Improving the Practice of Insurance of Credit Objects of Commercial Banks

Zokir Mamadiyarov
DSc, Professor, Mamun University, Khiva city, Uzbekistan,
DSc, Professor, Alfraganus University, Tashkent, Uzbekistan

Tajimatov O'tkirjon
Master of Banking and Finance Academy of the Republic of Uzbekistan

Abstract: This article analyzes the issues of improving the practice of insurance of credit objects of commercial banks. Credit operations are the main source of income for banks, but it is important to minimize the risks associated with them. In this regard, there is a need to improve the efficiency of the credit insurance system. The research examines the possibilities of protecting the credit portfolio through the use of insurance services, the ways of improving insurance mechanisms, and the prospects of using international experiences. The results of the article serve to further improve the strategies of insurance of credit objects for commercial banks.

Key words: credit objects, collateral, types of collateral, insurance, commercial banking, risk management, risk.

Introduction

Commercial banks are an important financial institution that redistributes financial resources in the economy, and the needs of economic entities for various financial services are also met through commercial banks. These cases indicate that commercial banks have a high and responsible position in the national economy. Banks are recognized as an important base in the implementation of credit operations, while functioning as the main link of the credit system.

By the decision of the President of the Republic of Uzbekistan No. PQ-103, to improve the insurance market, to correctly assess risks, especially to strengthen prudential control over insurance operations in relation to loans at the expense of resources for financing from budget funds. (Resolution No. PQ-103, 2023) was commissioned by the Ministry of Economy and Finance to develop proposals and submit them to the Cabinet of Ministers.

In accordance with the Law of the Republic of Uzbekistan "On Banks and Banking Activities", commercial banks attract the funds of individuals and legal entities to various deposits and deposits on the basis of payment, compensation for interest paid on deposits and deposits for loans, they need to place them in securities and investments and earn income.When giving a loan, banks must follow the rules of security, payment of fees, focus on a specific purpose, repayment period it is necessary to take into account the possibility of creating conditions.

Providing unsecured loans to economic sectors causes bank loans not to return to the bank. This, in turn, has a negative effect on the bank's liquidity and money circulation, therefore, the impact of loans given by banks on commodity assets and costs. special attention is paid to the fact that .in the current conditions of economic development, one of the main problems in the activity of banks is the non-return of the given loans.

Literature review

Improving the practice of loan insurance in commercial banks implies improving the credit risk management strategy to minimize possible losses and optimize lending activities. Effective management of credit risks is crucial for ensuring financial stability and profitability of banks. This can be achieved by introducing advanced risk assessment models, compliance with international standards, and innovative tools and methodologies. The following sections outline key strategies and considerations for improving credit risk management in commercial banks.

Advanced risk assessment models include:

Value-at-Risk (VaR) method: This method is used to estimate the maximum potential loss in a loan portfolio at a given level of confidence. This allows banks to assess potential losses and make informed lending decisions. The use of VaR in combination with statistical simulations such as the Monte Carlo method helps to create a credit loss distribution curve, thereby increasing the accuracy of risk assessment (Kochorba and Kolomiiets, 2024).

Logit models for predicting default: These models are used to estimate the probability of default of a borrower and provide banks with a statistical basis for assessing credit risk. By analyzing a borrower's credit history and internal ratings, banks can better predict and mitigate potential defaults (Kochorba & Kolomiiets, 2024).

In compliance with international standards, it is necessary to follow the recommendations of the Basel Committee and the methods of measuring points:

Basel Committee Recommendations: Implementing credit risk management practices in accordance with Basel Committee guidelines will ensure that banks maintain adequate capital buffers to absorb potential losses. This includes the use of internal and external credit ratings for effective risk assessment and management (Kornilova, 2020) (Gazi, 2011).

Scoring methods: These methods are used to measure the level of credit risk, which allows banks to control and minimize risk. By following the best international practices, banks can improve their risk management system and improve overall financial stability (Kornilova, 2020).

Optimizing the structure of the bank's loan portfolio is important to minimize risk and maximize profit. This includes careful analysis of credit risk factors and the implementation of strategies to improve the quality of the credit portfolio (Marchenko et al., 2022) (Rabadanova et al., 2021).

It is necessary to constantly monitor and control the credit portfolio. Regular monitoring of credit risk factors and borrower performance is essential for early detection of potential problems. This includes the use of predictive models to assess the risk level of different categories of borrowers and adapt lending strategies (Konovalova et al., 2016).

And in performance evaluation, evaluating the effectiveness of credit risk management practices helps banks to identify areas for improvement and implement necessary changes to strengthen risk reduction efforts (Kochorba & Kolomiiets, 2024).

While these strategies provide a solid foundation for improving credit risk management, it is important to consider the dynamic nature of financial markets and the evolving risk environment. Banks must remain flexible and continually update their risk management practices to address new challenges and opportunities. In addition, increasing the culture of risk awareness and investing in employee training can further strengthen a bank's ability to effectively manage credit risk.

Research methodology

The method of data grouping, analysis and synthesis, systematic analysis, comparison, and experiential evaluation was used in the preparation of the article.

In addition, the balance and index method is widely used to study the functional relationship, and the parallel folding, analytical grouping, dyspeptic analysis, and pegpesion and coupling analysis methods are widely used to study the coupling relationship.

Analysis and results

The loan agreement, which is the main document of the credit relationship, stipulates the obligation of the borrower to repay the loan on time.However, practice shows that the inflationary processes in the economy can lead to the depreciation of the loan, the deterioration of the debtor's financial condition, and the violation of the loan repayment period.Therefore, international In banking practice, a mechanism for organizing loan repayment has been developed. This mechanism includes the following:

- the procedure for repaying the loan from income (income);
- to strengthen the repayment procedure in the loan agreement;
- use of various forms and sources of ensuring timely and full repayment of loan funds.

It is also necessary to pay special attention to the occurrence of credit risk in mutual economic relations between countries. In addition, it can also be observed that the loan from large organizations appears as a result of non-repayment on time. Credit risk is the result of fixed interest rates and inability to repay the principal part of the loan on time. These processes can also be observed in the inability of the state to pay its debt obligations to the population on time.

Today, 33 insurance companies operate in the field of general insurance in Uzbekistan, all of them have a license for credit insurance. Conclusion of contracts by insurers in this direction is approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 80 dated February 21, 2022 "On approval of the unified regulation on the procedure for licensing certain types of activities through a special electronic system" is carried out according to insurance classes:

- Class 14: Insurance of loans

A set of insurance types that ensure payment of insurance coverage when the insured suffers losses as a result of the debtor's insolvency (bankruptcy) or the debtor's failure to repay debts to the insured (except for insolvency)

- Class 15: Insurance of guarantee(s).

A set of insurance types that ensure payment of insurance coverage when the insured suffers damage as a result of the obligation of the insured to fulfill the guarantee given to him

- Class 16: Insurance against other financial risks

In the following cases:

a) when the policyholder suffers a loss as a result of the interruption of the policyholder's business (economic activity) or a decrease in the scale of business (economic activity) carried out by the policyholder;

b) when the policyholder suffers losses as a result of unforeseen costs (except for those specified in class 17);

c) a set of insurance types that ensure payment of insurance coverage in case of other failures than specified in clauses a) and b) of this level as a result of activities related to the conclusion and execution of contracts.

In general, this line of business covers the risks of insolvency, export credit, loan default, mortgage loans, agricultural credit and direct and indirect guarantee risks. insurance is provided.

In banking practice, the sources of loan coverage are divided into primary and secondary sources.The primary source is the income from sales. It is the main source of loan coverage.Foreign bankers consider the "golden rule" of their activity to rely on primary sources of loan coverage when considering the possibilities of concluding a loan agreement.

Currently, commercial banks, formalize collateral or insurance contracts after signing the loan agreement.

In practice, in most cases, there are certain risks in the return of the loan.These risks can be influenced by various factors.In these cases, secondary sources are also required as a guarantee.They can be:

- pledge of property and rights;
- transfer of claims and rights;
- warranty and surety insurance.

In order to satisfy the requirements of the pledgee (creditor), the debtor may focus on the pledged property in case of failure to perform the obligation secured by the pledge or in the event of improper performance.

Nevertheless, these forms are widely used in our practice, because the financial situation of many enterprises in our economy is not satisfactory and the entrepreneurs' knowledge in this field is not sufficient.

The general requirement for the amount of collateral is that the value of the pledged property is greater than the sum of the loan and the interest charged to it.Special requirements for the quality and quantity of the collateral depend on the form of the collateral and the level of risk.

The eligibility of goods to be the subject of collateral is determined by 2 factors:

- quality of assets;
- ability to control the creditor over their maintenance.

The quality criteria of goods are:

- quick implementation;
- relative stability of prices;
- possibility of insurance;
- long shelf life.

Therefore, perishable goods are not accepted as collateral.

Through table 2 below, we can see the principles of collateral evaluation .used in commercial banks

Table 2. Principles of collateral assessment (Abdullayeva Sh., 2012)

Type of collateral	Foreclosure Appraisal or Market Appraisal	Value as collateral
Personal guarantee	Depends on the documents in the financial reporting tool	0%
Insurance policy or bank guarantee	Must be in the "positive list" in the Management decision related to the documents in the financial reporting tool.	up to 100%
Private house (private)	year .will be deducted from the market price determined from the real estate agent, since the realization of the collateral area is not immediately realized..	Maximum 50% of the smallest of the 3 values
Vacant land (garden plot)	the interest calculated due to the fact that the sale did not take place is deducted .from the purchase price (the purchase must have been made no more than one year ago)	Maximum 50% of the smallest of the 3 values
Business property (store,	Appraisal in accordance with the usual technical process of bank appraisal	Maximum 50% of the smallest

hotel, sex office)		of the 3 values
Equipment and Technology (Fixed Assets)	Purchase price of computer technology .(Equipment) - 70% of annual amortization including the year of purchase	80%
Life insurance policy	Price not shown	0%
Short-term obligations of the state	100% of the price offered by the buyer in the OTC market	90%

not only to determine these criteria and not to accept assets as collateral, but also to ensure their preservation.

The bank, as a subject holding the subject of pledge, has the right to verify the authenticity, condition and environment of the pledged property based on the documents of the pledged property.

If the subject of the pledge has been spent or used by the pledger, then the pledger must restore this property or cover it with other property, otherwise the bank, as a subject holding the collateral property, has the right to claim the loan before its due date.

The second form of pledging is when the pledged property remains not with its owner, but with the person holding it. This type is also referred to as "zakat" and is a convenient type of pledge in banking practice, in which non-real estate property is pledged when money is given to the pledgee (bank) (Nizom, 2010).

This form is widely used in banking activities, and if the pledged property is not real estate, then such a pledge is considered significant in the bank. The main reason for this is that the bank is able to return it in any case. This form of pledge can be of the following types:

- solid (reliable) collateral.
- legal lien.

Solid (reliable) collateral is classically understood as keeping goods and other property in the credit organization's warehouse or in the borrower's warehouse under the control of the bank . In turn, the valuables taken in the pawnshop should meet the following requirements: they should be quickly sold, easy to insure, and should be able to be stored for a long time under the control of the bank. Of course, the control of these properties by the bank leads to various difficulties and costs. In Western countries, these services are provided by warehouse organizations for banks. He has complete control over the property and its maintenance can be carried out, and in addition, it can be created according to the possibilities of returning the loan given. This type of pledge can be in 2 different forms.

1. A solid guarantee.
2. Pledge of rights.

Hard collateral is a classic type of collateral, which involves the delivery of goods or other property to the bank and must be kept in the bank's warehouse or in the borrower's warehouse, but under the lock and guard of the bank. To be accepted as collateral or security, it must be sold quickly, stored for a long time, not lose its quality, insured and under bank control. It can cause difficulties because receiving and storing the deposit is costly for the bank and does not correspond to its activity. In some foreign countries, this function for the bank is performed by special organizations - warehouse companies.

In this case, only warehouse documents are required, and this document, written by warehouse companies, is considered as a loan security. On the basis of this document, the bank controls whether its loans are secured, and if the loans are not repaid, the bank can purchase the property from the warehouse and pay off its loans through this document. It is necessary to speed up the processes of implementation of the same international experiences in Uzbekistan.

The subject of collateral, in addition to ensuring its preservation, leads to the fulfillment of other obligations for the bank. For example, if the subject (bank) holding the property of the pledge is specified in the contract, it must carry out the calculation of the property in accordance with the interests of the pledger, and after fulfilling the obligations, the pledger must ensure the return of the property.

Regardless of who owns the subject of the pledge, the subject giving or receiving the pledge must insure the property against various natural disasters. It should be insured not only against natural disasters, but also against theft of property or suspension of the economic activity of the entity providing collateral by state authorities. When insurance events occur and property is damaged, the bank, as a subject holding collateral property, has the right to receive insurance coverage at the expense of its credit.

Commodities and various transport documents are solid (reliable) collateral convenient for the bank, as well as valuables and securities can be accepted as solid collateral. First, they are given to the bank by the guarantor in order to secure the loan, because they do not require any additional costs.

The following table lists the criteria for assessing the quality of collateral in banks.

Table 3. Criterion for assessing the quality of collateral (Abdullayeva Sh., 2012)

Reliability rating	The ratio of mortgaged property to loan value	Liquidity of collateral	Ability to control the collateral	Examples
A	100% or more	Selling fast	Totally controlled by the bank	Bank deposit
V	Less than 100%	Prices may fluctuate and there may be difficulties in implementation.		Quotable securities given to the bank for safekeeping.
C	Less than 100%		There are problems with control.	Unquoted securities. Material wealth.
D	Less than 100%	The price drops, there are problems in selling.	There are problems with control.	Material wealth
E	Less than 100%	The price will drop	No control	Material wealth

According to the data, the evaluation of the subject of collateral is characterized by high liquidity, quick saleability. This is of great importance to the bank. Legal pledge is currently new to Uzbekistan and is considered to be a legally unsecured form. Documents of legal ownership of various property (copyrights, trademarks, know-how, patents) can be used as collateral. In this case, only the person who owns the pledged property can be the person giving the pledge. Leased or owned property cannot be pledged without the owner's permission.

In any case, the subject of pledge is insured by the person giving the property.

Conclusion

The main proposals and recommendations for improving the practice of insurance of credit facilities of commercial banks are as follows:

1. Diversification of credit insurance products

- **Development of special insurance products for different types of loans**: Introduction of special insurance programs for consumer, mortgage, car and small business loans. This helps manage risks more effectively by providing specific terms for each type of loan.
- **Taking into account the needs of the client**: Creating conditions that match the needs of clients and their ability to repay the loan in the development of insurance products.

2. Digitization and automation of the insurance process

- **Development of online insurance systems**: offering insurance services through the bank's mobile application or website, simplifying the insurance registration process for customers.
- **Integration of banking and insurance company systems**: Establishing automatic insurance in the process of obtaining a loan in the banking system, creating the possibility of automatic transfer of data so that additional documents are not required from customers.

3. Improving the risk identification and assessment system

- **Use of advanced analytical methods**: Accurate assessment of customers' solvency and credit risk by using statistics and analytical technologies, including big data and artificial intelligence, to identify risks.
- **Insurance tariffs based on risk profile**: Dynamically setting insurance premiums and payments based on the level of risk, creating additional coverage for high-risk customers.

4. Integration of insurance and credit products

- **Offering insurance packages along with the loan**: Providing insurance as one of the main conditions of the loan, thereby reducing the credit risk and expanding the insurance coverage.
- **Combined packages:** Providing credit, insurance and other financial services in one package to create convenient conditions for customers and increase the level of service utilization.

5. Mastering international experiences

- **Learning and Adapting Best Practices:** Applying best credit insurance practices from the US, Europe and Asia to local conditions.
- **Cooperation with international insurance companies:** Adoption of advanced technology and experiences by cooperation of local insurance companies and banks with international insurance companies.

6. Improvement of legislation and regulatory framework

- **Improvement of legislation:** Development of the national legal framework for credit insurance and amendments to the legislation that will allow banks to widely introduce credit insurance.
- **Development of standards for insurance contracts and requirements:** Development of clear and effective insurance conditions for commercial banks, which will create the possibility of uniform implementation of insurance processes.

7. Providing information to clients and explaining insurance services

- **Explaining the benefits of insurance services:** To increase interest in insurance services by educating customers about the importance and benefits of insurance.
- **Customer Education Programs:** Improve customer financial literacy by conducting seminars and training on the benefits of using credit and insurance services and financial security.

8. Incentivize customers through bonuses and incentives

- **Preferential insurance rates:** Providing cheaper insurance rates for low-risk customers, thereby attracting more customers to insurance services.
- **Introduction of a bonus system:** To increase the interest of customers in insurance by providing bonuses or discounts for reinsurance for customers who repay the loan in full and on time.

These suggestions and recommendations will help to make the practice of loan insurance in commercial banks more efficient and provide convenience for customers.

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