THE ROLE OF RISK ASSESSMENT TO IMPROVING PERSONAL CREDIT PORTFOLIO IN COMMERCIAL BANKS

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ABSTRACT
The research paper examines the risk assessment of personal credit in commercial banks, demonstrating its significant impact on the bank's credit portfolio and loan recovery. It also explores effective risk assessment strategies for managing personal loans and identifies the challenges bank managers currently face. The study employs detailed questionnaires divided into three sections with a total of 30 questions, distributed to 180 lending managers responsible for personal loans. Of these, 169 managers responded, resulting in a response rate of 93.88%. The questionnaire aimed to gather valid and reliable data to support the research findings.
KEYWORDS: *commercial banks, risks, risk assessment, credit, personal credits, lending managers, credit portfolio, Uzbekistan.*

INTRODUCTION

Banks have strong incentive to use their own money for the projects where returns are certain and attempt to borrow money for riskier projects. Banks and other lenders have developed measures to safeguard against losses. According to International Financial Corporation (IFC) bank face various problems for financing households sector. These challenges should emphasize and analyze to give loan for personals. It is important to note that they huge impact to the bank performance, so each challenge must investigate and its risk should examine by bank before giving loan to every individuals.

In the past decade, banks have played a significant role in supporting and helping to economic growth around world gain great access by financing projects. The banking environment nowadays has increased huge challenges with their different services and innovations. Therefore, banks work to grow up access of business to financial resources in developing countries by provide loan for their projects. The main obstacle to the development of every sector in developing countries is the lack of financing support by commercial bank.

There are many prior researches done relate to risk assessment of financing project in banking opportunities as well as effect to the bank and measuring the risk management of banks in Uzbekistan. The purpose of this paper was to investigate risk assessment of the bank for financing project in the specific bank of Uzbekistan. We focused on credit managers who decided loan for specific project, also try to evaluate how they make decision on it and supporting with credit. Because of inadequate sources of financing, enterprises' project mostly finance from banking sector. Moreover, every bank form or created departments especially for segment with corporation. Need to say that not only in field of credit, also in the field of different advisory services offered by bank's managers. Hence, banking risk assessment of financing SMEs' project in the bank basically involves its practices to "identify", "analyze", "evaluate" the risk of bank exposure and occurrence by credit manager, also how to assess those risks by lending decision makers and how they can influence to reduce risks, to investigate at their probability of supporting with credit, also to achieve main goals from financing project.

Also, there are a lot of challenges and problems for lending managers to decide loan to give personal loans. Such as we can say according gathered data problems include: identify main risks of individuals, manage faced risks, avoid huge operational costs, lending decision quality and cost, difficulty controlling bad loans (NPL) and others. So, before deciding loan lending manager need to focus on the most important balance of risks and may happen involve reward.

LITERATURE REVIEW

There is a growing literature that examines the relationship of banks and financing projects, also bank's risk assessment for financing project. There are some studies which have made contributions to the literature of to assess the risks of financing project in banks. Banks will have to deal with more difficulties due to such a small decline in loan quality. There are several approaches that banks can choose to process risk assessment and reduce loss exposures. Kliem et.al (2007) prefers that a four-step process: 1) risk identification, 2) risk analysis, 3) risk mitigation and 4) risk follow-up.

Risk assessment is a central part of any organization's strategic management. It is the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across operations (Ardrey P., 2019). According to Prabir S. (2019) "Risk assessment of financing project in the bank is approached where there is "inconsistency in reporting, insufficient evaluation and low quality of risk assessment, becomes ineffective due to lack of pertinent information and improper analysis of the risk factors".

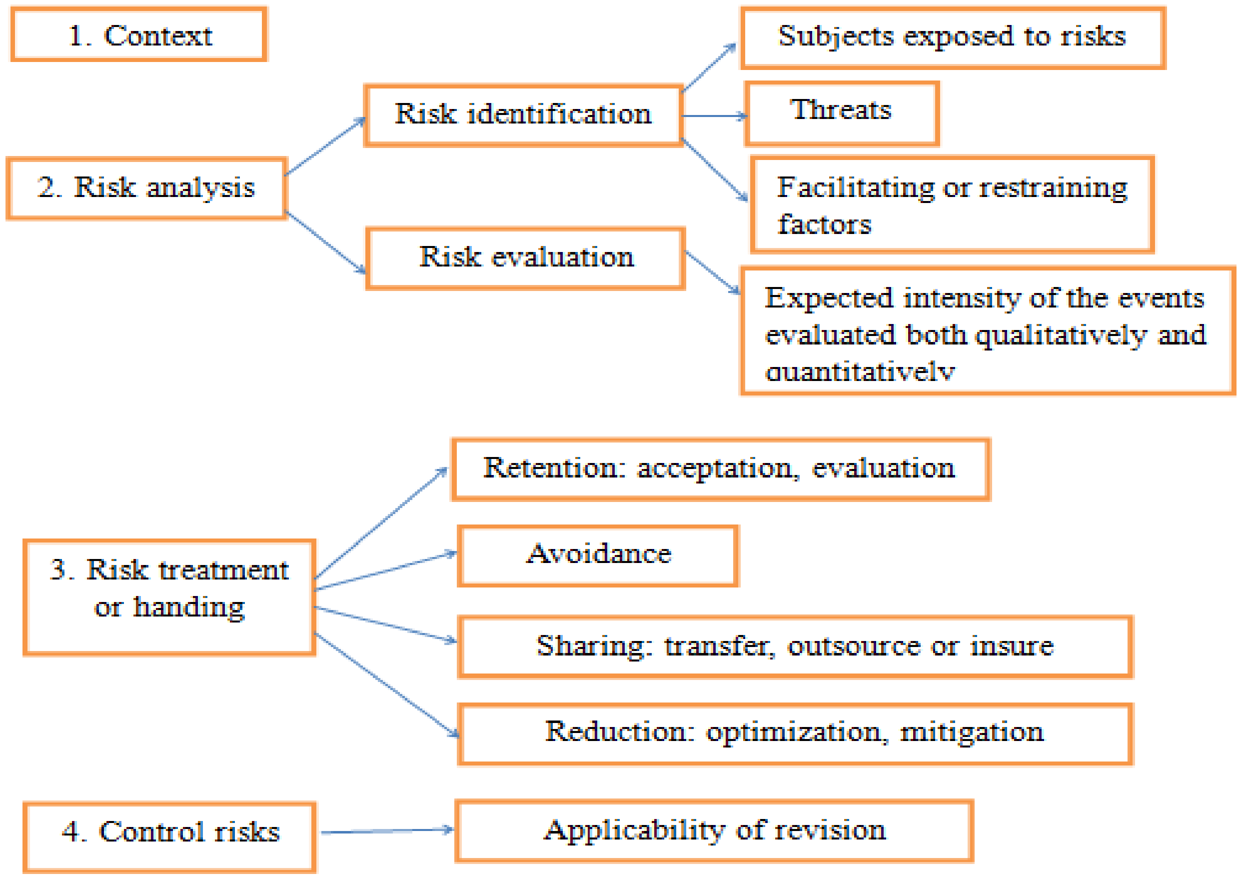
Risk assessment scheme in the bank, there are two highlights in risk assessment that make this approach more suitable for personal loans which the step of ***planning*** and ***identifying*** risks.

Risk planning: instead of identifying risks as the first step, an adequate project management scheme should start with proper measurement of efforts and planning the assessment and control activities and schedule in advance. It applies also to general risk management, to measure and consider whether the benefits of implementing such a scheme will exceed the efforts and budget against the risks. Risk planning or risk management planning is recognized as major process (Gardiner, 2015. p163).

Risk identification: the identification of risks is the ultimate step that decides the end result of the management process. Management should review all the scenarios that may affect the objectives of the project with an open mindset and vision. One method to ensure sufficient risk listing is to screen through the phases of project life cycle (Chapman C. et al, 2016). Common projects cycle through 4 phases of conceptualization, planning, execution and termination; with sub stages and following steps. It is important to say that referring risks to particular stages and steps will help the management process more efficient and simpler for both the boards of the staffs.

Banks should develop credit risk models specifically addressed to personal credits in order to minimize their expected and unexpected losses. Many banks and consulting companies already follow this practice of separating large corporates from small and medium sized companies when modeling credit risk. The emphasis on personal credits of bank in today's environment is far more prominent and we can say that modeling specific credit risk systems is likely, under certain sceneries, lead to lower capital requirements when the new Basel Capital Accord will be implemented in 2008.

The root of poor loan quality comes from mechanism of information processing. Kim et al. (2021) argue that these problems start from the stage of loan application and then expand at the stages of loan approval, monitoring, control when there is no existence of the guidelines in risk assessment strategy on credit, regarding credit processing policies or procedures, these guidelines are weak or incomplete.



Pic 1. Risk assessment process in commercial bank

Banks efforts to homogenize the loan decision making process across loan officers, the decisions made by loan officers actually vary according to the loan officers' level of experience (Anderson, 2021). Fletcher (2015) argues "Although there is delegated decision making, bank managers make their lending decisions against a background of rules and head office instructions. There are many variables which influence the rules and the work environment, and affect the lending decision (for example, training, internal guidelines, specific head office directives). The lending decision is a process of interaction between the rules and a manager's. Some banks in Uzbekistan have recently adopted credit scoring to support decision making, allowing managers to focus on developing relations with customers.

Risk assessment emphasizes the capabilities of a business to anticipate changes, not the avoid risk. Avoidance of risks means waiting for the event to happen then react to it, rather than prepare for the changes. In reality, many organizations choose to avoid risk, as in their simplest risk management strategy. In one hand, this strategy allows fully protection from particular losses. In other hand, this strategy deprives profit, and might cause another risk (Biasi, 2021).

RESEARCH METHODOLOGY

Most researches conduct are qualitative and quantitative, those using primary alternatives to all researchers. It is important to mention that which approach is most appropriate and more effectively conducting really depend on research problems and objectives. Also it may reflect the whole target population. Questionnaires were administered and distributed by researcher. It is important to mention that comprehensive questionnaires stated comprising of various types of questions to increase obtained data and information which used to valid and reliable for the research. All the questionnaires were consisted three key parts, include all parts 30 questions. So, questionnaires distributed to the 180 lending managers who decided loan for personal loans, in the end only 169 managers, respondents answered and returned filled questions, we mention that a response rate of yielding is 93,88 percent.

During addressing to risk assessment to improving personal credit portfolio in commercial banks, mainly the primary data collected from distributing various questionnaires to lending managers who decide loan. We used to collect information primary and secondary data for conducting this paper, it is necessary to say that all secondary sources are gathered figures, statistics and facts collected to get information, such our secondary data gathered from various literature, it may include electronic sites, books, different journal, research paper which done by other people before and banks' annual reports, published internal papers and policies.

ANALYSIS AND RESULTS

According to data analysis, we can say that the most important variables are avoiding any loses during holding project and also managers focused on reduce credit risks (Table 1). The lowest rate was reducing liability in term of the importance assessing risks. We can conclude that the main goals of risks assessment for the lending managers are avoiding any loses minimize operational cost of project, reduce credit risks more priority.

Table 1. Results on questions number I

1. The main aims of the risk assessment process in term of importance for the lending manager. Please, rank 1-5, also 5 is the most important;	Number of the respondent	%	Mean	Standard deviation
a) Reducing liability	15	18.75	2.65	1.55
b) Maximise income of households	18	22.5	3.15	1.78
c) Avoid any loses	25	31.25	4.50	2.40
d) Minimise operational cost	22	27.5	4.15	2.15
e) Reduce credit risks	20	25	3.90	1.90

Table 2 showed that managers approached to identification risks as main way to assessing risks, we can see with mean 3.55. It indicated that the main significant variable for the research to risk assessment for lending managers. Indeed, transferring risks to partners help manager to avoid loses during implementing project. This is with the lowest rate among all significant variables, only 18.75 per cent of lending manager prefer to transfer risks to avoiding bank loses, so we can it is not seen specific method to assess risks of the project.

According to findings data, paper suggests that manager need to approach hedging or diversification risks during giving loan and control project events. Also, it looks like unsophisticated approach to risks assessment and lack of understanding methods which available for managers.

Table 2. Results on questions number II

2. Which of the following method more importance in risks assessment. Please, ranking 1-5, also 5 is the most important;	Number of the respondent	%	mean	Standard deviation
a) Identify risks	20	25	3.55	1.22
b) Control risks, approach hedging	15	18.75	2.90	1.10
c) Evaluate negative affects	18	22.5	3.10	1.19
d) Transfer risks	15	18.75	2.90	1.10
e) Reduce any single risk	12	15	1.70	0.85

The significant and effective tools are minimizing the negative impacts and diversity cost, especially operation cost. The evidence is that both tolls suggested by 25 per cent of the lending managers, with means 4.22 and 4.20 respectively (Table 3).

Table 3. Results on questions number III

3. Which significant and effective techniques and tolls are used by lending manager. Please, ranking 1-5, also 5 is the most important;	Number of the respondent	%	Mean	Standard deviation
a) Eliminate risks as much as manager can	19	23.75	4.10	2.10
b) Control risks by using hedging	11	13.75	2.90	1.50
c) Minimise the potential negative impacts	20	25	4.22	2.25
d) Diversity operation cost of project	20	25	4.20	1.90
e) Transfer risks to the SME	10	12.5	2.70	1.40

The second important variable is eliminating risks during financing SMEs' project, with a mean 4.10 and 23.75 per cent of responses supported by lending managers. Also, we can say that eliminating is very effective way to avoid potential negative effects during holding project. Yet again, data estimated that bank managers are still improving and developing effectiveness to risks assessment practice across their customers.

The lowest significant tool or approach for managers is rated by 10 respondents which included 12.5 per cent of all managers preferred transferring risks to SMEs in order to avoid or minimize any loses and negative impacts for banking operations. On the other hand, lending managers do not use more hedging as a specific tool for assessing the risks, with mean 2.90 and 11 respondents used this tool during controlling risks.

There is evidence that the three most important and effective risk identification methods are risk audit and inspections, judgments of the banks' managers, process analysis. The data indicated that 25 percent of lending managers approach to risks audit and inspections during risk identification (Table 4). We know that risk identification is the first step for assessing risks, so if managers approach properly, it help them to assess risks comprehensively.

Table 4. Results on questions number IV

4. What are the three most important and effective risk identification methods used by lending managers?	Number of the respondent	%	Mean	Standard deviation
a) Process analysis	15	18.75	3.75	2.25
b) Risk surveys	15	18.75	3.75	1.99
c) Risk audit and inspections	20	25	4.22	2.39
d) Judgement of the banks' risk manager	18	22.5	2.59	1.69
e) Internal communications, consulting with employee	12	15	2.15	0.63
f) SWOT analysis	19	23.75	4.10	2.16
g) Other	8	10	1.48	1.15

The second significant method is SWOT analysis, with mean 4.10 and 19 responses by lending managers, it include 23.75 per cent of total respondents. It is important to mention that during SWOT analysis lending manager focus on strengths, weaknesses, opportunities and threats of clients who apply for personal loans.

Table 5. Results on questions number V

5. Which are the most significant factors for supporting personal loans?	Number of the respondent	%	Mean	Standard deviation
a) Past performance	22	27.5	3.75	2.25
b) Financial standing	18	22.5	3.75	1.99
c) Competiveness	21	26.25	4.22	2.39
d) Collateral	19	23.75	2.59	1.69

According data analysis, the most important variables to supporting credit request is part performance of the borrowers. We need to say that 22 lending managers focus on the past performance of clients to decide loan, in this case with mean 3.75 and 27.5 per cent respondents linked to this significance. The second significant factor to give loan is competence within the business project, with mean 4.22 and 21 responses by lending managers. Also, the last importance factor is financial standing.

FINDINGS

The analysis shows results for different part of the questionnaires indicated that lending manager is facing various risks which related to activities, for giving loan to the projects and similarly is not using a particularly diverse range risk assessment, assessment practices. According to analyze the risk assessment of the project, we found that lending managers has still challenges in understanding uses techniques and tools for assessing risks, it seems to be lacking understanding and unsophisticated approach to fully identify and manage risk by lending decision makers.

Therefore, we can say that managers are still focus on develop and improve their risk assessment process. So, take a significant step to focus on current risks trend in personal credit portfolio. Also, managers' reporting and communication skill support the effective assessment of risks in commercial banks. The evidence is that various factors exist which affect the effectiveness of managers' communications, such as cultural background and transient features, current environment and team dynamics.

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