



Mechanism for Providing Retail Financial Services in Uzbekistan

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ABSTRACT

In this article, banks are in the process of digital transformation. Problems and current situation in improving retail banking services are analyzed. In particular, in the transformation of the banking system of Uzbekistan, the revision of the bank structure and the optimization of the bank's service processes, the one-step lending system through underwriters and the management of personal funds for users are the most important. Comments on the applications. The results of this study are important in studying the factors influencing the development of retail banking services and eliminating problematic situations.

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Introduction. As a result of the digitization of the economy and the transformation of banks, which are considered the main branch of the economic system, the number of banking services is increasing day by day and becoming digital. The creation of opportunities for remote implementation of traditional banking services and online implementation of services has started the era of providing services through new modern platforms for banks.

In this context, it is evidenced by the transformation of banking activities, increasing efficiency through automation and digitization of banking services, and increased interbank competition. In order to effectively transform banks, one should not be afraid to be the first to introduce innovative banking

products and services and to make sufficient investments in the sector.

In retail lending to individuals by banks, the borrower's income is one of the main parameters taken into account when making a decision on granting a loan by the bank and determining the amount that can be allocated.

Review of literature. The research focuses on retail banking segment customers in Uzbekistan with two important aspects. That is, the first one implies a mechanism of pre-selection of customers in order to find suitable customers among slightly risky customers. The latter means positioning the bank in the most attractive location and segmenting customers to create a suitable product for its customers.

Despite the fact that different industries have developed different strategies and approaches for selling products, the importance of a personal approach to selling products is still high. Undoubtedly, a personal approach to selling products requires two-way communication, which in the case of financial institutions involves a personal approach aimed at taking appropriate measures to convince the other person [1]. The satisfaction after selling the products cannot be ignored. It always serves as a basis for establishing long and profitable relationships [2].

The importance of marketing in supporting a personal approach to selling products depends on the parameters that determine consumer satisfaction and perception of services [3]. It can be seen that many international banks do not have an easy way to sell banking products even with a marketing service. Because standardization is always subject to different normative frameworks, cultures, languages and social understandings.

The services produced by the banks are of course profit-oriented, but at the same time, it is necessary to provide services based on customer demand. Since the 1970s, the number and demands of bank customers have increased, and the development of new services based on new banking technologies and software to meet their demands has become popular.

First, let's start by understanding the meaning of the word retail banking. The word "retail" has different interpretations in many foreign languages. The term "retailing" means "retail sale" in English, while the word "retailer" means "to cut something into pieces" in French [4]. That is, in the opinion of economist D. Gilbert, a person engaged in retail trade takes large quantities of goods and "distributes them into small quantities for the purpose of selling them to individual consumers" [5]. This classifies retail trade as small trade that repeats many times. This means that retail sales of goods and services are intended for final consumers [5].

Analysis and results. Of course, the main document in determining the creditworthiness of the client is the certificate of income from the workplace. But in most cases, borrowers have other official and additional sources of income that can be shown as a source of loan repayment in the future. But the rules for accounting of such income are determined independently by banks. Therefore, if there are additional sources of income, potential borrowers should consult with the bank in advance about whether these incomes are taken into account or not. Because this may be important when choosing a bank for a loan, or you may have to do it through a third-party guarantor.

In accordance with the decision of the Central Bank of the Republic of Uzbekistan No. 24/5 dated September 28, 2019 "On Regulation of the Debt Burden of Borrowing Individuals", the following supporting documents and information are required to determine the average monthly income of the lender and borrower has the right to use data [6]:

➤ salary information confirmed by the employer;

- information on the amount of pension;
- information on accumulated pension contributions of citizens;
- information on the income of the borrower to the bank accounts;
- information on taxes paid;
- information confirming their income from interest, dividends, property rental and other permanent income.

That is, according to the law, when applying for a loan, the borrower can show the bank any of his official income, confirmed by relevant documents. These are basically the taxable income of an individual. A person may not have an official job, receive income from other sources and pay taxes on them.

In fact, in cases where a person does not have an official job, but has an official income, he can get a loan from the bank. But, unfortunately, this is not the case in practice, all banks have a formal workplace requirement.

Table 1. Types of income that are taken into account and not taken into account when granting retail loans to an individual¹

№	Earnings taken into account by banks	Income not taken into account by banks
1.	Salary - a fixed part (salary, monthly bonuses (for example, for category, for experience, etc.))	Income from securities
2.	Salary - the variable part (rewards and bonus payments received as a result of the implementation of certain plans and / or the achievement of certain results, commission income)	One-time insurance payments
3.	Vacation payments	Income from transactions in currency, securities, goods, movable and immovable property, etc.
4.	Dividends	Winnings and prizes from lotteries and gambling games
5.	Income in the form of stable insurance payments	Fines and penalties received
6.	Income from real estate rental	Bonus payments (except for the main and additional jobs)
7.	Pension payments	State benefits (except temporary disability benefits)
8.	Other income	Alimony
9.		Scholarships of educational institutions
10.		Rewards for donors
11.		One-time annual bonuses

Here on April 5, 2023 by the President of the Republic of Uzbekistan Shavkat Mirziyoyev It was noted at the meeting of video selectors held in connection with the discussion of the "Mortgage program for

¹ Compiled by the author.

2023" that starting from May 1, 2023, even people with insufficient official income will be able to get a mortgage loan. It was noted that money paid for rent, utilities and other expenses should also be taken into account [7].

In the table below, we provide information about what sources of income are taken into account by banks when allocating loans or not taken into account at all. That is, the sources of income of individuals that are the basis for granting credit and are not recognized are mentioned.

Pension payments are social benefits received by the client when he reaches a certain age / status / social status. The borrower confirms the receipt of pension payments on the basis of a letter on the appointment of a pension or a pension certificate and a statement from a bank account confirming the receipt of pension payments.

Dividends are the income received by the client who is a shareholder (participant) of a legal entity from the distribution of shares in the authorized capital of this organization in the interest of the legal organization. The following documents are submitted to confirm that the borrower has received dividends:

- minutes of the meeting of the participants of the legal entity on the payment of dividends;
- a document confirming the payment of tax on income in the form of dividends. In most cases, if the borrower has received such payments for at least one year and there is a possibility of receiving such income in the future, dividend income is included in the total income of the client.

Income in the form of stable insurance payments is a fee paid using the insurance payment system by concluding a contract between the client and the insurance company on living up to a certain age.

Real estate rental income is the income that the client receives from renting out the property that he owns. The following documents may be required to confirm this:

- a certificate of ownership of the property to be rented;
- the current (and previous) rental agreement between the parties;
- an account statement confirming that the customer has received rent for the last 12 months;
- documents confirming the payment of tax on income from real estate rental in the previous year (payment orders or other documents).

Thus, it is incorrect to consider the income other than the official monthly salary in the official workplace as the only source of income of the borrower.

Work aimed at introducing a modern risk-management system in banks has been accelerated, and underwriting and scoring systems have been introduced aimed at ensuring short-term consideration of credit applications of business entities and individuals [8].

According to the recommendations of the experts of the International Finance Corporation, the lending system in the bank was changed from a 3-tier system to a 1-tier system. Decision-making on credit allocation or rejection is now implemented in only one step at the Head Office (in the old system it was 3 steps). As a result of the suspension of branch and regional commissions, processing of credit applications has been significantly accelerated, the number of required documents has been reduced and simplified, and the influence of the human factor in decision-making has been drastically reduced. As a result, the number of employees participating in the lending process was reduced by almost 2.5 times. In the previous system, the number of employees participating in the review of credit applications was

14, while in the new system, the maximum number of participants decreased to 6.

Three departments consisting of underwriters were established in the bank (for retail loans, loans for small and medium-sized business entities and corporate clients). The activities of branch and regional commissions were suspended. Now, a system has been established in which credit applications are considered only at the Main Bank, by underwriting employees within the limits of their authority.

Provisional regulations for review and decision-making of credit applications by underwriters, block schemes, procedures for electronic circulation of documents, and a matrix with clearly defined powers of underwriters at the Head Office were developed, as well as specific regulations for review of applications (term) is set.

In the underwriting system, decisions on loans of small value (up to 3 billion soums) are made independently by a group of underwriters without the intervention of "officials" who work directly with the client, and loan documents take from 2 to 24 hours depending on the purpose and amount of the loan will be considered in the term. As a result of receiving information from a number of electronic databases (INPS and KATM) in the bank when considering loan applications of individuals, quick loan allocation was organized only through the application and passport. For example, consumer loans and microloans allocated to individuals were processed in 3 days, now only 2 hours are enough. In order to ensure the efficiency of this process, the financial incentive of the group of underwriters is based on the number and quality of the reviewed projects.

In order to speed up the review of credit applications, simplify documents and further reduce the impact of the human factor, it is necessary to obtain information from electronic databases, analyze it and automate decision-making, effectively use the possibilities of "big data" and artificial intelligence. A number of works are being carried out. As a result of this implementation, it is possible to make decisions on loans to individuals in the bank through a 100% automated system.

As a result of the transformation of the banking system of Uzbekistan, the structure of the bank was revised and as a result of the optimization of the bank's service processes and transfer of lending processes to one-step lending through underwriters:

- the share of employees working with clients was 16-20%, it was increased to 50% (in international banking practice, this figure is 90%);
- the part of the bank building used for customer service was 30-40%, it was increased to 55% (in international banking practice, this figure is 80-90%);
- the average number of loans per employee per month was 10, which was increased to 22 (in international banking practice, this figure is 33);
- as a result of creating more convenience for customers and creating opportunities for customers to perform banking services without coming to the bank, the share of remote banking service users has increased from 11% to 50% (in international banking practice, this figure is 85%).

Customer service optimization (transferring from the old system to the new system) was carried out in banks in order to create convenience for customers and increase the popularity of banking services. As a result, the credit department, cash handling department, accounting department, cashier's department, and plastic card processing departments are not provided separate services, but directly front office employees are universal. providing services. That is, the front office employee serves the client and submits all the documents related to the services performed to the back office.

As a result, the transition to a front-office and back-office system in customer service has led to improved customer-bank relations. All branches, ATMs, and banking service centers provide all types of services to individuals and legal entities as sales points.

Also, retail lending services are provided at this location. Lending processes have been simplified, and online lending services have been developed that can be obtained without any documents. For this purpose, together with relevant organizations (Ministry of Internal Affairs, tax and other organizations), a system of digital identification of the population was developed and an opportunity was created to provide services to them without visiting the bank.

In addition, today banking services centers provide all banking services for individuals and legal entities, i.e. payments, money transfers, credit granting, plastic card opening, cash withdrawal and transfer. These centers are being established in crowded and convenient places. As of January 1, 2023, 1,543 banking service centers and ATMs and 2,974 24/7 branches of commercial banks are operating.

Today, the role of remote banking services is incomparable, especially in the provision of retail banking services. That is, it is possible for all residents to use the mobile application remotely without any barriers.

The most convenient mobile banks and mobile applications of banks for individuals in Uzbekistan make a great contribution to the digitization of banking services. In particular, based on the research conducted by Marksw Webb researchers, the Top-10 mobile banks and applications, which are preferred by users of mobile banking and mobile applications, were determined, their importance in the implementation of financial services and competitiveness in the rapidly developing banking services market of Uzbekistan.

Table 2. Importance to users in managing their personal funds²

№	Name of mobile bank and mobile application	Ball
1.	Uzum bank	47.7
2.	Click	44.3
3.	TBC Bank Uzbekistan	43.5
4.	"Ipak yuli Mobile" mobile application (Ipak yuli Bank)	41.8
5.	"Milliy" mobile application (National Bank)	40.3
6.	Anorbank mobile application (Anorbank)	37
7.	"InfinBANK" mobile application (Invest Finance Bank)	36.5
8.	"Agrobank Mobile" mobile application (Agrobank)	35.1
9.	"Ipoteka Mobile" mobile application (Ipoteka bank)	25.5
10.	"Xalq Mobile" mobile application (Xalq Bank)	22.4

In this case, on a scale from 0 to 100 points, mobile banking and mobile applications of all banks were evaluated according to how complete and convenient they help customers manage their personal finances. According to him, mobile applications of foreign digital banking and payment systems took the top three in terms of quality of customer experience in Uzbekistan. The following places are occupied by the mobile application "Ipak Yo'li Mobile" of JSICB Ipak yuli Bank, the mobile application "Milliy" of National Bank, the mobile application Anorbank of Anorbank, the mobile application "Agrobank Mobile" of JSCB Agrobank, the mobile application "Ipoteka Mobile" of Ipoteka Bank. application and "Xalq Mobile" mobile application of JSC Xalq Bank.

²Compiled by the author based on Internet information.

Uzum Bank can be considered a full digital banking in the payment system. Allows you to pay for almost all services through the application, differs from other applications with convenient account subscriptions and flexible product settings. There are options for setting a limit on cash withdrawal, changing the PIN code, connecting and disconnecting the card to HUMOPay, and setting up push notifications. In addition to them, there is an extended support system, that is, it is possible to contact the customer service center and ask questions through the in-app chat 24/7.

In order to strengthen its market leadership, Uzum Bank is required to improve the ease of keeping transfer history, further develop the client's application access process and digital office functions, create the ability to issue retail loans for individuals and manage customer information in the application.

Click is distinguished by convenient transfers and broad possibilities for making money transfers that work without a digital office. Allows you to make money transfers to any bank through Click. The user has the opportunity to easily manage their funds. That is, convenient money transfers and currency exchange are available. But it has fewer options compared to Uzum bank in auxiliary tasks - product settings, export of details and management of customer data.

TBC Bank Uzbekistan is a digital bank offering comprehensive experience. The app provides customers with high-quality experiences while performing additional tasks. In particular, you can quickly find out the terms of service, find the necessary information from the history of transactions, manage personal products quickly and easily.

It is convenient to enter the application for the first time by phone number or card. On subsequent logins, access can be configured using a short code or Touch ID. One of the advantages of the application is easy navigation. There are different types of templated payments that make payments visually easier through the logos of the providers.

The disadvantages of the application include the lack of a choice of money transfers, the inability to transfer money to an electronic wallet, pay debts from other banks, pay fines to the State Traffic Safety Inspectorate and MFOs, the function of collecting funds and lim service charges are not well established. Dislocation of ATMs and failure to show bank branches in the application is one of its disadvantages.

National Bank of Uzbekistan is also investing heavily in improving the mobile application of its "Milliy" mobile application. In particular, it offers the most developed experience to the market of services in working with payments. In particular, the application includes the connection of other bank cards, templates and scheduled payment types. Also, view receipts and outgoings for a certain period, analyze payments by category. Convenient transfers can be made by phone number, within the bank and to another bank.

JSICB Ipak Yuli Bank's mobile application "Ipak Yo'li Mobile" also has a convenient and support chat to ensure communication with the bank for new customers in attracting customers. In particular, there are well-developed processes for opening a loan, the possibility of using a calculator with options for the maximum loan amount, minimum rate, and terms.

Banks' mobile applications have solved the problems of long queues in banks and are providing modern digitized services under the motto "banks without queues". Thanks to their capabilities, bank customers do not need to visit the bank to use the service. Bank can perform all banking services remotely through the application.

Today, in the banking system of Uzbekistan, banking mobile applications are also improving and they have the following capabilities:

- view information about the balance of amounts and types of services in users' bank accounts and bank plastic cards (mostly deposits and loans);
- online transaction history and account statements;
- possibility to apply for additional service (loan, deposit). In many banking applications, it is possible to open a deposit or deposit completely remotely, without the client contacting the bank in person;
- the ability to transfer money to accounts within the bank or to other banks;
- ability to transfer and receive money through international money transfers;
- ability to pay for common services (housing, telephone, television, internet, etc.);
- additional options for personal budget planning: the client can track expenses, plan financial goals and have money saving options to implement plans.



Figure 1. Mobile Banking Application Installation Sequence [9]

If the user is a bank client, that is, he has been issued a bank card and has opened an account, then he must download the application of the chosen financial institution from the "Play Market" of Android, install it on his smartphone and register. The sequence of registration in the mobile application of each credit institution may be different.

The user must be authenticated to use all the services of the mobile application, especially for opening a savings account or obtaining an online loan. Today, in order to pass the identification in the mobile banking of some banks, it is necessary to go to the bank office with the user's passport or ID card, but in some banks it is possible to pass the identification through the application itself.

After performing any banking operation (for example, making a payment, transferring money to another account, withdrawing cash from an ATM), the bank sends an SMS message about it to the customer to ensure security. This helps to control the funds in the customer's account and ensures that no transaction takes place without the customer's knowledge.

There are pros and cons to using a mobile banking app. There are several advantages to using mobile apps, especially through phone devices.

Table 3. Positive aspects of using a mobile banking application³

№	An advantage	Explanation
1.	No commission for working with accounts	Users can transfer money, open savings, buy foreign currency without additional commission. Transaction reports are stored in the application.
2.	Ease of use	Even users who are not very technologically financially literate can understand the application. The program interface is clear, the menu is conveniently located, the buttons and sections are named. The program itself has an assistant to find the necessary service.
3.	Speed of operations	A smartphone and a SIM card allow the user to make a payment, check the account balance, exchange currency and perform other operations in a few minutes. It is not necessary to visit the bank office, and operations can be carried out from any place where the Internet is available .
4.	The concentration of great functionality in one place	Making payments for utilities and other services through the mobile application, obtaining an online loan, making various money transfers, enabling automatic mode for some regular payments, etc. At the same time, there are messages about any security operations and various news.

Mobile technology has changed the consumer industry, but it has changed the financial services market even more. Mobile apps have become the preferred touch point for millions of bank customers to manage their finances. Due to the increasing queues in banks, the relevance of digital banking is increasing and banks are required to continuously improve their mobile applications.

Therefore, traditional banks have been collaborating with international financial technology companies to improve their mobile applications. Today, banks are trying to digitalize their traditional services through mobile applications. The financial technology revolution is a step forward in expanding consumer financing options.

³ Compiled by the author based on Internet data.

Table 4. Disadvantages of using a mobile banking application⁴

№	A drawback	Explanation
1.	The need for cellular communication	If the subscriber is outside the coverage area of the network, then the smartphone will not be able to use the program.
2.	Loss of smartphone	The loss of the device leaves its owner without communication and banking software. Third parties can now access his personal finances. The citizen should block the application in time. Then the client will be able to keep his funds.
3.	Lack of full functionality	Most banking services are available, but some will be limited.

It is necessary to pay attention to security measures when performing financial transactions through a smartphone. First, you need to change the login password. Some users set the same passwords for all banking applications. This should not be done, because in theory the device can be hacked by typing the password. It will be easier to do if it is the same in all programs. Also, passwords should consist of lowercase letters, uppercase letters, and numbers, rather than a simple sequence of numbers or letters. Or it is advisable to attach a password including symbols. Secondly, one of the types of biometric security should be installed. That is, it is necessary to enter the bank program through fingerprint or face identification. This type of protection prevents fraudsters from cracking the password and obtaining the PIN code for the account. Accessing the app via third-party public Wi-Fi networks and accessing bank accounts using unfamiliar smartphones are also risky. Another device or program may be installed on the program that saves the characters. This allows fraudsters to get hold of the password. Fourth, it is not recommended to trust suspicious links. Emails and notifications from a financial company that link to online banking should be viewed with suspicion. Because they never send such messages [10].

In fact, online operations in mobile applications can be considered the same operation as traditional bank operations, only they are much faster and more convenient. Banks are always improving their mobile apps by adding more features. As a result, bank customers can significantly save time and costs and protect their health by using all available features of mobile applications [11].

It should be noted that not a single Uzbek bank entered the top three, foreign digital banking and payment systems were the leaders. In general, according to the results, the level of digitization in mobile banks in Uzbekistan did not exceed 50 percent. Many processes are still solved only offline by visiting the bank office, which indicates that there are great opportunities for the development of mobile banking in the banking system of Uzbekistan [12].

Conclusions. Most of the bank's clients are individuals, and their number is increasing year by year. Traditional methods of providing them with fast and quality offline service are associated with high costs for today's banks. In such conditions, the need for remote organization of automated and digitized modern banking services to a large number of people is increasing, which encourages banks to make extensive use of digital technologies, to integrate the database with the database of relevant state bodies and other organizations. This creates a strong competitive environment for banks. That is, it is necessary to introduce new digital services that meet the needs of bank customers, to be among the first to introduce innovative banking services, to introduce services based on FinTechs and automated systems. Based on the above, retail banking in the context of digital transformation services development ways analysis reach in the process the following conclusions received:

⁴ Compiled by the author based on Internet data.

- Banks in Uzbekistan should pay attention to the involvement of advanced digital technologies in transforming their operations in accordance with foreign experience and standards, establishing cooperation with international financial institutions or foreign FinTech companies;
- it is necessary to reduce banking costs through digitization and automation of retail banking services based on modern financial technologies, and to establish a system that provides fast, high-quality and transparent service to customers;
- traditional banks do not digitize and automate their activities based on financial technologies, they will lose in competition with low-cost digital banks;
- increase the attractiveness of loan products and types offered to individuals in banks and fully explain their conditions to the population. In particular, it is necessary to provide information about the interest rate of the loan, its payment schedule and schedule;
- should be implemented with full use of AI-based valuation models. Today, in the process of retail lending, the creditworthiness scoring system is widely used. Organization of scoring evaluation on the basis of artificial intelligence allows to provide quick loans to customers while reducing the human factor;
- measures should be taken to increase the financial literacy of potential clients and employees so that bank employees and customers can perfectly understand the use of retail banking services based on modern financial technologies and innovative banking technologies;
- in the economic literature, lending to individuals is mainly used with two terms. That is, it is presented with the concepts of "consumer credit" and "retail lending". Although there are common aspects of these concepts, some economists have used these concepts as synonyms, while others have explained them differently. This causes inaccuracies in the implementation of scientific research, statistical and analytical processes regarding the assessment of commercial banks' lending practices to individuals.

The main criterion in the activity of commercial banks is to satisfy the needs of customers. Banking activities are usually based on regularly recurring transactions. Therefore, the bank's goal is to retain and expand its customers. The efforts of the banks to satisfy the real needs of the customers, to provide and improve the services in accordance with the requirements of the customers determine the prospects for the development of retail banking services in our republic.

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