AMERICAN JOURNAL OF EDUCATION AND LEARNING
ISSN: 2996-5128 (online) | ResearchBib (IF) = 9.918 IMPACT FACTOR
Volume-3| Issue-5| 2025 Published: |30-05-2025|

WAYS TO REDUCE PROBLEM LOANS OF COMMERCIAL BANKS IN THE DIGITAL ECONOMY.

https://doi.org/10.5281/zenodo.15354040

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Abstract

This article explores effective approaches to reducing problem loans in commercial banks within the context of the digital economy. The digital transformation of financial services introduces both opportunities and risks, requiring banks to adopt innovative risk management tools and data-driven decision-making models. The study highlights modern digital tools such as AI-based credit scoring, real-time transaction monitoring, and blockchain technology, evaluating their impact on credit risk mitigation. Recommendations for improving regulatory frameworks and customer transparency are also provided.

Keywords

problem loans, digital economy, credit risk, commercial banks, digital technologies, financial innovation.

1. Introduction

In the digital economy, commercial banks face evolving risks related to loan defaults. Problem loans — non-performing loans (NPLs) — undermine the financial stability of banks and the broader economy. Traditional methods of credit assessment often fail to keep pace with rapidly changing economic environments. The shift towards digital financial services necessitates new approaches to risk management, making it crucial to explore how digital tools can aid in reducing the volume of problem loans.

The increasing complexity of financial products, growing customer expectations, and the emergence of fintech competitors are forcing banks to innovate not only in service delivery but also in internal risk management processes. Digital transformation enables the use of artificial intelligence, big data, and blockchain to improve the accuracy of credit risk assessment, speed up decision-making, and enhance portfolio monitoring. At the same time, the digital environment introduces new challenges — such as cybersecurity threats and data

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privacy concerns — that must be addressed to ensure the safe implementation of these technologies. Therefore, identifying and implementing effective digital strategies to minimize problem loans has become a strategic priority for financial institutions seeking sustainable growth in the digital era.

2. Methods

This study uses a qualitative approach based on the comparative analysis of global practices in managing problem loans with digital tools. Information was collected from financial statements, open regulatory data, and case studies of commercial banks that actively implement digital solutions. To enhance the practical relevance, short interviews with risk managers from selected banks were also conducted.

The analysis focuses on identifying which digital tools have shown the greatest impact on reducing non-performing loans. The key findings are summarized in the table below.

Table 1. Examples of Digital Tools for NPL Reduction

Bank	Digital Tool	Result
DBS Bank (Singapore)	AI-based credit scoring	NPLs in small and medium-sized enterprises (SMEs) reduced by approximately 20% through more accurate credit assessments.
BBVA (Spain)	Real-time loan monitoring	Early detection of potential defaults through continuous loan performance tracking, leading to proactive interventions and reduced NPLs.
ICICI Bank (India)	Big data analytics	Reduced risk in retail loans by analyzing customer spending and repayment patterns, allowing for better forecasting and risk mitigation.
National Bank of Uzbekistan (Uzbekistan)	AI-driven credit scoring & automated loan monitoring	Significant reduction in NPL rates by 15% in retail and microfinance loans, due to improved borrower evaluation and real-time monitoring.
Standard Chartered (UK)	Blockchain for credit histories	Enhanced transparency and accuracy of credit records, reducing fraudulent activities and improving loan quality, leading to a decrease in NPLs.

Explanation:

- **AI-based credit scoring (DBS Bank)**: The use of AI to refine the credit scoring process allows DBS to more accurately evaluate the creditworthiness of small and medium-sized businesses, leading to a reduction in NPLs.
- **Real-time loan monitoring (BBVA)**: BBVA has implemented continuous monitoring of loan performance, which helps detect early signs of default. This proactive approach has led to lower levels of NPLs.

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• **Big data analytics (ICICI Bank)**: By utilizing big data, ICICI Bank can analyze consumer behavior and transaction data to anticipate repayment patterns, thus reducing risks in its retail loan portfolio.

• **AI-driven credit scoring & automated loan monitoring (National Bank of Uzbekistan)**: The combination of AI for better credit assessments and real-time loan tracking has significantly reduced NPL rates in retail and microfinance loans in Uzbekistan.

• **Blockchain for credit histories (Standard Chartered)**: Standard Chartered uses blockchain to maintain transparent and immutable credit histories, improving the accuracy of credit assessments and reducing fraud, which ultimately leads to lower NPL ratios.

3. Results

The research identifies several key digital strategies that have proven effective in reducing problem loans across commercial banks:

• **AI and Machine Learning in Credit Scoring**: Predictive analytics are increasingly used to enhance borrower evaluation. These AI-driven models help identify risk factors early by analyzing historical data, enabling banks to offer more precise credit assessments and early warning systems for potential defaults.

• **Big Data and Customer Behavior Analysis**: By analyzing vast amounts of financial data, including spending patterns and transaction histories, banks can detect early signs of financial distress or default. This allows them to intervene promptly, reducing the likelihood of loans becoming non-performing.

• **Blockchain for Credit Histories**: Blockchain technology is used to create immutable, transparent credit histories. This reduces information asymmetry and enhances trust between borrowers and lenders. It also makes it more difficult for borrowers to hide defaults or engage in fraudulent behavior.

Contribution of Digital Technologies to Reducing Non-Performing Loans (NPLs)

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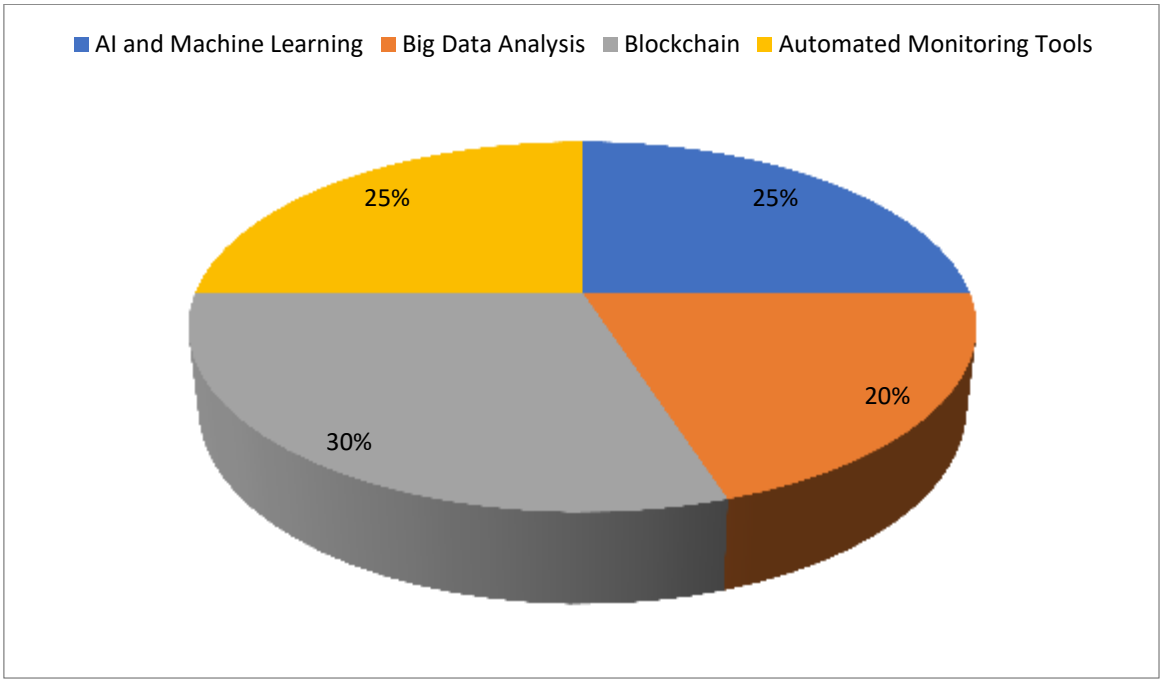

• **Automated Loan Monitoring Tools**: These tools provide real-time tracking of loan performance. Banks can monitor various parameters, such as repayment schedules, borrower behavior, and external economic factors, to identify early-stage risks and intervene before a loan becomes problematic.

Banks that implemented these digital tools reported a **15–25% reduction in NPL ratios** within 1–2 years. These results demonstrate the potential of digital transformation in enhancing credit risk management and improving financial stability.

4. Discussion

The integration of digital technologies into banking operations provides substantial benefits in credit risk management. However, successful implementation requires appropriate regulatory support, investment in digital infrastructure, and staff training. Moreover, ethical considerations related to data privacy and algorithmic fairness must be addressed. Policymakers and bank managers should cooperate to create an adaptive environment that fosters innovation while ensuring financial stability.

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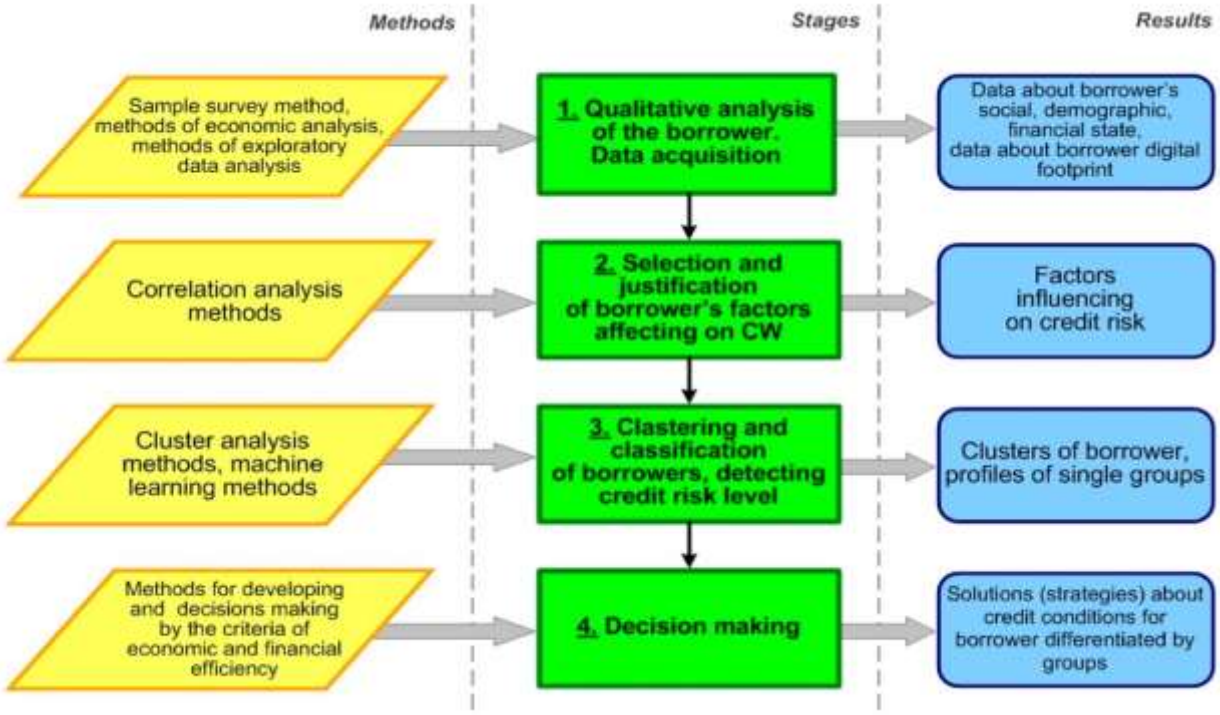

In addition, banks must develop clear digital transformation strategies aligned with their risk management frameworks. This includes updating internal policies, ensuring system interoperability, and establishing robust cybersecurity protocols. Continuous monitoring and feedback mechanisms are essential to assess the effectiveness of digital tools and adjust them in response to evolving risks.

Another important aspect is customer engagement and financial literacy. As banks introduce more automated and digitalized loan processes, clients should be educated about their credit responsibilities, digital security, and the implications of data sharing. Transparent communication helps build trust and reduces the likelihood of strategic default or miscommunication.

Furthermore, collaboration between traditional banks and fintech companies can accelerate the development of innovative credit risk tools, especially in underserved or high-risk market segments. Regulatory sandboxes may serve as a controlled environment for testing such partnerships, balancing innovation and risk containment.

Ultimately, the reduction of problem loans in the digital age depends not only on adopting technologies but also on changing the institutional culture towards data-driven and proactive risk management.

5. Conclusion

Digital transformation offers commercial banks a robust and flexible toolkit for reducing problem loans. Through AI-driven credit assessment, enhanced data analytics, and transparent blockchain solutions, banks can better anticipate, monitor, and mitigate credit risks at various stages of the loan lifecycle. These tools

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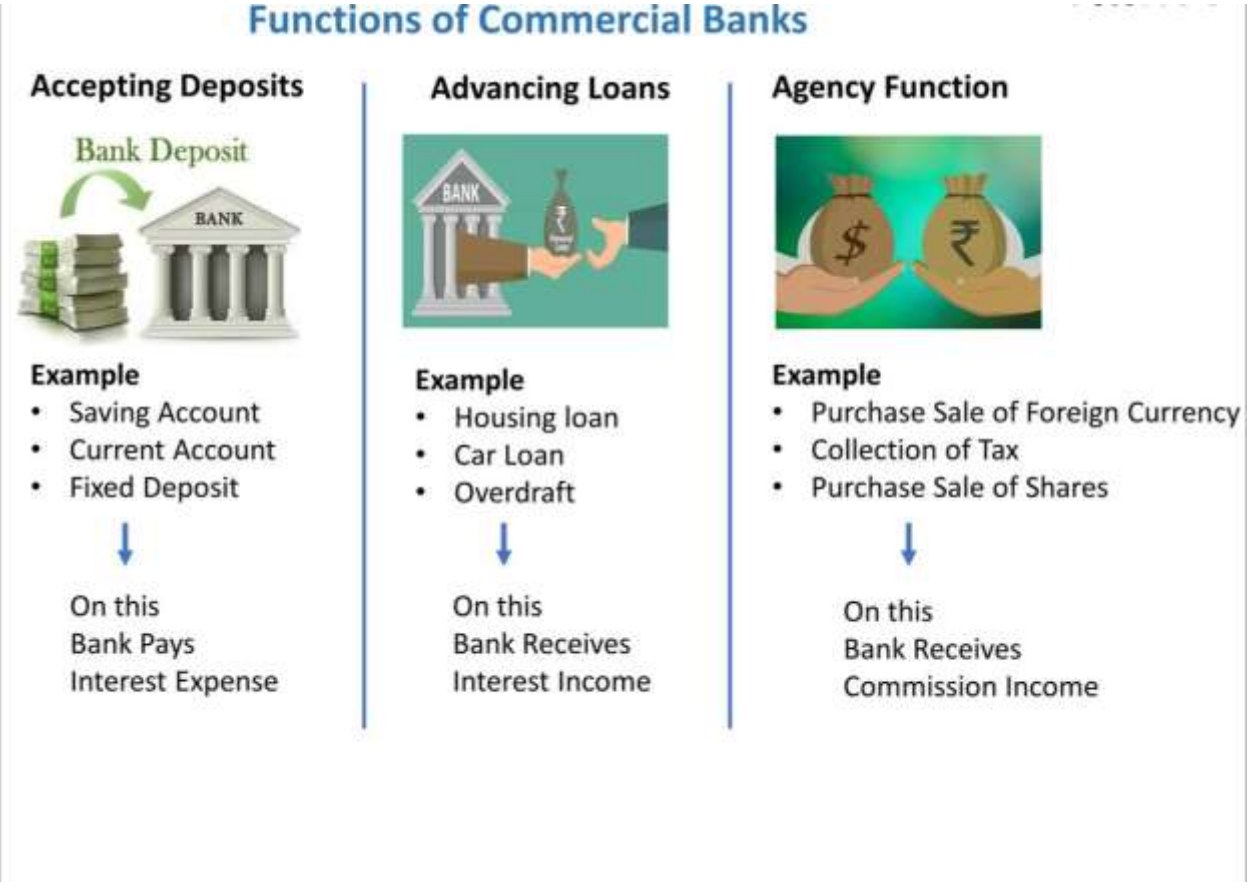
contribute to more accurate borrower profiling, earlier detection of financial distress, and improved recovery strategies.

However, technological solutions alone are not a panacea. Their effectiveness depends on proper implementation, integration with existing banking systems, staff readiness, and regulatory adaptability. Banks must approach digitalization strategically, balancing innovation with operational resilience and ethical responsibility.



Future research should focus on the long-term impact of digital tools on credit quality, especially in volatile economic environments. It is also important to examine how national financial ecosystems — including central banks, regulators, and fintech players — can collaborate to build sustainable, technology-enabled credit markets that are inclusive, transparent, and resistant to systemic risks.

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