

**ISSUES OF IMPROVING THE PRACTICE OF BANK LENDING (OR  
IMPROVING THE CREDIT ALLOCATION PRACTICES IN COMMERCIAL BANKS)**

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<https://doi.org/10.5281/zenodo.20373362>

**Abstract:** This article explores the current state and existing challenges of credit allocation processes within commercial banks, highlighting their critical role in economic growth and financial stability. In the context of rapidly evolving financial markets, traditional lending methodologies often face limitations regarding risk assessment, operational efficiency, and customer adaptation. The study analyzes the key factors influencing lending efficiency, including credit risk management, the integration of digital technologies, and credit scoring models. Based on the findings, the author proposes comprehensive recommendations aimed at optimizing loan portfolios, mitigating non-performing loans (NPLs), and implementing advanced digital solutions such as artificial intelligence and big data analytics. The practical application of these recommendations can significantly enhance the competitiveness of commercial banks and improve the overall quality of banking services.

**Keywords:** Commercial banks, bank lending, credit risk management, loan portfolio, digital banking, credit scoring, non-performing loans (NPLs), financial stability, banking innovations, risk mitigation.

### **INTRODUCTION**

In the modern global economy, commercial banks serve as the primary financial intermediaries, driving economic growth by mobilizing financial resources and allocating them to productive sectors through credit mechanisms. The efficiency of a country's banking sector is intrinsically linked to its lending practices, which support entrepreneurial activity, infrastructure development, and consumer spending. However, in the context of rapid financial digitalization, economic instability, and shifting regulatory frameworks, traditional bank lending methodologies are facing unprecedented challenges.

The sustainability of commercial banks largely depends on the quality of their loan portfolios. Recent global economic fluctuations and local market transformations have highlighted significant vulnerabilities in credit risk management, collateral evaluation, and borrower creditworthiness assessment. High levels of non-performing loans (NPLs) and inefficient credit bureaucratic processes not only jeopardize individual banking institutions but also pose systemic risks to the entire financial system. Therefore, the necessity to reform and modernize lending operations has become a critical priority for banking executives and policymakers alike.

Furthermore, the emergence of financial technology (FinTech) and artificial intelligence has revolutionized the banking landscape. Traditional credit scoring models are increasingly being replaced or augmented by big data analytics, automated risk evaluation systems, and machine learning algorithms. While these innovations offer immense opportunities to reduce operational costs and expedite loan approval processes, their integration requires sophisticated risk management frameworks and strategic adaptation by commercial banks.

This research aims to critically analyze the current state of credit allocation practices in commercial banks and identify the systemic bottlenecks that hinder their efficiency. By evaluating international best practices and contemporary risk mitigation strategies, this paper

provides comprehensive recommendations for improving lending mechanisms, enhancing credit risk assessment models, and accelerating digital transformation within the banking sector.

Maqolangizning asosiy qismi (**Main Part** yoki **Literature Review and Analysis**) uchun **1000 dan ortiq soʻzdan iborat** boʻlgan, akademik tilda yozilgan yaxlit va tizimli matn.

Matn oʻqishga qulay boʻlishi uchun mantiqiy xatboshilarga ajratilgan, biroq talabingizga binoan ortiqcha raqamlangan roʻyxatlar (1, 2, 3) yoki belgilangan (bullet points) saralashlarsiz, sof akademik matn shaklida tayyorlandi.

#### MAIN PART

The theoretical underpinning of banking operations establishes credit allocation as the primary mechanism through which financial institutions influence macroeconomic stability and microeconomic growth. In classical economic theory, banks are viewed as intermediaries that bridge the gap between surplus economic agents and deficit economic units. However, modern financial economics views commercial banks not merely as passive intermediaries, but as active creators of liquidity and evaluators of information. The efficient functioning of this mechanism requires a sophisticated understanding of credit risk, operational costs, and the asymmetric information that inherently exists between lenders and borrowers. Asymmetric information often leads to adverse selection before the loan is granted and moral hazard after the disbursement, both of which significantly impair the quality of bank assets. Therefore, the continuous improvement of lending practices is not a static operational objective but a dynamic structural necessity required to maintain financial equilibrium.

The relationship between bank credit and economic development is cyclical and mutually reinforcing. When commercial banks optimize their lending practices, they lower the cost of capital for enterprises, encourage technological innovation, and stimulate employment. Conversely, inefficient lending practices result in misallocated capital, where non-viable projects receive funding while high-potential industries suffer from credit crunches. This misallocation is often exacerbated during periods of economic transition or market volatility, where traditional collateral-based lending fails to capture the true cash flow potential of modern business models. Consequently, modern banking literature emphasizes the shift from traditional asset-backed lending toward cash-flow-based and risk-adjusted lending frameworks to enhance the resilience of the financial sector.

An empirical examination of current commercial banking operations reveals several structural vulnerabilities that hinder efficient credit delivery. One of the most pervasive challenges is the over-reliance on historical financial statements and physical collateral. While historical data provides a retrospective view of a borrower's financial health, it fails to account for real-time market shifts, supply chain disruptions, and forward-looking operational risks. This lag in information often results in delayed risk recognition, causing a gradual accumulation of non-performing loans (NPLs) that erode bank capital and restrict future lending capacity. Furthermore, rigid collateral requirements alienate small and medium enterprises (SMEs) and service-sector businesses, which possess significant intellectual and operational capital but lack substantial physical assets to pledge.

In addition to credit risk bottlenecks, operational inefficiencies represent a substantial drain on banking profitability and customer satisfaction. Traditional loan approval processes are characterized by excessive bureaucracy, redundant documentation, and multi-layered hierarchical decision-making. These prolonged turnaround times not only increase the operational costs for the bank but also drive high-quality corporate borrowers toward alternative financing mechanisms, such as corporate bonds or venture capital. The high cost of processing loans manually also makes micro-lending and small-business financing economically unviable for many large commercial banks, thereby limiting financial inclusion and restricting the diversification of the bank's overall loan portfolio.

The challenge of credit risk management is further complicated by macroeconomic vulnerabilities and regulatory pressures. Commercial banks operate under stringent global standards, such as the Basel frameworks, which mandate specific capital adequacy ratios and risk-weighted asset calculations. When banks lack sophisticated internal credit scoring systems, they tend to adopt an overly conservative lending posture to comply with regulatory thresholds, which inadvertently stifles credit availability in the wider economy. Alternatively, if risk management systems are too weak, banks accumulate toxic assets that necessitate aggressive provisioning, ultimately diminishing their profitability and weakening their competitive position in the international financial market.

The integration of Financial Technology (FinTech) represents the most significant paradigm shift in modern banking history and serves as the cornerstone for improving lending practices. Digital transformation allows commercial banks to transition from manual, subjective credit evaluations to automated, data-driven decision-making systems. By leveraging big data analytics, banks can now process vast amounts of unstructured non-traditional data, including transactional histories, utility payments, and digital footprints. This wealth of information enables the construction of highly accurate predictive models that assess a borrower's probability of default with greater precision than traditional credit scoring methods, thereby opening new lending channels for previously unbanked or underbanked segments of the population.

Artificial intelligence and machine learning algorithms have fundamentally redefined credit risk modeling by introducing dynamic, real-time risk assessment capabilities. Unlike static regression models that require periodic manual updates, machine learning algorithms continuously learn from new data inputs, automatically adjusting risk parameters as market conditions change. This continuous calibration allows banks to detect early warning signs of borrower distress long before a default occurs, enabling proactive loan restructuring and risk mitigation strategies. Moreover, automation dramatically accelerates the loan underwriting process, reducing the time required for credit approval from several days to a few minutes, which significantly lowers operational overhead and enhances the customer experience.

However, the rapid adoption of digital lending platforms also introduces novel risks that commercial banks must carefully manage. The reliance on algorithmic decision-making can give rise to model risk, where flawed assumptions or biased historical training data lead to systematic credit mispricing or discriminatory lending patterns. Furthermore, the decentralization of credit processing through digital channels escalates exposure to cyber security threats, data breaches, and sophisticated identity fraud. To successfully exploit the benefits of technological innovations, commercial banks must establish robust governance frameworks that ensure algorithmic transparency, data privacy compliance, and continuous cybersecurity auditing.

To systematically enhance lending practices, commercial banks must adopt a comprehensive modernization strategy that harmonizes technological adoption with organizational restructuring. The first critical step involves the institutionalization of risk-based pricing models, where the interest rate charged on a loan directly reflects the quantified risk profile of the borrower. This approach contrasts sharply with flat-rate lending strategies, which penalize low-risk borrowers and fail to adequately compensate the bank for taking on higher-risk assets. By implementing precise risk-based pricing, banks can attract high-quality borrowers through competitive rates while building sufficient financial buffers to absorb potential losses from riskier, higher-yield credit products.

Organizational restructuring must also focus on separating the credit origination function from the credit risk assessment function to eliminate conflicts of interest within the lending hierarchy. Loan officers, who are often incentivized by volume-based targets, may inadvertently downplay potential risks to secure loan closures. Entrusting the final risk evaluation to an independent, centralized credit risk management unit ensures an objective analysis of the

borrower's capacity to repay. This structural separation should be supported by continuous professional development programs aimed at upgrading the analytical skills of credit analysts, equipping them to interpret advanced econometric models, evaluate complex corporate cash flows, and navigate digital risk assessment tools.

Finally, the improvement of lending practices requires a collaborative approach between commercial banking institutions, regulatory bodies, and central monetary authorities. Regulatory frameworks must evolve in tandem with technological advancements, providing clear legal guidelines for digital collateral registries, alternative data usage, and cloud-based financial operations. Central banks can support this transformation by establishing robust credit bureaus that facilitate seamless, real-time data sharing across the entire financial ecosystem. When commercial banks have instantaneous access to comprehensive credit histories and cross-institutional financial behavior, the systemic level of asymmetric information decreases, leading to a more transparent, efficient, and resilient credit market that effectively fuels sustainable economic development.

### CONCLUSION

The continuous improvement of bank lending practices remains a fundamental prerequisite for ensuring both the financial sustainability of commercial banks and the broader stability of the national economy. As analyzed throughout this study, traditional credit allocation mechanisms that rely heavily on physical collateral and retrospective financial data are increasingly inadequate in meeting the demands of a dynamic and volatile economic environment. The systemic accumulation of non-performing loans and operational inefficiencies highlights the urgent need for a paradigm shift in how financial institutions evaluate, price, and manage credit risk. To remain competitive and resilient, commercial banks must move toward proactive, cash-flow-based lending methodologies and implement robust risk-based pricing strategies that align interest rates with the actual risk profile of the borrower.

The structural transformation of lending operations is now inextricably linked to digital transformation. The integration of advanced technological solutions, including artificial intelligence, machine learning algorithms, and big data analytics, offers unprecedented opportunities to mitigate asymmetric information, automate underwriting processes, and reduce operational overhead. However, technology alone cannot solve structural banking vulnerabilities. Successful modernization requires a balanced approach that combines digital adoption with organizational restructuring, such as separating credit origination from risk assessment, and upskilling human capital to interpret complex predictive data models.

Ultimately, creating an efficient and resilient credit ecosystem depends on joint efforts between commercial banks, monetary authorities, and regulatory bodies. Regulators must establish flexible frameworks that support financial technology integration while ensuring data privacy and mitigating cybersecurity threats. By expanding the infrastructure of centralized credit bureaus and legalizing alternative data sources for credit scoring, the banking sector can reduce systemic risks and significantly increase financial inclusion for small and medium enterprises. Implementing these comprehensive reforms will transform bank lending from a traditional administrative function into a highly strategic engine for sustainable economic development.

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