Quality requirements — an important factor in increasing the efficiency of the bank’s assets

Abstract: Nowadays, ensuring the quality of bank assets is a serious and important issue not only in our republic, but in other countries of the world as well. It can be explained by banks’ performance of their function as the only credit and financial institutions in rapid financing of economy.

Key words: Central Bank, commercial bank, effectiveness, legal issues, economic issues.

Introduction: The level of the quality of bank assets is one of the indicators of a comprehensive assessment of the bank’s activities, and it helps to determine the acceptability of the structure of assets, profitability and its sufficient diversification.

Analysis: Naturally, each commercial bank’s strategic objective is to increasing the volume of earning assets through crediting. However, in this process the amount of the assets in proportion to the increase in the volume of distressed assets is one of pressing issues. Because, along with expansion of the range of assets under the influence of internal and external factors, the cases leading to untimely return of assets increase.

If we pay attention to the statistics, the volume of banking assets has been growing significantly each year (Figure 1).

Figure 1. The dynamics of the growth of the Bank’s assets during 2008–2015 in trillion sums

According to the official data of 01.01.2016 the assets grew by 16% compared to the same period last year, and compared to 01.01.2008, they grew by more than 7 times.

We believe that under the conditions of such rapid growth in the volume of assets, it is desirable to develop the specific requirements for the quality of bank assets. In this regard, there are various approaches in the literature devoted to theoretical and practical aspects of banking sector.

Commercial banks are guided by the following fundamental strategic objectives, which creates the need to develop perfect requirements related on quality of bank assets:
– to strengthen the bank’s position and competitiveness in the financial market;
– to fulfill its obligations in front of customers and other creditors to maintain daily liquidity;
– to improve the investment attractiveness of the bank for shareholders and investors and etc.

According to research results, with the aim of ensuring the quality of the assets of the commercial banks we recommend to identify legal, organizational, economic and qualifying classifications (Figure 2):

**Legal requirements:** As research results indicate, regulations and internal procedures, gaps or ambiguities are the main factors that lead to a decline in the quality of bank assets. Besides, it is becoming more important to obtain legal regulation in order to avoid possible negative effects of internal (portfolio of assets), and the external environment (banking law, the activities of creditors and shareholders) in the process of changes in the bank’s assets [1]. Taking into consideration the abovementioned, in order to ensure the quality of bank assets the legal requirements should include the following:
– to determine mutual relationship and responsibility in performing active operations between two divisions of the bank to – to strengthen the rules in the process of asset allocation, in particular, the analysis of an initial asset allocation analysis and asset recovery;
– to provide the detailed requirements for the debtor or in fulfilling their contractual obligations referring to the bank assets.

It is worth noting in particular that the fundamentals of the banking legislation of our republic are being developed step-by-step in connection with various conjuncture changes in national and international financial markets. And this process creates opportunity to strengthen the quality of the bank assets.

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**Figure 2. Requirements for ensuring the quality of commercial banks’ assets**

- **Legal requirements**
  - Detailed identification of the mechanism of ensuring assets’ quality in internal policies
  - Improving monitoring of legal foundation of the quality of bank assets

- **Organizational**
  - The availability of structures responsible for effective placement of assets
  - Solidity of the program systems and information data basis

- **Economic requirements**
  - Classification of assets’ quality and perfection of complex analysis system
  - Fully following the principles of diversifications of the assets
  - Availability of systematic monitoring of assets’ quality

- **Qualifying requirements**
  - Exact assessment of the risks of assets
  - Documentation control during the process of placement of assets
  - Constant improving of qualification of the personnel
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In addition, year-over-year simplification of the banking credit policy procedures for entrepreneurs, appropriate interest rate policy by the Central Bank, development of credit information sharing and the strengthening of legislation regarding the implementation of the agreements on collateral are rated positively by international experts.

Organizational requirements: We believe that in ensuring the quality of bank assets – the well considered institutional mechanisms create a good basis for successful implementation of each elements of this process. At the present time, banks should focus on the following organizational issues to improve the quality of banks’ assets:

– take measures for development of infrastructures which operate in mutual cooperation in assessing and monitoring the quality of assets of the banking system;
– improve the speed and quality of services associated with the active operations of the banking system to customers through a step-by-step introduction of modern information systems, as well as improving program monitoring of assets.

The successive reforms conducted in the banking system of our republic, organizational and economic measures are yielding positive results to increase the quality of bank assets. In particular, according to ‘Doing Business 2016 published by World Bank and the International Finance Corporation, Uzbekistan took 87th place (moving up to 54 places) in the new ranking of the favorable business environment indicators for 189 countries in the world. In addition, Uzbekistan moved up from 105th to 42nd place (moving up to 63 places) in the credit rating system as compared to the year 2015, that is, over the last three years, this index increased by 112 points [1].

Economic requirements: Nowadays, the importance of economic instruments in ensuring the quality of bank assets is increasing not only in our country, but in foreign countries’ practice as well. It should not be overlooked, while admitting that the quality of the bank’s assets is directly related to the implementation of the following economic requirements:

– develop structural measures to avoid excessive accumulation of cash and other non-performing assets within the bank assets;
– in reliance on comprehensive analysis of the risks in the process of implementing diversification policy, the future of the regional activities of the customers, taking into consideration the opportunity to use effectively customer’s credit funds, etc.

Conclusions: Mainly the large size economic entities form big amount of bank assets, and it requires from each employee participating in this process to approach their work with a sense of responsibility. We believe that the followings should taken into consideration in implementing qualifying requirements:

– marketing development for bank employees, attracting the personnel with years of hands-on experience to work with customers in the process of controlling the quality of the assets;
– on a regular basis to improve the mechanism of increasing skills on new information technologies for the bank employees involved in placement of bank assets;
– systematic timely introduction of regional units’ (branches) personnel to the changes in banking laws and adopted new requirements.

The reports on commercial banks crediting system must represent the detailed information on the status of the quality of assets. Non-introduction of the mechanism of providing accurate and timely information on changes in the quality of the portfolio of commercial banks assets is one of the hindering problems for the bank management to work out appropriate measures to overcome existing problems.

In summary, we point out, that strengthening requirements for the quality of bank assets remains the priority goal for the banking system, as well as an important factor in ensuring their active participation in the process of financing national economy.

References:

1. The picture is made on the basis of data of official site of Central Bank of the Republic of Uzbekistan www.cbu.uz
2. www.lex.uz