

**CREDITING OF PHYSICAL PERSONS IN BELARUS:  
ACTIVITIES AND RECOMMENDATIONS FOR IMPROVEMENT**

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*In the article the model of lending to physical persons is considered, methods of lending are analyzed. The need to improve the assessment of the creditworthiness of the customer is described. The development of the system of Bank insurance is proposed.*

As the experience of the development of domestic and foreign banks shows, the problem of the credit system improving, including determining the level of creditworthiness of the applicant, currently, does not lose its relevance, and therefore requires additional theoretical and methodological rethinking. This is not only an increase in the specific weight of credit portfolio in the total volume of active operations of banks, and increasing interest in credit worthiness of the applicant from the controlling organizations.

Analysis of laws and regulations, domestic banks used in the daily practice shows that studying the credit process, particularly in assessing the creditworthiness of individuals has received little attention. The actual financial condition of an applicant will not be considered as one of the criteria of credit risk management. The legislation does not require banks to assess correctly the creditworthiness of the applicant. According to the rules offered there are simple calculations of several factors. It seems that this point of view, under no circumstances cannot be considered correctly [1–3].

Currently, in the context of universalization of banking it is necessary to pay more attention to the development of new tools – modeling of the nonlinear dependencies in the evaluation of credit risk, including neural networks that mimic the human brain. Unfortunately, from the point of view of the development of external sources of information on the activities of the borrowers, the domestic practice of banking lags far behind the practice of economically developed Western countries.

Despite coming into force of the decision of Board of Belarusian National Bank from 27.05.2009 № 67 "On the formation of credit histories and providing credit reports", factors of risk in consumer lending still lack reliable information about the applicant and the imperfection of methods of assessing their creditworthiness, poor communications in the area of retail services.

The borrowers – individuals face difficulties associated with the calculation of the real cost of servicing the loan, with incomplete information about the terms for different banks: many of them are poorly informed about their rights and responsibilities for the implementation of the commitments under the credit agreement.

Obviously, when consumer crediting approaches the assessment of credit risk, methods of management must be different from the ones lending to organizations and corporations. Meanwhile, many banks, getting consumer credit, tried to use the same techniques of risk management that was developed by them in lending organizations. This has led to serious distortions in risk assessment of individuals and unnecessarily complicated the decision-making procedure of issuing credit and monitoring of debt [4–5].

Currently, a significant portion of bad loans is due to incorrect rating information. Therefore, the assessment of the creditworthiness of the borrowers is an integral part of the Bank's credit risk management.

In the international practice the research was conducted to identify the impact of factors causing losses of banks when lending to customers and affecting the exposure to credit risk. These studies showed that the most influential of these is the financial position of the borrower (takes 31% of the total influence of all factors).

The Republic of Belarus is characterized by such methods of assessing the creditworthiness as a logical method (the method of expert evaluation) and scoring method (point system).

The logical method is based on an expert evaluation and involves a balanced analysis of the personal qualities and financial condition of the borrower. Under the expert assessments of the creditworthiness of the customer, banks rely on the economic approach, i.e. banks analyze information from the point of view of banking requirements. This analysis assumes a balanced assessment of the personal qualities and financial condition of the borrower.

This method also has its drawbacks: the duration of decision-making on granting of credit; a significant document; the presence of subjectivity when making decisions.

The alternative to expert assessment is the scoring method for the assessment of the creditworthiness of the customer. This method is considered to be the most effective. It is a statistical model that evaluates the likelihood that the borrower will pay their obligations in time. Scoring highlights those characteristics that are most closely related to the reliability or, conversely, with the unreliability of the client.

All information is verified and entered into the scoring system in the form of answers to questions. The questions are divided into blocks, which are individual for each Bank.

The disadvantage of this method is that the Bank is relying on bad credit history of the client, makes a decision not in his favor, without considering the cause of such a credit history (because credit history is not always dependent on the causes that are the direct actions of the borrower).

Thus, we can say that the composition factors in the model are not universal for all banks, as each model has its advantages and disadvantages. Therefore, the choice of a particular method will depend on each Bank. However, the most effective assessment of the creditworthiness of the borrower and credit risk reduction best options is the use of the considered techniques together, which will allow more detailed study of the creditworthiness of the customer.

The development of a system of Bank insurance is also proposed. Analysis of the current state of the domestic financial services sector is the evidence of the urgent need for the development of joint programs of banks and insurance companies (Bank assurance) in the field of life insurance that are attractive and beneficial both for banks and for insurers.

The prospect of joint insurance programs demonstrates many European countries where Bank assurance is the main channel of implementation of programs for life insurance. In countries with centuries of insurance history, such as the UK or Germany, the share of payments for life insurance policies implemented through the Bank assurance, is 13 and 19 percent, respectively.

Expansion of services through the implementation of joint with insurance companies' products will allow banks to:

- attract new customers and satisfy the needs of regular customers;
- get additional profit at the expense of the Commission, as the seller of insurance products;
- expand the range of services in customer service and obtain additional competitive advantages to promote their own programs.
- create a positive image of the Bank.

Due to the above-presented proposals, it will be possible to improve methods of assessing the creditworthiness of individuals, which will allow more detailed study of the creditworthiness of the customer.

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