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### **IMPROVEMENT OF BANK'S CREDIT POLICY IN THE CONDITIONS OF DIGITAL TECHNOLOGIES**

The article defines the nature and role of credit policy, substantiates the necessity of its improvement in conditions of digital technologies. The basic principles and functions of credit policy are outlined. It is concluded that the main principles of credit policy should be: the reliability and profitability of the placement of funds, as well as the principles of sound lending. The goals of the credit policy and directions of its implementation are determined. The share of credit operations in the general structure of assets of domestic banks is estimated. It is noted that commercial bank credit policy is an integral part of the strategy and tactics of the NBU and the government. It is proposed the measures are to improve the efficiency of current commercial banks and improve their lending policies.

**Keywords:** credit policy, digital technologies, commercial bank, financial problems, credit risk, development strategy, lending, bank resources, functions of credit policy, standards, efficiency gains.

Tab. 2, Lit. 21

**Карпова Т.С.**

### **ВДОСКОНАЛЕННЯ КРЕДИТНОЇ ПОЛІТИКИ БАНКУ В УМОВАХ ЦИФРОВИХ ТЕХНОЛОГІЙ**

У статті визначено сутність та роль кредитної політики, обґрунтовано необхідність її вдосконалення в умовах цифрових технологій. Наведено основні принципи та функції кредитної політики. Зроблено висновок, що основою кредитної політики мають стати головні принципи: надійність та прибутковість розміщення коштів, а також принципи раціонального кредитування. Визначено цілі кредитної політики та напрями її реалізації. Зроблено оцінку частки кредитних операцій у загальній структурі активів вітчизняних банків. Зазначено, що кредитна політика комерційних банків є невід'ємною складовою стратегії і тактики НБУ та уряду. Запропоновані заходи щодо підвищення ефективності поточної діяльності комерційних банків та вдосконалення їх кредитної політики.

**Ключові слова:** кредитна політика, цифрові технології, комерційний банк, фінансові проблеми, кредитний ризик, стратегія розвитку, кредитування, ресурси банку, функції кредитної політики, нормативи, підвищення ефективності.

**Карпова Т.С.**

### **СОВЕРШЕНСТВОВАНИЕ КРЕДИТНОЙ ПОЛИТИКИ БАНКА В УСЛОВИЯХ ЦИФРОВЫХ ТЕХНОЛОГИЙ**

В статье определена сущность и роль кредитной политики, обоснована необходимость ее совершенствования в условиях цифровых технологий. Приведены основные принципы и функции кредитной политики. Сделан вывод, что основой кредитной политики должны стать главные принципы: надежность и доходность размещения средств, а также принципы рационального кредитования. Определены цели кредитной политики и направления ее реализации. Произведена оценка доли кредитных операций в общей структуре активов отечественных банков. Отмечено, что кредитная политика коммерческих банков является неотъемлемой составляющей стратегии и тактики

НБУ и правительства. Предложенные меры по повышению эффективности текущей деятельности коммерческих банков и совершенствования их кредитной политики.

**Ключевые слова:** кредитная политика, цифровые технологии, коммерческий банк, финансовые проблемы, кредитный риск, стратегия развития, кредитования, ресурсы банка, функции кредитной политики, нормативы, повышение эффективности.

In our country, the issue of the need to develop a credit policy to date remains acute and there is still no unambiguous answer to it. Most Ukrainian banks often fit formally to develop their own development strategy, defining basically current goals in lending that do not formulate strategic objectives of the bank and do not conduct relevant market research. However, a bank that does not think about development prospects, which is oriented only on current trends, cannot develop due to the changing economic situation in the country. All provisions of credit policy should be backed up by practical measures, which together represent the mechanisms of realization of credit policy. All measures designed to realize the planned credit policy must be considered and approved by the bank's management, and the relevant decisions are issued in the form of internal documents. The basis of credit policy should be two main principles: the reliability and profitability of the placement of funds. The bank's conservative credit policy and experience in the market of credit services will allow the bank to combine an increase in the loan portfolio with a high level of its reliability. Thus, credit policy establishes approaches, defines the general principles of lending to the clients of a commercial bank, determines the types of loans granted (loans), the powers of the various levels of the bank for the adoption of these issues, some operating details of credit procedures. That is why today the issue of improving the bank's credit policy is particularly acute given the new challenges. The traditional banking model has changed significantly over the last few years, trying to adapt to the new digital age, forcing banks to develop their business models.

At the present stage, trends in the development of bank credit policy are investigated in the – writings of many domestic and foreign scholars and practitioners, in particular O. Baranovsky, A. Belyakov, O. Vasyurenko, V. Vitlinsky, O. Vovchak, N. Voloshina, O. Geytsa, A. Gerasimovich, V. Hruska, O. Dzyubluk, M. Dmitrenko, S. Kabushkina, M. Kozoriz, L. Kuznetsova, V. Mishchenko, A. Moroz, Z. Morsman, S. Naumenkova and others. The relevance of the topic of the article is due to the fact that at the present stage of economic development one of the important ways of Ukraine's exit from the crisis is the further development and improvement of the commercial banks' credit policy.

Consequently, to date, the principles of rational lending, which require a reliable assessment not only of the object, subject and guarantee quality, but also of the level of margins, profitability of credit operations and risk reduction, play an important role. We think, that to define and approve the credit policy means to formulate and consolidate in the necessary internal documents the position of the management of the bank on the priorities of the bank in the credit market and the definition of the objectives of lending.

The purpose of the article is to develop directions for improving the commercial bank's credit policy in modern conditions, aimed at maintaining the profitability and risk level of the bank's credit activity at the set target level, without threatening the financial stability and competitiveness of the bank.

In modern native science, there is no unambiguous interpretation of the term "credit policy of the bank". The range of assertions varies from the position that credit policy is a system of principles established by the central bank and the state in the credit sphere with the purpose of regulating the credit process in banks; credit policy should form the content of the loan portfolio and establish standards for making credit decisions. Often, credit policy is considered by Ukrainian scholars and practitioners as a strategy and tactics of the bank in the field of credit

operations. According to most experts, this definition only partially determines the essence of credit policy and allocates its individual components – the strategy and tactics of credit operations. In addition, the credit policy of the bank must take into account an additional set of components [1].

The Association of Ukrainian Banks also defines the credit policy of a commercial bank as a "strategy and tactics of the bank for attracting funds and directing them to lend to the clients of the bank (borrowers) on the basis of principles: return, urgency, differentiation, security, and payment." Among scholars-economists is the opinion that the economic essence of "credit policy" manifested in the management of the movement of credit in all its forms and varieties. That is why the credit policy is a policy both in the field of granting a loan (all of its varieties) and its receipt, as well as in the field of credit risk assessment in conducting these operations [2]. The purpose of improving credit policy is to analyze the impact of the crisis on the banking sector of Ukraine's economy, in particular the state and dynamics of lending activities of banks with foreign capital, and the identification and resolution of a number of problems that accompany such activities [3]. In accordance with the basic provisions of the credit policy, commercial banks carry out credit operations within the limits of available credit resources and are responsible for their obligations to clients with all their property and their own funds. The credit resources of the bank means the totality of the bank's own, borrowed and borrowed financial resources that are in the direct disposal and used at its discretion to carry out credit activities. The most important elements and principles of the organization of credit policy of the bank, the content of these principles is presented in Tab. 1.

Table 1- Principles of organization of credit policy in a bank

Fundamentals	Feature principle
Scientific validity	the principle is necessary for researching and evaluating exactly those features of the banking sector that are professionally important for this type of activity
Continuity	is that the assessment of assets and liabilities of the bank is based on the assumption that its activities will continue in the future
Complexity	under complexity it is necessary to understand the interdependent and proportionally mutually agreed development of the system as a whole, which ensures the connection of all subsystems and elements
Dynamic	the banking system is constantly evolving, adapting to changes in the economic situation in the country
System approach	Reducing most of the complex tasks to obtain a project result that can be used to improve the quality of the solution to one or more major tasks
Optimality	the choice of the optimal plan option from the set of acceptable options
Objectivity	information must be objective in relation to different users
Effectiveness	all participants in the banking system should strive to achieve the goals
Feasibility and commitment	target orientation of programs to ensure end results

One can say that the credit policy of a commercial bank is a combination of its credit strategy and credit tactics. The strategy defines the main principles, priorities and goals of a particular bank in the credit market, while tactics are specific financial instruments used by the bank to realize its objectives in the implementation of credit agreements, rules for their implementation, and the procedure for organizing the credit process. The bank, while determining the priority lines of lending, is guided by the ability of the lending facility to develop steadily and compete on the market. The loan contract defines the rights and obligations of the bank and the

specific borrower, taking into account the nature of the loan granted, the size and procedure for paying interest on the use of the loan, the type of collateral, the procedure and timing of its repayment, the economic responsibility of the parties for non-fulfillment of obligations assumed. The manifestation of the essence of the commercial policy of a commercial bank lies in its functions. Conditional, they can be divided into two groups: general, inherent in various elements of banking policy, and specific, distinguishing credit policy from other elements of banking policy [4].

In the economic literature identified the main functions of credit policy, the following (tab. 2):

Table 2 - Functions of credit policy

Functions of credit policy	Characteristic
1. Commercial function	It is in receiving the bank's profit from conducting various operations, in particular, credit.
2. Control function	It manifests itself in the fact that credit policy allows to control the process of attracting and using credit resources by banks and their clients, taking into account the priorities defined in the credit policy of a particular bank.
3. Stimulating function	It is in the stimulation of the accumulation of temporarily free cash in banks and their rational use. The incentive for a bank's client to stay for a certain period of time from current consumption is the possibility of obtaining additional income on funds deposited in a bank for a deposit, and the ability to obtain a loan from a bank is essential to cover the temporary need for additional funds, with the incentive to repay the debt in the maximum short terms are the need to pay interest on the bank for using the loan. For the bank, the stimulating function of credit policy manifests itself in the fact that banks tend to attract the cheapest resources in the market for a relatively long time and place them with maximum benefit.
4. Specific functions	This is a function of optimizing the credit process. The function of this function is aimed at achieving the goal of banking policy.

Thus, credit policy creates the basis for the organization of the credit process and defines:

- priority lines of lending and the specifics of the bank's activities in the credit market;
- goals, according to which a loan portfolio is formed (types, term, volume and risk of loans granted);
- a description of the standards by which the quality of loans is determined;
- the level of permissible risk;
- criteria of favorable and unfavorable loans;
- opportunities of the bank and its clients;
- rules for the creation of reserves for the reimbursement of possible losses under bank lending operations;
- the procedure for using the reserve for non-standard loan arrears;
- the main rules for accepting, assessing and implementing collateral under a loan;
- powers and responsibilities of credit department employees, etc.

The development and implementation of a bank's credit policy should aim at achieving the following objectives:

- only such a kind of risk should be allowed that it allows to create high quality assets and ensure a constant target profitability level;
- to create a highly professional team of loan officers who provide high quality loan portfolio of the bank;
- loans to finance economically viable, cost-effective projects that are in line with the

Bank's strategic objectives;

- avoid the use of highly competitive, but unjustified methods of lending;
- ensuring a balanced and optimal use of credit resources;
- achieve an optimal balance between the growth of the volume of the loan portfolio and the pace of improvement of its quality;
- implementation of all requirements and normative indicators set by the National Bank on the volume of credit investments, the maximum amounts of loans granted to one borrower;
- expansion of the client base by improving the quality of customer credit services and others.

At present, there are serious problems in the activities of commercial banks in Ukraine. This is due to the reasons for financial distress in the banking system, which depends on the general state of the state's economy, as well as the lack of necessary experience and trained personnel for the banks in the conditions of market transformations. The main losses to commercial banks brings credit activity, the attraction of too expensive resources and the impossibility of cost-effective placement. The lack of opportunity to receive an inflow of inflationary nature now demands from the bank a serious approach to the quality of the loan portfolio. In the structure of assets of commercial banks, credit operations amount to approximately 15%. Overdue loans amount to 17%, prolonged – 19%, unsecured loans – 8%, bad repayments – 1% in the total amount of loan arrears. Indicators of the structure of debt show a significant increase in overdue and prolonged loans. The increase in the statutory funds of commercial banks to the amount required by the NBU (1 mln. Euro) is also a serious problem facing the banking system, but such an increase in authorized banks' funds will contribute to increasing the reliability and stability of the Ukrainian banking system as a whole [5]. One of the main directions of improving the efficiency of the bank's credit policy is its effective management, which involves balancing and minimizing the risk of the whole portfolio and controlling the structure of credit risk inherent in one or another market, client, lending instrument, credit and operating conditions [6].

The effectiveness of managing the credit policy of the commercial bank can be largely achieved through careful analysis of each stage of the credit portfolio management process. Each bank chooses its own credit policy, analyzes the markets of loans, creates a loan portfolio and evaluates its efficiency, but does so in accordance with the current banking legislation. Credit policy is an important tool for achieving the goals and objectives defined by the bank. Not least the successful implementation and implementation of credit policy depends on the outcome of the banking institution. The credit policy determines the organization of credit activity of the banking structure, becomes the basis for the whole process of lending, determines its parameters and features. A well-developed lending process, the introduction of a credit management system and possible risks, identifying key priorities, goals, objectives, and methods and methods for implementing credit policies, will help to maximize the return on both lending operations and the overall performance of the bank [7].

A credit strategy, as part of a bank's credit policy, forms the boundaries in which all future managerial decisions must be implemented. To develop an effective credit strategy, it is necessary to use a variety of scientifically and practically sound approaches that take into account the main and secondary, internal and external factors. The result of this strategy is the formation of a long-term plan, which should reflect the system of new programs of activity of the credit units of the bank and ensure achievement of the set goals. A properly designed strategy will allow the bank not only to survive in difficult conditions but also to develop successfully [8]. The credit policy is prone to all major types of risk that accompany financial activities: liquidity risk, interest rate risk, and credit risk. Therefore, it is necessary that the management of credit policy is

carried out on the basis of the use of methods and methods for minimizing credit risk [9]. And, according to a study, banks today have a high risk of lending. Since the beginning of 2017, new requirements for the calculation of credit risk banks have been fully operational. Since, from the beginning of July 2016, banks applied the requirements of the NBU Regulation "On Determining the Size of Credit Risk" [10] in the test mode. At the same time, in order to take into account the peculiarities of working with borrowers after the crisis, the NBU together with banks has worked out a number of measures and made the necessary adjustments to the situation.

The most significant changes to the Regulations [11]:

- the wording is clarified and the implementation of certain features of high credit risk is postponed until 2019;

- credit risk assessment of swap transactions is regulated. A list of conditions under which the credit risk for such operations does not arise is established;

- the list of instruments for guaranteeing the fulfillment of obligations of the debtor by other members of the group, to which the borrower belongs, is expanded; in particular, the possibility of using a financial guarantee and irrevocable standby letters of credit is provided;

- specific requirements for collateral are specified;

- obligatory insurance of all items of mortgage until 2019 is delayed.

Therefore, today every bank should be cleverly suited to developing its own credit policy, relying on the priority of minimizing the level of risk over the possible profitability of a credit transaction. The loan portfolio of the bank is documented in advance by the credit policy, the strategy and tactics of the bank for raising funds and directing them to lend to the bank's clients on the basis of lending principles [12]. Currently, certain patterns and trends can be identified at the banking system level. Thus, a high proportion of loans in banks' assets leads to an increase in the sensitivity of the banking system to external shocks, resulting in a high level of loss of banking activity.

Thus, in the current conditions of development of the domestic banking sector, the regulatory and supervisory approaches of the NBU should be focused on ensuring the macroeconomic stability of the functioning of the banking system by reducing the risks of banking activities, based on the clear execution of their functions by the banks in relation to lending to the economy and compliance with the basic economic standards, among which [13]:

1. Capital ratios: the minimum size of regulatory capital – S1 (500 million UAH); sufficiency (adequacy) of regulatory capital – S2 (not less than 10%);

2. Liquidity norms: instant liquidity – S4 (not less than 20%); current liquidity – S5 (not less than 40%); short-term liquidity – S6 (not less than 60%);

3. Credit Risk Standards: maximum credit risk per one counterparty – S7 (not more than 25%); large credit risks – S8 (no more than 8 times the size of regulatory capital); the maximum amount of credit risk for operations with related persons (no more than 25%);

4. Norms of investment: investing in securities separately for each institution – S11-1 (not more than 15%); total investment – S12 (no more than 60%).

Credit activity of banks plays a key role in the process of ensuring the investment activity of economic entities, the provision of households with the necessary funds and in general the growth and development of the economy. In turn, the credit policy allows to realize the short-, medium- and long-term goals of the bank in the formulation and implementation of tactical and strategic tasks for attracting funds and directing them to lend to borrowers (customers), in close interdependence with other policies [14]. At the current stage in Ukraine, most banks have developed a methodology and methodology for managing credit policy, but it needs to be substantially refined. This is not only about strengthening measures to improve the overall level of business activity, but also integrated management of credit risks. A key role in the latter may

be the customer-oriented approach, the application of new bank marketing tools, open contract work, and the restoration of customer confidence by increasing bank deductibility [15]. At the same time, it should be emphasized that the credit policy of commercial banks is an integral part of the NBU's and government's policies and policies, which requires appropriate rational and scientifically sound measures in the financial market of the country, in particular as regards the supervision of banking institutions, the strengthening of monitoring and reporting requirements, reassessment of the principles and methodological foundations for the restructuring of troubled banks, compliance with international standards, the effectiveness of the communication component of activity, as well as transparency of activity banking regulators [16].

The main directions of further development of lending in Ukraine should be to use best practices in the field of assessing borrowers' creditworthiness, legislative regulation of relations between the subjects of the credit process, in particular between collectors and debtors, stimulating borrowers to increase their credit rating, raising the level of financial literacy of the population and confidence in banking system. Regulatory and supervisory approaches of the NBU in the field of consumer lending should focus on ensuring the stability of the functioning of the banking system by reducing the risks of banking activities; formation of normative legal documents, rules and conditions for the organization and management of the lending process; ensuring effective supervision and quality control of lending [17]. Today, further development of lending is of great importance. After all, in recent years, the quality of credit policy of banks has declined significantly. According to the results of the study, it was determined that credit activity is currently risky, while the quality of the loan portfolio is questionable; in the dynamics, quality indicators reflect a negative trend due to the growth of inflation and the increase in the share of problem debt. Taking into account the high level of credit risk, it is expedient to increase the efficiency of programs of statistical monitoring and control of borrowers [18].

To improve the efficiency of the current activities of commercial banks, it is necessary [19]:

- continue work on increasing capitalization, including through primary public offering of shares among a wide range of investors, including the population. Ensure high quality of capital;

- continue further the development of risk management systems in accordance with international practice, adequately assess losses, including potential, taking into account the profile and level of risks, as well as the promising state of the market environment, using modern methods of risk assessment, including stress testing, to this end;

- pay special attention to the issues of risk management in new fast-growing segments of the market of banking services and financial markets, including consumer lending;

- provide integrated approaches to risk management, taking into account their interconnection and mutual influence;

- further develop the standards of corporate ethics, standards of quality of banking activities and mechanisms for monitoring compliance with them, paying particular attention to the quality of the standards developed, to facilitate their voluntary introduction into banking practice, while preventing an increase in unjustified burden on banks;

- take an active part in programs to increase financial literacy of the population.

The Ukrainian banking system needs to evolve dynamically to keep pace with the rapid changes in the economic and social environment. One of the key issues of such development will be digitalization. It will remain a central issue for the Ukrainian banking sector, which will be forced to develop a more modern range of services to meet the country's new needs, including in the area of insurance, asset management and structural products [20]. Dynamics will be

extremely important, because customers need quick answers and easy decision making, especially since competition from new online service providers is steadily increasing for banks. Tariffs and their composition should also be reviewed, since pricing is becoming more and more important. Together with the growth of customer expectations, the quality of services will increase [21].

To date, the external conditions in which the bank operates is fundamentally changing: modern technologies are being introduced, competition is intensifying for customers, bank tools are regulated, etc. It is because of this that there is a need for managing the bank's credit policy through supervision and control. It is also important that in the current conditions of development of the banking sector, regulatory and supervisory approaches, the NBU should focus on ensuring the macroeconomic stability of the functioning of the banking system by reducing the risks of banking activities on the basis of a clear implementation of the functions of banks in terms of lending to the economy and adherence to the basic economic standards. Thus, banking in Ukraine requires substantial reform and improvement of the credit policy, which should ensure the restoration of the financial sector and restore the rate of economic growth in Ukraine.

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