convenient for both the bank and the customer. But in some cases, customers don't want the insurance offered. The same reason can lead to a negative decision on the loan application [12].

Submitted to the bank Different types of false information can be considered false information:
- incorrect writing of personal data in the application;
- providing incorrect information provided for communication;
- inconsistency between the actual income of the provided income information and other cases. If the applicant's place of work seems suspicious to the bank and it decides that there is no such official office, it can refuse the loan.

In order to speed up the review of credit applications, simplify documents and further reduce the impact of the human factor, it is necessary to obtain information from electronic databases, analyze it and automate decision-making, effectively use the possibilities of "big data" and artificial intelligence. a number of works are being carried out. As a result of this implementation, it is possible to make decisions on loans to individuals in the bank through a 100% automated system.

As a result of the transformation of the banking system of Uzbekistan, the structure of the bank was revised and as a result of the optimization of the bank's service processes and transfer of lending processes to one-step lending through underwriters:
- the share of employees working with clients was 16-20%, it was increased to 50% (in international banking practice, this figure is 90%);
- the part of the bank building used for customer service was 30-40%, it was increased to 55% (in international banking practice, this figure is 80-90%);
- the average number of loans per employee per month was 10, which was increased to 22 (in international banking practice, this figure is 33);
- as a result of creating more convenience for customers and creating opportunities for customers to perform banking services without coming to the bank, the share of remote banking service users increased from 11% to 50% (in international banking, this figure is 85%).

Customer service optimization (transfer from the old system to the new system) was carried out in banks in order to create convenience for customers and increase the popularity of banking services. As a result, the credit department, cash handling department, accounting department, cashier's department, and plastic card processing departments are not provided separate services, but directly front office employees are universal. providing services. That is, the front office employee serves the client and submits all the documents related to the services performed to the back office.

As a result, the transition to a front-office and back-office system in customer service has led to improved customer-bank relations. All branches, ATMs, and banking service centers provide all types of services to individuals and legal entities as sales points.

Also, retail lending services are provided at this location. Lending processes have been simplified, and online lending services have been developed that can be obtained without any

documents. For this purpose, together with relevant organizations (Ministry of Internal Affairs, tax and other organizations), a system of digital identification of the population was developed and an opportunity was created to provide services to them without visiting the bank.

In addition, today banking services centers provide all banking services for individuals and legal entities, i.e. payments, money transfers, credit granting, plastic card opening, cash withdrawal and transfer. These centers are being established in crowded and convenient places. As of January 1, 2023, 1,543 banking service centers and ATMs and 2,974 24/7 branches of commercial banks are operating.

Most of the bank's clients are individuals, and their number is increasing year by year. Traditional methods of providing them with fast and quality offline service are associated with high costs for today's banks. In such conditions, the need for remote organization of automated and digitized modern banking services for a large number of people is increasing, which requires the widespread use of digital technologies by banks , the integration of the database with the database of relevant state bodies and other organizations. is encouraging. This creates a strong competitive environment for banks. That is, it is necessary to introduce new digital services that meet the demands of bank customers, to be among the first to introduce innovative banking services, to introduce services based on FinTechs and automated systems. Based on the above, retail banking in the context of digital transformation services development ways analysis reach in the process the following conclusions received :

- Banks in Uzbekistan should pay attention to the involvement of advanced digital technologies in transforming their activities in accordance with foreign experience and standards, establishing cooperation with international financial institutions or foreign FinTech companies;
- it is necessary to reduce banking costs through digitization and automation of retail banking services based on modern financial technologies, to establish a system that provides fast, high-quality and transparent service to customers;
- traditional banks do not digitize and automate their activities based on financial technologies, they will lose in competition with low-cost digital banks ;
- increase the attractiveness of loan products and types offered to individuals in banks and fully explain their conditions to the population. In particular, it is necessary to provide information about the interest rate of the loan, its payment schedule and schedule ;
- retail lending practices should be implemented with full use of AI-based valuation models. Today, in the process of retail lending, the creditworthiness scoring system is widely used. Organization of scoring evaluation on the basis of artificial intelligence allows to provide quick loans to customers while reducing the human factor ;
- It is necessary to take measures to increase the financial literacy of potential customers and employees so that bank employees and customers can perfectly understand the use of retail banking services based on modern financial technologies and innovative banking technologies ;
- in the economic literature, lending to individuals is mainly used with two terms. That is, it is presented with the concepts of "consumer credit" and "retail lending". Although there are common aspects of these concepts, some economists have used these concepts as synonyms, while others have explained them differently. This causes uncertainties in the implementation of scientific research, statistical and analytical processes regarding the assessment of the practices of commercial banks for granting loans to individuals.

Conclusion

Commercial banks face a number of problems in lending to individuals, and they should be studied and analyzed. Difficulties in assessing borrowers' ability to pay, low financial literacy and high interest rates are the main challenges in this area. To solve the problems, banks need to introduce modern technologies, improve credit history, increase financial literacy and increase competition. These approaches can make banks efficient and secure.

Commercial banks should implement a number of approaches and strategies to solve problems in lending to individuals:

- - accurate assessment of borrowers' solvency: Banks can better assess borrowers' solvency by implementing technologies based on modern financial analysis and credit rating updates. In particular, banks need to use Big Data and machine learning technologies to properly analyze borrowers' financial activities [13];
- improvement of credit history and its implementation: improvement of the credit rating system and creation of a complete database of credit history of each borrower is an important step in assessing the financial situation of individuals. This allows banks to reduce risk and make effective decisions [14];
- improving financial literacy: Banks can organize financial literacy courses and counseling for individuals to help customers better understand their credit obligations. This increases the ability of borrowers to repay on time [9].
- optimizing interest rates and increasing competition: By increasing competition between banks, loan interest rates can be made flexible. This helps not to burden borrowers with additional interest or high costs [15].

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