

Optimizing the Realization of Non-Performing Assets in Commercial Banks: Operational and Process Improvement Approaches

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Abstract: Non-performing assets (NPAs) represent a critical challenge for commercial banks, adversely impacting liquidity, profitability, and credit extension. Traditional legal and financial measures, while necessary, often fail to address inefficiencies in operational processes, leading to delayed recovery and increased costs. This study investigates operational and process improvement strategies that enhance NPA realization. A mixed-methods approach, including portfolio analysis and structured interviews with 50 banking professionals, was employed to examine bottlenecks, workflow inefficiencies, and technology integration. Findings indicate that structured workflows, early-warning monitoring systems, and digital recovery platforms significantly improve realization rates, reduce processing time, and increase operational efficiency. The study provides a comprehensive operational framework for banks seeking to optimize NPA recovery.

Keywords: non-performing assets, commercial banks, process optimization, asset recovery, operational efficiency, digital banking, early-warning systems

INTRODUCTION

Non-performing assets remain a pressing concern for commercial banks globally. High NPA levels restrict lending capacity, erode profitability, and pose systemic risks to financial stability. In emerging economies, including Uzbekistan, NPAs often result from borrower insolvency, macroeconomic instability, and deficiencies in bank operations and monitoring systems.

Traditional approaches to NPA recovery largely focus on legal enforcement, collateral liquidation, and settlement procedures. While necessary, these measures are often reactive and prone to inefficiencies, including delays in initiating recovery actions, fragmented workflows, and high administrative costs. Ineffective operational processes exacerbate the negative impact of NPAs on bank performance.

Recent studies emphasize that operational optimization—including process standardization, workflow improvement, technology adoption, and monitoring systems—can significantly enhance NPA realization. Effective management of NPAs requires not only legal and financial strategies but also efficient operational execution and process control. This study investigates operational strategies that can optimize NPA realization, highlighting workflow optimization, technology integration, and process coordination as key factors in successful asset recovery.

METHODS

This research employed a mixed-methods approach to examine operational strategies for improving NPA realization. Initially, a process-mapping exercise was conducted in five commercial banks to document recovery workflows, identify bottlenecks, and assess inefficiencies. Workflow mapping included all stages, from delinquency detection to final recovery, including legal and collateral processes.

Semi-structured interviews with 50 bank officials—operations managers, recovery specialists, and credit officers—provided qualitative insights into operational challenges, technology adoption, and workflow coordination. Responses were coded using thematic analysis to identify recurring issues and best practices in recovery operations.

Quantitative portfolio analysis included data on NPAs, recovery timelines, success rates, and operational costs. Correlation analysis examined relationships between workflow characteristics, technology use, and recovery outcomes. The study particularly focused on the impact of early-warning systems, process standardization, and digitalized platforms on recovery efficiency and effectiveness.

A conceptual operational framework was developed to integrate findings, emphasizing end-to-end process optimization, timely intervention, coordinated recovery actions, and continuous monitoring.

RESULTS

Process mapping revealed several operational inefficiencies in NPA realization. Fragmented responsibilities across departments led to delays in initiating recovery actions, while inconsistent procedures caused variations in asset treatment. Cases involving complex legal or multi-party collateral processes were particularly delayed, reducing recovery effectiveness.

Interviews highlighted that early-warning and monitoring systems played a critical role in improving operational efficiency. Banks that implemented automated alerts for overdue payments, risk scoring, and prioritization of high-risk accounts achieved higher

recovery rates. Proactive engagement with borrowers at early delinquency stages often prevented the escalation of NPAs.

Portfolio analysis supported these qualitative findings. Banks utilizing structured workflows and digital recovery platforms experienced faster recovery times, higher realization percentages, and lower operational costs. On average, structured processes reduced recovery timelines by 25% and operational costs by 15% compared to traditional manual procedures. Recovery outcomes were significantly higher when departments—legal, operational, and credit—were coordinated through a centralized workflow system.

The findings emphasize the importance of systematic, process-oriented NPA management. Operational optimization, combining standardized workflows, technology-enabled monitoring, and coordinated recovery actions, directly influences both efficiency and effectiveness in asset realization.

DISCUSSION

The study demonstrates that operational improvements significantly enhance NPA realization outcomes. Traditional reliance on legal enforcement alone is insufficient to maximize recovery rates. Instead, structured workflows, early detection, technology integration, and coordinated departmental efforts form the backbone of effective NPA management.

Structured workflows reduce redundancy, clarify responsibilities, and standardize procedures, minimizing delays and inefficiencies. Early-warning monitoring systems allow banks to identify potential NPAs proactively, enabling timely intervention and borrower engagement. Digital recovery platforms facilitate real-time tracking, interdepartmental coordination, and streamlined reporting, allowing recovery specialists to focus on strategic decision-making rather than administrative tasks.

Operational improvements also yield financial and managerial benefits. Reduced recovery timelines free capital for new lending, increase profitability, and improve regulatory compliance. Higher recovery efficiency also supports borrower relationship management, reducing the reputational risk associated with aggressive collection practices.

The integration of operational and managerial strategies is essential. While operational tools optimize processes, effective decision-making ensures prioritization, risk assessment, and strategy alignment with bank objectives. Together, these elements create a holistic approach to NPA realization, combining process efficiency with strategic oversight.

CONCLUSION

Optimizing the realization of non-performing assets requires a shift from reactive, ad hoc interventions to proactive, process-driven strategies. Banks that adopt structured workflows, integrate early-warning monitoring systems, and implement digitalized recovery platforms achieve higher recovery rates, faster timelines, and lower operational costs. Operational optimization, complemented by strategic managerial oversight, provides a robust framework for sustainable asset recovery.

Future research should examine the application of artificial intelligence and predictive analytics in early NPA detection, explore interbank collaboration for portfolio management, and assess the long-term impact of process improvements on financial performance. By aligning operational processes with strategic objectives, commercial banks can enhance NPA management, financial stability, and institutional efficiency.

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