

FEATURES OF UNDERWRITING IN THE PROCESS OF IN THE LENDING IN COMMERCIAL BANKS

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ABSTRACT

It is necessary to create a complete understanding of the minimization of the risks of commercial banks in the provision of credit services and to analyze them on the basis of the underwriting system, to determine ways to reduce the level of riskiness of commercial banks and to reduce the amount of NPL loans in the loan portfolio. Underwriting consists of assessing the creditworthiness of a borrower, that is, an individual or a legal entity, analyzing credit risk and making a decision. In this report, the specific features of using underwriting in the digital lending processes in commercial banks in our republic are explained.

KEYWORDS: Banking, underwriting, creditworthiness, risk, credit, scoring, technology.

INTRODUCTION

Whole the banking sector in the world reform to do main direction as risks digital management quality improvement, digital credit volumes moderate to grow action to do, financial risks assessment for technological solutions implementation to grow through the banking system financial stability provision determined, in banks risks management international experiences study, especially in banks to the surface arrival possible was to risks tolerance degrees into account received without key risk indicators limits working exit and automatic underwriting process effective organization to grow will be necessary.

Commercial banks in the activity potential risks assessment quality increase and decisions acceptance to do process automation in order to, in banks credit mechanisms improvement for high standard underwriting create, service show processes optimization and modular credit products current to grow and their bank loan in the portfolio share increase through fast and less costly retail banking services types expansion and banks scoring systems further improvement issues are also resolved to be necessary was first one of the tasks.

To reduce the processing time of loan applications, effectively assess the financial condition and credit risk of borrowers, commercial banks are implementing an automatic underwriting process based on digital credit, making appropriate decisions based on automated machines. This will be effective.

Underwriting two to the type of separation possible:

- automatic (scoring);
- individual.

Check how much money is not automatically consumed by the bank on loans, during a quick assessment of the borrower's solvency, the bank employee enters specific data for the borrower's program, according to which the points accumulated by the program are evaluated. according to, such a simplified check is possible, the loan decision takes from 1 minute to 1 hour. Individual underwriting is used to obtain large amounts and non-standard instruments (mortgage, home equity) in lending, purchase, etc. The borrower evaluates how many banking services cooperate with each other in the process: credit, legal, compliance. They are borrowers through a detailed examination of the information provided, so the loan application takes from 1 to 10 days to be processed, according to the final decision possible at this workplace, the client and the relevant services are provided.

In the current era of digital transformation, commercial banks do not have the opportunity to assess the creditworthiness of customers (especially retail customers) based on the inclusion of financial and non-financial indicators. The scoring model needs to be improved and credit risk minimized on this basis. Scoring models have been created in a number of commercial banks in Uzbekistan, but not enough work has been done in this regard and new models have not been developed. In this regard, the scientific novelty of the study is the following proposals for improving scoring models as part of automated underwriting processes. The possibilities of introducing innovative technologies into underwriting processes, such as artificial intelligence (AI), Fintech and big data (Big Data), were also analyzed.

There is a special program that evaluates clients who apply for a loan. The scoring system automatically determines the reliability and creditworthiness of a potential borrower. In addition, the points are used to determine the amount of the loan. analyzes the borrower's compliance with the terms of the program he has chosen. A borrower evaluation system based on mathematical statistical methods. The purpose of scoring is to assess the client's level of solvency and select potential borrowers based on certain factors .

There are the following advantages of using scoring for commercial banks:

- Significantly reduce operating costs by automating processes;
- Reducing the impact of the human factor in the lending process;
- The ability to optimize the interest rate on the loan, depending on the level of risk associated with the borrower's creditworthiness classification ;
- for solvent borrowers , thereby achieving their loyalty to banks;
- on loans and thereby improving the quality of banks' loan portfolios;
- Reducing banks' losses in managing loan repayment processes .

In Uzbekistan, most commercial banks use the KATM credit bureau scoring system in the automated underwriting process of granting loans to individuals. The KATM scoring system is formed based on information about the closed and current liabilities of individuals and legal entities. The scoring system is divided into three levels , from 0 to 500: A, B, C, D, E , and each group is divided into three levels . This scoring system is characterized by many errors, unreliability and uncertainties, which can pose significant risks for commercial banks.

Inadequate underwriting mechanisms in our country can expose banks to financial losses, which negatively affects their activities. Therefore, commercial banks need to implement effective risk

management underwriting processes. These processes will stabilize banks' participation in lending and allow them to earn higher profits.

The initial scoring model was developed by US banks and was largely developed by the consulting firm Fair Isaac Corporation (my FICO). There are also scoring models from credit reporting companies such as Equifax, TransUnion, and Experian.

Table 1. FICO scale - borrower quality indicators

Points		Description
Experian, Equifax, my FICO	Trance Union	
800-850	781 - 850	Excellent credit score. Debt to the recipient the most very comfortable conditions credit is given .
740-799	720 - 780	Very good credit score. There are no problems with lending . The borrower gets a loan at a good credit interest rate.
670-739	658 - 719	Good credit score. Bank loan to the recipient credit to give possible , but not much comfortable not been in the conditions is separated .
580-669	601 - 657	Weak credit score. Credit according to decisions far acceptance to do process , more difficult and debt to the recipient credit high percent at the rates is separated .
300-579	300 - 600	Negative credit score. Doubtful and bank credit refuses to give .

While different lenders have their own standards for credit scores, 700 and above (on a scale of 300 to 850) is generally considered good.

In general, a borrower's credit score is very useful in predicting the likelihood of repaying their loan. Therefore, lenders rely heavily on credit scores to determine whether to lend to a borrower. A borrower's credit score also determines how much you will pay in interest and other fees. Borrowers with bad credit pay higher interest rates than borrowers with excellent credit scores. Commercial in banks scoring model in creation external information from the source use important is considered . External to sources tax committee , credit bureaus , pension and other state services information This banking programs to sources integration to do through automated analysis done is increased .

The necessary data is collected from new applications, customer behavior, credit history, and other external sources. Three types of models are used: the new customer application model, the existing customer application model, and the behavioral model. The scoring model creation process is carried out through integration with software companies from developed countries, including European countries, SAS, PYTHON, and R (programming language). These programs analyze using an artificial intelligence (AI) platform and Big Data.

The software first studies the default rate, logistic regression, and weight of evidence based on data binning and analysis. The logistic regression model is one of the most widely used statistical methods for solving binary classification problems. It is a technique that is accepted in almost all fields. These two concepts - weight of evidence (WoE) and information value (IV) - are derived from the same logistic regression technique. These two terms have been around in the credit scoring system for more than 40 years. They have been used as benchmarks for viewing variables,

such as the probability of default, in credit risk modeling projects. In the digital lending process, big data and artificial intelligence platform analysis refers to the systematic processing and analysis of large data sets to extract important insights . This requires the distribution and processing of large data sets across a network of computers.

In the process of digital lending and underwriting in commercial banks, each commercial bank will be able to assess customers by predicting and analyzing the stability of several factors when creating its own scoring model. Scoring reduces the influence of subjective factors, which allows automating the decision-making process and reducing the time for reviewing loan applications, and most importantly, maintaining the effectiveness of risk assessment and control.

The application of the proposed recommendations and methods will help improve the quality of commercial banks' loan portfolios and prevent loans from becoming non-performing loans by introducing automated underwriting into banks' digital lending processes.

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