



## Analysis of Main Trends and Development Directions in the Field of Retail Banking Services

**Rayimnazarov Salokhiddin Davirbek**

Independent researcher at the Tashkent Financial Institute  
[rayimnazarov2022@bk.ru](mailto:rayimnazarov2022@bk.ru)

### ABSTRACT

this article examines the main trends observed in the field of retail banking services, their nature and impact on transformational processes. In addition, a dynamic analysis of the results of the activity of the "Monzo" bank, which specializes in providing retail banking services, was carried out. On the basis of the conducted research, relevant conclusions and proposals were developed.

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The increase or limitation of the types and volume of retail services offered by commercial banks is caused by a number of macro-level factors. In our opinion, these factors include:

1. Changes in the dynamics of the population's real income and the structural structure of consumer spending.

2. The level of development of information-communication and communication networks.
3. Development of financial intermediation services and financial market instruments and level of financial popularity.

It should be recognized that each of the mentioned factors is a unique "combination" of many other factors, and they are also interrelated. In particular, the population's debt burden, cross-border transfers, the level of inflation in terms of consumer goods and services, as well as inflationary expectations, social transfers and other factors directly affect the real income of the population, forming their payable demand.

In recent years, there have been many notable developments in the retail banking sector. Nevertheless, as stated in the "2020-2025 banking system reform strategy of the Republic of Uzbekistan" approved by Decree No. PF- 5992 of the President of the Republic of Uzbekistan dated May 12, 2020: low level of financial popularity due to the slow development of non-bank financial organizations, innovations and information systems[1]. As a result, while in other countries loans to individuals and corporate clients are distributed equally, in our country, loans to individuals make up 19% of the total loan portfolio, and loans to corporate clients make up 81 % <sup>1</sup>. This situation, in our opinion, makes research on the improvement of retail services of commercial banks based on the study of advanced foreign experience one of the priority directions.

### **Analysis of scientific and practical sources on the topic**

V.V. Zhdanovich One of the scientific results achieved by in his scientific research work entitled "Transformation of banking regulation in the context of the development of digital technologies" is "The main directions of development of bank business models and the models that can be used in the transformation of Russian banks were grouped: the transformation of banks into a digital ecosystem, the creation of financial supermarkets (marketplace) , the development of non-bank areas of activity, turning data into a source of income, increasing the use of banking infrastructure, expanding service areas using digital technologies, expanding the scope of using digital technologies in banks to increase the level of competitiveness" [2]. Another remarkable conclusion of the scientist is that by 2025, banks can move from the KYC (eng. know your client) paradigm to the KYD (eng. know your data) concept <sup>2</sup>.

I.I. Bichkova's scientific research work entitled "Digitalization of bank products as a basis for the formation of the banking ecosystem" states: "It is extremely important for a credit organization to determine the factors that ensure consumer activity of customers and take them into account in an effective product strategy when choosing banking products/services [3]. This strengthens the competitive advantages of the commercial bank and allows to increase the volume of income. In the work, the factors affecting the consumer activity of customers when choosing bank products and services (price, risks, quality, assortment, availability and simplicity) were identified<sup>3</sup>.

M.M. Nuralieva in her scientific research work entitled "Improving the efficiency of financial services in electronic commerce" "Comparative analysis of payment instruments showed that electronic payment instruments have a number of advantages for customers, therefore their development is not only

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<sup>1</sup>National database of legal documents, 13.05.2020, No. 06/20/5992/0581; National database of legislative information, 18.10.2021, No. 06/21/6325/0972; 12/30/2021, No. 06/21/42/1224, 03/18/2022, No. 06/22/89/0227; 10.06.2022, No. 06/22/152/0507

<sup>2</sup> V.V. Zhdanovich . Transformation regulirovaniya bankovskoy deyatelnosti v usloviyakh razvitiya tsifrovoykh tekhnologiy . Dissertatsiya na soiskanie uchenoy stepi kandidata ekonomicheskikh nauk . Moscow 2021. str. 10

<sup>3</sup>I. I. Bichkova . Tsifrovizatsiya bankovskikh produktov kak osnova formirovaniya ecosekistomiy banka . Autoreferat d' ssertatsii na soiskanie uchenoy stepi kandidata ekonomicheskikh nauk . Rostov-on-Don 2021. str. 6

effective for financial institutions, but also provides convenience for users [4]. Among them, it is appropriate to use modern payment mechanisms such as acquiring and merchant account on a large scale in the national economy<sup>4</sup>.

### The main part

Payable demand supports the primary consumption and ensures the development of information-communication and communication networks, financial intermediation services and financial market instruments, which are objects of secondary needs. It is not possible to investigate all these factors in one research framework. Therefore, we limit ourselves to the analysis of the specific characteristics of the factors that have a large influence on the development of retail services of commercial banks and the observed trends.

In this regard, in our opinion, it is appropriate to study the results of the research conducted by the Fund of Savings Banks for International Cooperation on the activities of Uzbek banks<sup>5</sup>. Four factors were considered during this study; a) financial situation, financial attitude and behavior; b) the image of the financial sector and trust in banks; c) use of banks and banking products; g) customer satisfaction and loyalty. We will try to analyze these factors from the point of view of evaluating the current state of retail services provided by banks to customers.

**Factor 1. Financial status, financial attitudes and behavior. In our opinion, an important aspect is the state of stability in establishing financial relations between the bank and clients (individuals and families) . By the term stability, we mean the increase in the payable demand of customers and the matching of prices for services, including innovative products.**

In our opinion, it is appropriate to assess the factors that directly affect the level of solvency of the population who are consumers of retail banking services.

It can be seen from the data of Table 1.1 that the total income of the population by the end of 2021 is 515,660.7 billion. amounting to 124.2% compared to 2020. Accordingly, the per capita income increased from 12,125.6 thousand soums to 14,769.0 thousand soums. During this period, the real income of the population (taking into account the consumer price index) increased by 112.1 and 109.9 percent, respectively. The difference between nominal and real income growth rates in 2021 was 12.1 percentage points for total income and 11.9 percentage points for per capita income.

**Table 1. Dynamics of nominal and real incomes of the population<sup>6</sup>**

Indicators	2017 year	2018 year	2019 year	2020 year	2021 year
Total income of the population, billion soums	236893.1	300842.7	365735.6	415085.0	515660.7
<i>Compared to last year, in %</i>	<i>119.7</i>	<i>127.0</i>	<i>121.6</i>	<i>113.5</i>	<i>124.2</i>
Total income per capita, thousand soums	7314.1	9128.6	10891.3	12125.6	14769.0
<i>Compared to last year, in %</i>	<i>117.7</i>	<i>124.8</i>	<i>119.3</i>	<i>111.3</i>	<i>121.8</i>
Total real income of the population, bln. soum	216400.1	255971.0	319336.1	367559.6	465271.8

<sup>4</sup> M.M. Nuralieva. Improving the efficiency of financial services in electronic commerce. Doctor of Philosophy (Doctor of Philosophy) thesis on economics. Tashkent 2021

<sup>5</sup> Prepared based on the data of <https://cbu.uz/oz/monetary-policy/analysis/683086/> .

<sup>6</sup> Prepared based on the information of the State Statistics Committee .

<i>Compared to last year, in %</i>	109.3	108.1	106.1	100.5	112.1
Real total income per capita, thousand soums	6681.4	7767.0	9509.6	10737.3	13325.8
<i>Compared to last year, in %</i>	107.5	106.2	104.2	98.6	109.9

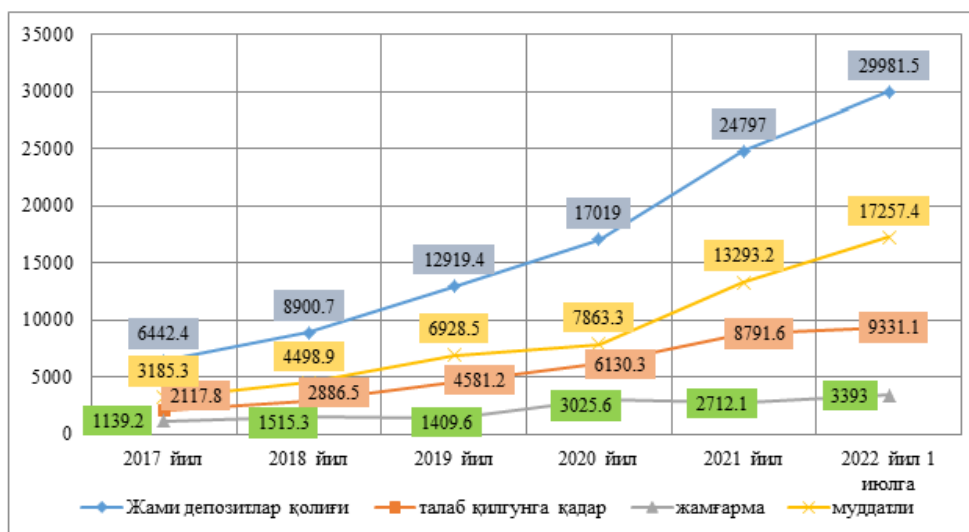
Here, if we pay attention to the dynamics of the consumer price index (see the data in Table 1), the increase in the price of food products to inflation (107.8 percent in 2017, 120.1 percent in 2018, 116.9 percent in 2019, 117 percent in 2020) .2 percent, 114.3 percent in 2021) had a high impact level.

The importance of this issue, in our opinion, is explained by the fact that spending on food products has a large share in the total expenditure of the population. In particular, according to the results of the survey conducted by the Central Bank of the Republic of Uzbekistan, the main part of the respondents, that is, 39 percent, in the distribution of household incomes, 2-4 million per month. indicates that he is in the group of those who have an income of soums. 31 percent of the respondents 4-6 million. soums to income,

22 percent to 6 mln. soums and higher income, 8 percent 1-2 mln. they had an income of soums <sup>7</sup>.

**Factor 2. Image of the financial sector and trust in banks.** According to the results of the research mentioned above, customers show that they are in a neutral position towards the activities of banks <sup>8</sup>. In particular, 75 percent of respondents said that they have a neutral opinion when asked what is the first thought that comes to mind when thinking about banks. 11 percent of the respondents gave a positive opinion, while 11 percent expressed a negative opinion. The main reasons for this are high interest rates on loans, low quality of services, corruption and bureaucracy.

**Factor 3. Use of banks and banking products.** We will try to analyze the deposit and credit services offered to individuals .



**Figure 1. Dynamics of balance of national currency deposits of natural persons involved in commercial banks, (in billion soums)<sup>9</sup>**

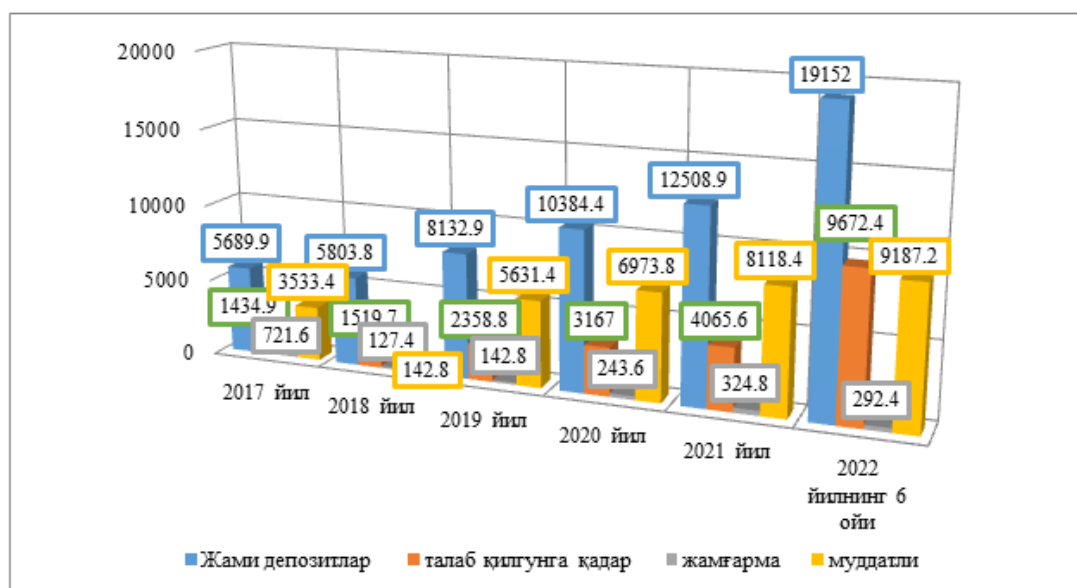
<sup>7</sup> Central Bank of the Republic of Uzbekistan. Standard of living and inflation . Based on information-analytical information <https://cbu.uz/monetary-policy/analysis>

<sup>8</sup> Prepared based on the data of <https://cbu.uz/monetary-policy/analysis/683086/> .

<sup>9</sup> Prepared based on the information of the Central Bank of the Republic of Uzbekistan.

From the data of Figure 1, it can be seen that the interest of individuals in bank deposit services in national currency is high. In particular, at the end of 2017, the balance of deposit accounts of individuals in commercial banks was 6,442.4 billion soums. This trend will continue in 2022, and the total volume of deposits will reach 29,981.5 billion soums. Offered deposit services include attractive term deposits for individuals. We can see this in the volume of time deposits increased by 5.4 times in the last five years. At this point, it should be noted that the growth of deposit rates of individuals is the main factor behind this situation. In particular, the average weighted interest rate on time deposits was 17 percent in 2017, 17.4 percent in 2018, 20.4 percent in 2019, and 20.2 percent in 2021. It rose to 21.0 percent in the first half of 2022. As a result, the real interest rates on time deposits of individuals in national currency (taking into account the level of inflation) amounted to 9.3 percent by the end of 2021.

Also, a similar situation is observed regarding savings deposits. Their growth rate is 4.4 times. At the moment, the growth rate of deposits until demand was at a moderate level. During 2017-2021, its volume increased by 2.9 times. This requires increased attention to demand deposits of individuals (the main part of which is the balance of funds in plastic card accounts).



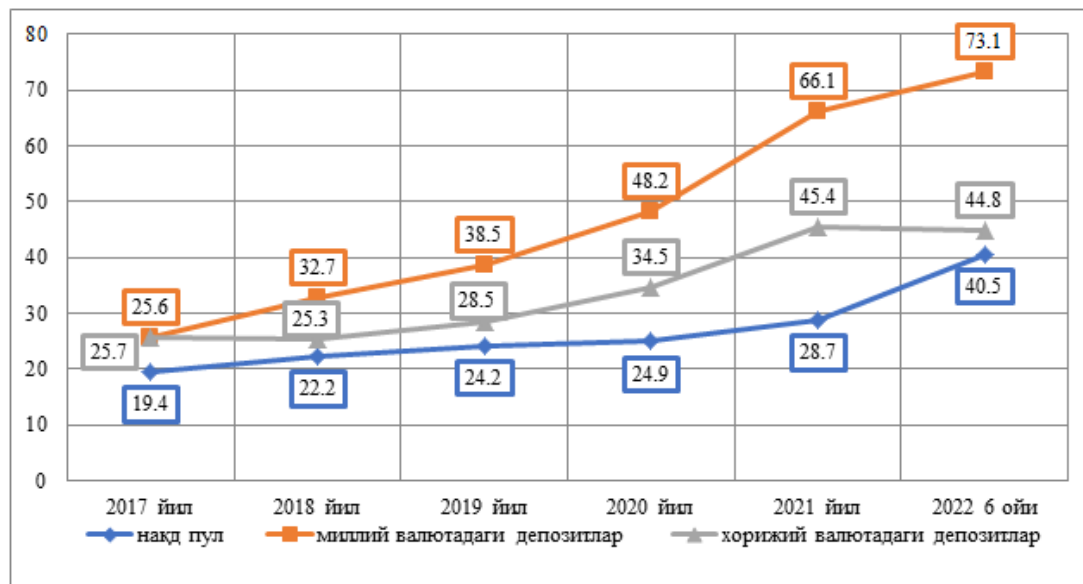
**Figure 2. Dynamics of foreign currency deposits of individuals involved in commercial banks, (in billion soums)<sup>10</sup>**

It can be seen from the data of Figure 2 that the trends in the dynamics of the volume of foreign currency deposits attracted to commercial banks are almost the same as those of national currency deposits. The main difference in the middle refers to the savings deposits, which have significant fluctuations in their volume. In particular, in 2017, savings deposits amounted to 721.6 billion soums, in 2018 it was 124.4 billion soums, 142.8 billion soums in 2019, 243.6 billion soums in 2020, 324.8 billion soums in 2021, 292.4 billion soums at the end of the 6th month of 2022. It is necessary to admit that over the years the weight of saving deposits in total deposits has been decreasing. In particular, their weight was 12.7 percent at the end of 2017, 2.6 percent at the end of

<sup>10</sup> Prepared based on the information of the Central Bank of the Republic of Uzbekistan.

2021, and 1.5 percent at the end of the first half of 2022. This indicates that the services offered for savings deposits in foreign currency are not at the level of demand. In addition, one of the priority tasks is to increase the attractiveness of deposits in foreign currency in the context of the increasing weight of cross-border transfers in the structure of the population's income .

Before making relevant conclusions based on the above data, in our opinion, it is appropriate to analyze the dynamics of the mass of money in circulation (aggregate M2 in the broad sense).



**Figure 3. Dynamics of the components of the money supply in a broad sense (aggregate M2) (in trillion soums)<sup>11</sup>**

It can be seen from the data of Figure 3 that the volume of deposits in national and foreign currency showed growth dynamics during 2017-2021. Although at the end of 2017, the volume of deposits in national currency was 25.6 trillion soums, by the end of 2021 it will be 66.1 trillion soums and 40.5 trillion in absolute amount. Deposits in foreign currency during this period amounted to 19.7 trillion soums or increased by 1.8 times. The amount of cash in circulation during these years increased by 1.5 times or 19.4 trillion soums. Nevertheless, the country's cash-to-GDP ratio remains low. In 2017, this ratio was 22.3%, in 2018 - 18.8%, in 2019 - 17.7%, in 2020 - 17.6%, in 2021 - 19.1%. The relatively low volume of cash in circulation is, on the one hand, the result of active measures to develop cashless settlements, and on the other hand, it leads to the "precious money" policy in the banking system. In addition, an increase in the amount of cash in circulation does not always lead to inflation. It depends on the effectiveness of the use of funds in circulation. Also, the increase in the mass of cash has a positive effect on the savings mood of the population.

**Factor 4. Customer satisfaction and loyalty.** No matter how paradoxical it is, the improvement of the financial situation of the bank's customers provides an opportunity to objectively evaluate the bank's services and products. In our opinion, the financial condition of bank clients is primarily assessed by the level of the population's debt burden. Studies conducted by the Central Bank of the Republic of

<sup>11</sup> It was prepared based on the data of the statistical bulletin of the Central Bank of the Republic of Uzbekistan for the relevant years.

Uzbekistan indicate that there is a significant increase in the debt burden in recent years<sup>12</sup>. In particular, the ratio of loans allocated to the private sector to the gross domestic product (GDP) remains above the general dynamics. Credit-to-GDP ratios between 25 (the lowest threshold) and 75 (the highest threshold) are likely to grow at a faster pace than benchmarked countries and to maintain this rate of growth in the future. Higher than 75 percent of this indicator can cause systemic problems. In addition, given that the number of contracts per borrower, that is, the loan-to-value ratio of one customer is on average 1.2, the increasing number of borrowers indicates a relatively faster increase in the debt burden in the future. In addition, a credit ratio of one customer higher than 1 may cause systemic risks not only for individual borrowers, but also for the banking sector<sup>13</sup>.

## Conclusions and suggestions

The following conclusions can be noted based on the research carried out in this paragraph of the dissertation work:

- financial technologies and innovative technologies that are actively entering the field of retail banking services require a radical change in "financial literacy" activities aimed at existing and potential customers. In this case, the main attention should be focused on conducting advertising companies through social networks and other information and communication systems, which are of interest to certain layers of customers. In addition, it will be necessary to expand the scope of using the opportunities of bank shareholders, partners and local community in the wide promotion of banking and non-banking services implemented by the bank;
- taking into account that the main goal of providing retail banking services is to help in the effective organization and management of the budget of individuals and families, the offered package of products and services should be divided into three groups:
  - a) private budget, b) family budget, c) joint budget accounts that allow you to plan, manage and control your funds. These accounts should be presented in the form of simple and easy-to-use interfaces in the mobile applications of commercial banks ;
- taking into account that the process of providing retail banking services begins with the download of mobile applications, it is necessary to ensure the download of mobile applications through various social networks, video hosting and other alternative channels, in addition to the official sites of banks. In our opinion, the use of advertisements and other tools aimed at different groups of customers is important;
- despite the fact that the field of retail banking services is one of the fastest growing areas of banking activity, it requires large financial investments. Investments are unlikely to bring economic results quickly. Also, there is an increase in costs related to the transfer and processing of transactions, the need to revise business models due to rapid changes in financial technologies, the aggressive entry of bigtex and fintech companies into the retail services market, the rise of competition for young and promising personnel, and many other factors related to the internal and external environment lead to an increase in the volume of operating expenses;

<sup>12</sup> <https://cbu.uz/oz/monetary-policy/analysis> - prepared based on the information of the Central Bank of the Republic of Uzbekistan .

<sup>13</sup> <https://cbu.uz/oz/monetary-policy/analysis> - prepared based on the information of the Central Bank of the Republic of Uzbekistan .

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