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FOREIGN EXPERIENCES IN IMPROVING THE EFFICIENCY OF INCOME AND COSTS OF COMMERCIAL BANKS

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Abstract

In this scientific article, the issues of increasing the efficiency of income and expenses in the activity of commercial banks are studied on the basis of foreign experiences. The author critically analyzed the factors affecting the financial stability and profitability of banks, studied modern financial management tools and cost optimization strategies used in developed countries.

The article analyzes the mechanisms developed in the practice of foreign banking to diversify sources of income, balance profits from active and inactive operations, reduce costs and increase operational efficiency through the effective use of digital technologies. In particular, fintech solutions, automated risk management systems, the use of outsourcing services, and the impact of electronic payment systems on revenues and expenses were studied separately.

Keywords: Bank income, bank expenses, assets, commercial banks, credit, foreign banks, asset risk level.

Introduction

Globally, the increase in the volume of loans directed by commercial banks to the real sector has a positive impact on strengthening their financial stability and increasing profitability. However, a number of factors—such as the global pandemic, climate change, financial and economic instability, and the growing share of non-performing loans in banks' credit portfolios—have significantly

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reduced the effectiveness of using commercial banks' assets. In particular, in 2023 the share of non-performing loans exceeded 10 percent in 12 countries worldwide, reaching 63.51 percent in San Marino, 41 percent in Ukraine, 26.98 percent in Greece, and 10.09 percent in Kyrgyzstan. This situation necessitates conducting research on the given topic.

Worldwide, a number of criteria have been introduced to assess the efficiency and quality of banks' assets. At the same time, increasing attention is being paid to scientific research aimed at improving asset and capital profitability in commercial banks, stress testing, and reducing asset-related risks. In particular, positive results have been achieved in improving the quality of commercial bank assets, increasing profitability, and diversifying credit portfolios. However, under modern conditions, the specific features of improving asset efficiency in commercial banks have not been sufficiently studied. All of this requires comprehensive scientific research on financial instruments and the impact of unexpected risks on commercial banks.

Materials and Methods

Among foreign scholars, as well as economists from CIS countries, who have conducted research on bank revenues and expenses, their sources of formation, and accounting practices, the works of L. Batrakova, G. Beloglazova, Yu. Veshkin, O. Efimova, E. Kozlova, G. Korobova, O. Lavrushina, D. McNaughton, I. Peshchanskaya, Ya. Sokolov, F. Steven, and A. Sheremet deserve special mention. In addition, issues related to accounting for commercial banks' revenues and expenses have been addressed in the works of Uzbek economists and practitioners such as F. Abduvakhidov, Yo. Abdullaev, T. Qoraliev, A. Vakhabov, K. Juraev, A. Ibragimov, Yo. Mahmudalieva, I. Murugova, K. Navruzova, S. Norkobilov, U. Ortikov, N. Rizaev, and Z. A. Umarov.

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Analysis and Results

In foreign banks, improving the efficiency of revenues and expenses primarily focuses on increasing the share of risk-weighted assets in the structure of balance-sheet assets. Although risk-weighted assets are associated with varying degrees of potential loss for banks, they also provide opportunities to generate higher income. The composition of a bank's risk-weighted assets includes short- and long-term loans, investments in government and corporate securities, as well as factoring, trust, forfaiting, leasing, and credit-lease operations.

In foreign banks, these assets are classified into different categories depending on their level of risk. It should be noted that the higher the risk level of bank assets, the higher the potential income generated from them. Various criteria are applied to determine their efficiency. The following figure presents the main criteria used to assess asset efficiency in foreign countries.



Figure 1. Criteria for Determining the Efficiency of Revenues and Expenses in Foreign Banks

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Figure 1 presents the main criteria used to assess the effectiveness of income and expenses in developed foreign banks. From the figure, it can be seen that in determining the effectiveness of bank assets, the main focus is on the asset profitability ratio, and this ratio is one of the important criteria. This ratio determines the level of profitability of bank assets, that is, what part of bank assets is profitable.

It is known that the importance of the funds involved in the resources of commercial banks is important. It is important what part of funds attracted by banks is placed in active operations, to be more precise, in risky assets. In the practice of international banking, if more than 75 percent of the time deposits involved are placed in loans, this indicates that the bank is implementing an aggressive credit policy, if this indicator is below 65 percent, it means that the bank is implementing a moderate credit policy.

One of the main asset operations of banks is their investments in securities. Along with the profitability of securities, their liquidity is also taken into account. If the share of government securities in the structure of a bank's investments in securities is high, this indicates that the bank's financial condition and level of profitability are stable. Also, diversification of investments in securities by maturity makes it possible to assess the current financial condition of the bank, while assessing the financial stability of issuers of securities issued by the bank in terms of changes.

In international banking practice, the classification of assets by sector is also an important indicator, and special attention is paid to this indicator when determining the efficiency of assets. For this, attention is paid to what share of the total loans granted falls on which sectors. These indicators allow not only to assess the efficiency of the bank's assets, but also to assess the credit policy in terms of the level of risk, as well as the liquidity and profitability of the borrower in terms of its solvency.

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Placement of the bank's risky assets by terms is also one of the factors that directly affect the efficiency of assets. From this point of view, it is important what share of risky assets in foreign banks are placed in long-term assets and what part in short-term assets.

The results of analyzes and studies show that in the practice of foreign banks, determining the efficiency of bank assets is carried out at the micro level and at the macro level. Micro-level determination of bank asset performance is for the benefit of banks' shareholders, depositors and investors.

In the table below, we look at the level of return on assets of Industrial and Commercial Bank, which is China's largest commercial bank.

Table 1 Composition, share and dynamics of assets of the Industrial and Commercial Bank of China, (as of January 1, share in interest account)

Balance items	2019	2020	2021	2022	2023
Loans (4.45%)	57,7	56,7	56,2	56,7	57,7
Investment (3.6%)	17	18	17,5	18	16,5
Demands on the Central Bank (1.55%)	12,4	12	11	13,4	10,2
Claims on other banks (3.12%)	7	6,5	7,4	5,1	7
Total earning assets	94,1	93,2	92,1	93,2	91,4
Total non-performing assets	7,2	8,3	9,5	8,1	10,2
Provision for possible losses	-1,3	-1,5	-1,6	-1,3	-1,6
Total assets	100	100	100	100	100

As can be seen from Table 1, we can say that the assets of the Industrial and Commercial Bank of China are very efficiently placed both in terms of income and liquidity. Since the average share of assets allocated to loans, which are considered risky assets, during the analyzed period was 57 percent, in addition, the average share of the bank's funds allocated to investments was 17.4 percent as of January 1, 2019-2023. This situation not only provides the bank with the opportunity to receive stable income, but also allows it to cover its high need for

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liquid funds, since highly liquid securities in the structure of investments can be easily converted into cash as a result of their rapid sale on the securities market. The table below provides information on the composition and share of assets of Sberbank, the largest bank in Russia, as of January 1, 2019-2023. It is worth noting that Sberbank of Russia is the largest bank in the country, 51% of which is state-owned. Its share in the country's banking services market as of January 1, 2023 is 31.9% in corporate loans, 42.6% in retail loans, and 45.2% in deposit attraction. The bank has more than 102.3 million individual and more than 3 million corporate clients.

As is known, when commercial banks provide consumer loans to the population, the average wage per capita in the country is an important indicator. Because the sufficiency of the population's wages is taken into account when repaying loans received from banks as consumer loans. From this point of view, the average wage in recent years has been 703 US dollars in the Czech Republic, 601 US dollars in Poland, 520 US dollars in Hungary, 395 US dollars in Russia, and 250 US dollars in Kazakhstan, while this indicator in Uzbekistan in 2023 amounted to 402.97 US dollars. When assessing the importance of commercial bank loans in the development of the real sector in the country, the ratio of loans issued by banks or bank assets to GDP is considered. Of course, in this regard, positive changes are taking place in our country, in particular, in the next five years, the amount of loans directed to the economy by the banking system increased from 47.8 percent in 2021 to 54 percent by 2023 compared to the country's GDP. In this regard, it is important to increase the volume of not only loans, but also total risk assets. For example, in 2023, the risk assets of banks were 4 times higher than the country's GDP in Japan, 3.5 times in the USA, and 2.5 times in China. It can be seen from this that the question of increasing the weight of commercial banks' assets of the countries whose economy is going through a period of transition is considered an urgent task, and a number of things should be done in this regard.

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Conclusions

The results of the research showed that the approaches and innovative solutions used in international practice play an important role in increasing the efficiency of commercial banks' incomes and costs. The experience of countries with a developed banking system has been analyzed, and it has been proven that strategic approaches to ensure financial stability in banking activities, income diversification, cost planning and management are effective.

In particular, commercial banks of foreign countries are achieving minimization of operational costs through the wide implementation of digital technologies, automated analysis tools and intelligent management mechanisms. And in countries like South Korea and Malaysia, the focus is on expanding banking revenue streams through fintech solutions, remote service platforms, and competitive innovation.

At the same time, it was noted that in these countries, strategic reformatting of active and inactive operations, retraining of human resources, rational use of outsourcing services, and the introduction of integrated risk management systems are of great importance in optimizing banking costs.

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