



Retail Services of Commercial Banks: The Current State of Affairs and Future Prospects

Izbosarov Boburjon Bakhriddinovich

Associate Professor of the Department of Banking, Tashkent Financial Institute, Doctor of Economic Sciences

boburbekizbosarov@gmail.com

Shakirov Sardor Inotdulla o'g'li

Master's student of Banking and Audit, Tashkent Financial Institute

ABSTRACT

This article compares and contrasts the primary areas of commercial banks' operation and financial position to assess the level of efficacy of the measures put in place in the retail services sector. Additionally, research was done on non-banking firms that are actively competing in the retail financial services industry. The paper also expresses the author's thoughts and proposals for enhancing retail banking services even more.

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Introduction

The results of the research undertaken show that the competition for customers of retail banking services is growing. It is important to remember that "invisible" trends are becoming more prevalent in some sectors of competition. Among these trends are the provision of loans in various shapes and terms by those involved in the sale of automobiles and homes, the implementation of payments through mobile applications by retail stores, the issuance of loyalty cards, and the distribution of installment loans, which is the primary activity of businesses operating on a global scale. In addition to the payment system's entry, the emergence of characteristics particular to deposit operations in communication businesses' services, the introduction of virtual currency-based goods via blockchain and other systems, and other systems into the retail financial services market, and many others. This circumstance suggests that the retail services offered by commercial banks should be examined in light of the aforementioned changes.

Literature review

Numerous scientists and professionals have conducted studies that take into account the theoretical, methodological, and practical concerns linked to the enhancement of retail banking services, the dominant trends and future development possibilities in the industry, and financial technology and innovations.

The essay "The First Superapp"¹ by K. Shimota expresses in particular the examination of retail financial services provided by Chinese internet giants and the financial results produced during the first half of 2022, as well as the efficacy of the application of super app technology in Tencent.

The multinational firm KPMG found in a research titled "The Future of Retail Banking"² that "the number of players in the financial services sector is expanding at the cost of non-banking businesses that offer financial goods and services. Three different models are now being implemented in the retail banking sector: universal banks, accounts-focused banks, and ambient banks. The biggest international banks and universal banks alike provide a wide variety of services. Transaction banks work hard to be successful in both local and international settlements. By developing their relationships with suppliers of financial technology and infrastructure, ambient banks are able to offer integrated financial services to their clients.

Retail banking is introduced to banking sustainability and ESG ideas in the report "Global Retail Banking 2022" by Lionel Aré, Thorsten Brackert, Chaojung Chen, Jorge Colado, Muriel Dupas, Alasdair Keith, Holger Sachse, Sam Stewart, Juan Uribe, and Monica Wegner. Issues are examined. According to the statement, sustainability has a favorable effect on both the environment and society. Retail banking places a high focus on this idea. Banks' business lines that are incompatible with ESG are completely eliminated when the weight of their ESG-products increases. ESG-based retail services are anticipated to generate \$300 billion, or 10% of overall bank income, by 2025.

The article "The Future of Retail, Mobile, Online, and Digital-Only Banking Technology in 2022"³ by Alicia Phaneuf acknowledges that "Technologies that increase the operational efficiency of retail banks will have a favorable influence on the industry. According to an Insider Intelligence poll of retail bank executives, 39% think that new financial technology will make it possible to save expenses, while just 24% think that they would boost customer service standards. To remain competitive, retail banks are

¹ <https://www.bloomberg.com/news/2022-08-17/-the-first-superapp-author-kevin-shimota-on-tencent>

² <https://home.kpmg/ca/en/home/insights/2022/06/the-future-of-retail-banking.html>

³ <https://www.insiderintelligence.com/insights/future-of-banking-technology/>

embracing BaaS technology. In particular, the British neo-bank Starling until recent years only carried out B2C operations. In the conditions of fierce competition among neobanks, he introduced the BaaS Starling platform to his activities and had the opportunity to diversify his products and cash flows.

According to the report "Strategic Review of Retail Banking Business Models - Final Report"⁴ prepared by the Financial Conduct Authority of England: "Innovation, digitization and changing consumer demands have led to a weakening of the traditional priorities of large banks. The disparity in profitability between major banks and relatively minor players in the financial services industry is diminishing. In terms of personal account (PCA) and business account (BCA) services, digital banks are progressing. They will have 8% of the market by the year 2021.

According to research firms Capgemini and Efma's World Retail Banking Report 2022 (WRBR)⁵, retail is losing market share to rivals that offer customized services because they are not making the most of their possibilities to offer omnichannel services. In a poll by research centers, 75% of respondents said they preferred to utilize FinTech businesses that offer affordable and convenient services. Traditional banks are having a lot of issues right now. Approximately 70% of bank managers voiced worry about the circumstance. 49% of poll respondents indicated they don't find today's banking activities beneficial, and 48% claimed they had no emotional attachment to banks.

Retail banks will have to function in the near future under conditions of high interest rates, inflation, and a decline in growth rates, according to the 2023 banking and capital markets forecast⁶ written by M. O'Reilly, A. Celner, D. Weston, and V. Srinivas, specialists of the multinational Deloitte firm. In times of economic distress, retail banking consumers want cross-channel services and improved guidance. ESG-based platforms will need to be included in the long run to the mix of financial and digital assets.

Considering the aforementioned, it is our opinion that the analysis should include the following topics:

- the scope of retail services in terms of payments and the current state of it;
- a comparison of the requirements for the provision of retail financial services by banks and non-banking organizations.

Methodology

The research included a variety of methodologies, including a dialectical approach, systematic analysis, analysis, synthesis, induction, deduction, segmental analysis, statistics, and comparative analysis.

Main part

First off, it should be emphasized that the sector of payments is seeing the most changes in the financial services industry during and after the epidemic. In specifically, the Central Bank of the Republic of Uzbekistan licensed 20 payment businesses in 2020, expanded that number to 35 (+15) in 2021, and by September 8, 2022, had licensed 46 payment organizations. Participants in the electronic money system—those who are authorized to issue electronic money—increased to 15 during this time. One of the key points is that commercial banks are the issuers of electronic money, while non-bank firms are in charge of organizing payment organizations. In particular, "Bank Apelsin" JSC offers pertinent services via electronic money operators under its control, including "CENTER FOR DIGITAL TECHNOLOGY

⁴ <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>

⁵ <https://www.businesswire.com/news/home/20220420005725/en/World-Retail-Banking-Report-2022-Incumbent-Banks-Must-Embrace-Data-Centric-Capabilities-to-Drive-Personalized-Customer-Experiences>

⁶ <https://www2.deloitte.com/us/en/insights/industry/financial-services/financial-services-industry-outlooks/banking-industry-outlook.html>

AND INNOVATION" LLC, "GENESIS INNOVATION" LLC, "PAYWAY" LLC, and "BANKAPELSIN" JSC; whereas JSC "ALOKABANK" "electronic money services are provided by "GENESIS INNOVATION" LLC and "GLOBAL SOLUTIONS" LLC. The current state of affairs shows that non-bank companies are quickly integrating into the payment system and that commercial banks are engaged in the market for novel services built on cutting-edge technology⁷. However, analysis of the data reveals that non-bank businesses, such as interbank retail payment systems based on bank cards, are significantly shifting the directions of their operations. The Uzcard interbank retail payment system is specifically implementing a set of proactive actions to build a digital environment. Uzcard launched a corporate accelerator with the goal of finding, fostering, and implementing cutting-edge technical advances based on startups. Establishing communication with more than 20 of the most prominent experts working within the Uzcard system, conducting technical and financial expertise of start-ups, establishing start-ups that have successfully passed preliminary tests and have a charter capital of \$1 million are some of the steps in working with start-ups. Accepting money in US dollars through "UZCARD Ventures" is what it entails. The funding will range from 25 to 50 thousand US dollars (the soum equivalent) to 200 thousand US dollars. This suggests, in our opinion, that the Uzcard corporation intends to expand outside the realm of payments and into other financial services, as well as to create a private ecosystem.

Table 1. The dynamics of the main indicators of the retail payment system of "Aloqabank" ATB⁸

| Indicators | "Aloqabank" ATB | | | | |
|--------------------------------------------------------------------------------|-----------------|-----------|-----------|-----------|------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Number of bank plastic cards in circulation (pieces) | 349 261 | 277 131 | 426 745 | 735 514 | 1 086 986 |
| Number of installed payment terminals | 5 958 | 6 293 | 9 822 | 11 130 | 12 059 |
| Number of installed ATMs and infokiosks | 119 | 126 | 210 | 243 | 267 |
| Receipts received through payment terminals during the year (in million soums) | 1 912 188 | 2 957 692 | 3 957 886 | 7 409 129 | 17 246 211 |

The information in Table 1 demonstrates that "Aloqabank" ATB is making major efforts to expand the market for retail services for cashless transactions. To be more specific, 1,086,986 plastic cards were in use by the end of 2021, an increase of 737,725 or 3.1 times over the end of 2017. As a result, the number of payment terminals climbed to 6,101 (doubling), and the number of ATMs and information kiosks increased to 148 (tripling). By the end of 2021, the amount of money collected through payment terminals will have increased from 1,912,188 million soums in 2017, to 17,246,211 million soums. This is due to the growth of plastic cards and service infrastructure. The amount must now be acknowledged to have been 7,244,278 million soums in Uzmilliybank, our nation's largest bank, 6,796,033 million soums in Uzsanoatkurilishbank, and 5,369,246 million soums in Agrobank during the months of January through December 2021.

⁷ <https://cbu.uz/oz/payment-systems/> based on the data

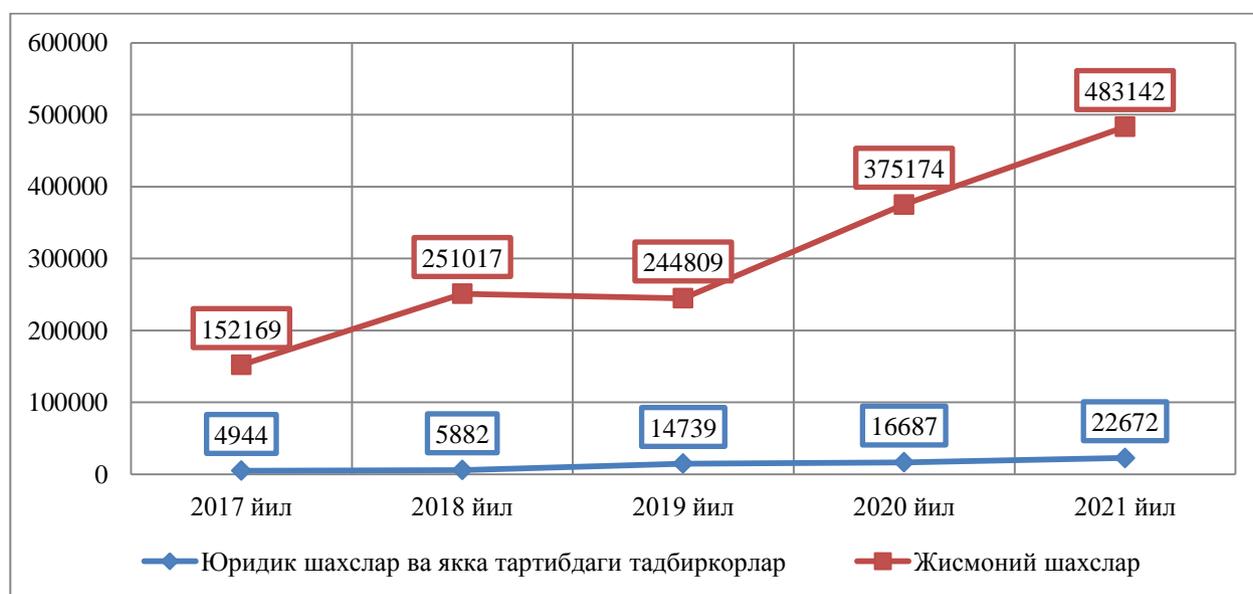
⁸ Author's development based on information from the official website of the Central Bank of the Republic of Uzbekistan

Table 2. The dynamics of the main indicators of the retail payment system of "Trustbank" ATB⁹

| Indicators | "Trustbank" ATB | | | | |
|------------------------------------------------------------------------------------|-----------------|-----------|-----------|-----------|-----------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Number of bank plastic cards in circulation | 219 785 | 265 082 | 310 287 | 206 517 | 293 832 |
| Number of installed payment terminals | 4 846 | 5 685 | 11 096 | 11 928 | 11 981 |
| The number of installed ATMs and infokiosks | 117 | 131 | 131 | 154 | 265 |
| Receipts received through payment terminals during the year (in millions of soums) | 2 032 961 | 3 784 515 | 3 796 614 | 4 019 894 | 4 567 184 |

In contrast to "Aloqabank" ATB, "Trustbank" ADB has modest increase in the dynamics of indicators characterizing the activity of the retail payment system, according to the data in Table 2. In instance, the amount of plastic cards in use by the end of 2021 was 293,832 (793,154 fewer than ALOQABANK ATB), up 133.6% over the previous year. However, there are trends showing a rapid increase in the quantity of cash registers, ATMs, and information kiosks (by 2.5 and 2.3 times, respectively). The amount of payments made through them rose dramatically as the bank's payment terminals, ATMs, and information kiosks increased in number. Although such receipts totaled 2,032,961 million soums in 2017, they climbed by 2.4 times by 2021 to 4,567,184 million soums.

The number of users of systems offering remote banking services will then be compared in the next section.

**Figure 1. Dynamics of the number of users of remote banking systems of "Aloqabank" ATB¹⁰**

⁹ Author's development based on information from the official website of the Central Bank of the Republic of Uzbekistan

¹⁰ Author's development based on information from the official website of the Central Bank of the Republic of Uzbekistan

As can be seen from the statistics in Figure 1, "Aloqabank" ATB will have 505,814 users of its remote service systems by the end of 2021, of whom 483,142 are people and 22,672 are businesses and individual entrepreneurs. Their relative rates of population increase were 3.2 and 4.6 times. The number of issued bank cards continues to be low, notwithstanding trends in the number of users of remote service systems. In instance, 1,086,986 different kinds of plastic cards were in use by the end of 2021, compared to 483,142 or 44.4 percent of all consumers of remote services. This shows that the majority of bank card holders do not have a need for the bulk of the bank's services. They only offer services for bank card cash withdrawal, account transaction history, and balance checks. This circumstance shows that there are certain issues with the creation of a comprehensive bundle of services that clients find appealing, combined with flaws in drawing attention to the services provided by banks.

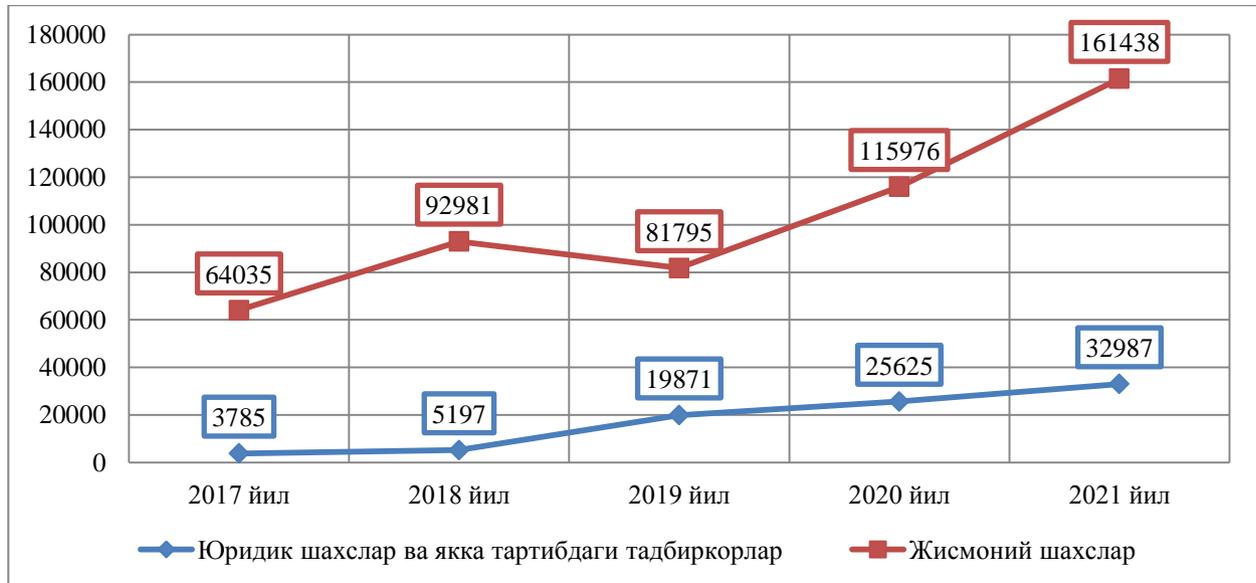


Figure 2. Dynamics of the number of users of remote banking services systems of "Trustbank" ATB¹¹

Comparing "Trustbank" ADB to "Aloqabank" ADB, the data in Figure 2 demonstrates that "Trustbank" ADB is more successful at luring clients to remote banking services systems. In specifically, the proportion of bank card holders whose accounts were covered by systems offering remote banking services was 59.4 percent ($161438/293832 \cdot 100$). The main factors contributing to this are the relatively high attractiveness of the services provided through these systems and the fact that the number of people utilizing financial service systems will expand by 2.5 times by the end of 2021 compared to 2017.

¹¹ Author's development based on information from the official website of the Central Bank of the Republic of Uzbekistan

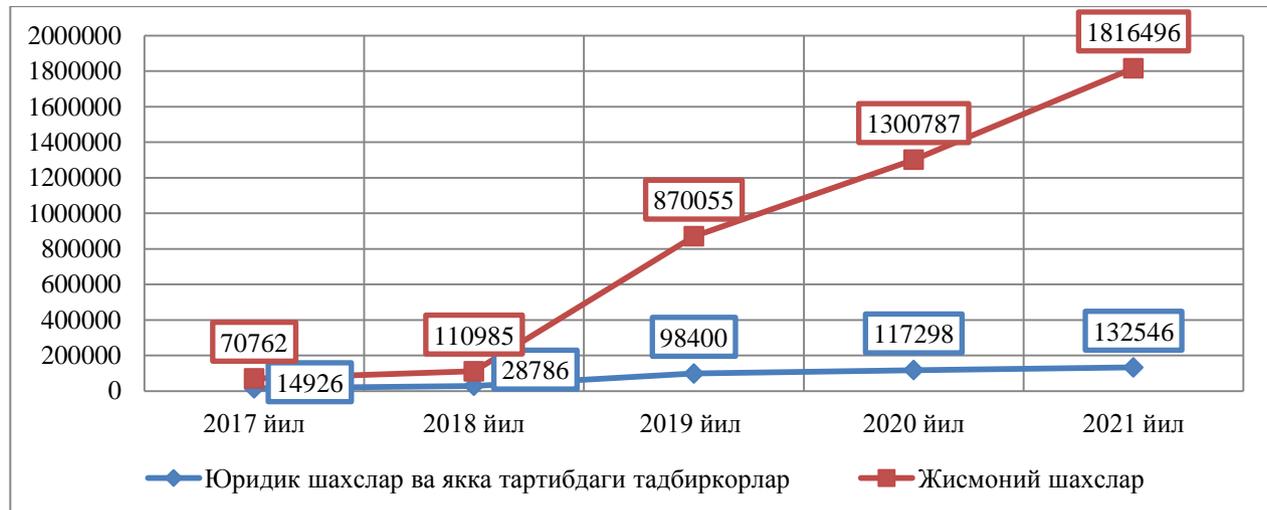


Figure 3. Dynamics of the number of users of remote banking systems of "Ipoteka-bank" ATB¹²

The information in Figure 3 demonstrates that, when compared to the other banks under study, the "Mortgage-bank" ATB's measures for the development of remote banking services are quite effective. In instance, over the past five years, the number of users of this system climbed from 70,762 to 1,816,496 or 25.7 times. It should be emphasized that the high rise in users had no beneficial impact on the amount of money taken in through payment terminals. This demonstrates that only specific transactions may be completed using payment systems.

We will examine changes to commercial banks' balance sheets, income, and costs in the next stage of the research.

Table 3. Dynamics of the main indicators of the activity of "Aloqabank" ATB (in billion soums)¹³

| Indicators | "Aloqabank" ATB | | | | |
|------------------------------|-----------------|-------|-------|-------|--------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Total assets | 2 792 | 5 846 | 7 341 | 8 108 | 12 638 |
| net Credits | 1 627 | 4 739 | 5 592 | 5697 | 7 653 |
| Total liabilities | 2 393 | 4 684 | 5 945 | 6 539 | 10 964 |
| Payments to other banks | 322 | 911 | 531 | 523 | 1 231 |
| Payment for loans and leases | 118 | 223 | 455 | 852 | 2 271 |
| Private equity | 398 | 1 162 | 1 396 | 1 568 | 1 673 |
| Net profit | 71 | 138 | 201 | 170 | 108 |

A lot of inferences can be drawn from Table 3's data. The bank had 2,792 billion in total assets at its disposal in 2017, up from 12,638 billion soums in 2016, but this did not result in a rise in net profit. On the other hand, beginning in 2019, the amount of net profit tended to decline. In specifically, the amount of net profit at the end of 2019 was equivalent to 201 billion soums, but by the end of 2020 and 2021, it had dropped to 170 billion soums and 108 billion soums, respectively. Second, the structure of total liabilities shows that the bank's interest costs have increased due to the continuous growth in its liabilities to other banks (from 118 billion soums in 2017 to 1,231 billion soums at the end of 2022) and loans received (from 118 billion soums to 2,271 billion soums). Thirdly, the rise in loans as a

¹² Author's development based on information from the official website of the Central Bank of the Republic of Uzbekistan

¹³ Author's development based on information from the official website of "Aloqabank" ATB

percentage of total assets (from 53.3% in 2017 to 60.6% by the end of 2021) did not have the desired result. The entire interest income, in particular, was 1.185 billion soums in 2021 and 1.206 billion soums by the end of 2022. However, compared to 2021, loan flows rose by 1956 billion soums in 2022.

Due to these and other factors, as of January 1, 2022, the bank's profitability ratio of authorized capital is 0.11 (down from 0.178 on that date), total solvency coverage ratio is 1.08 (1.136 on that date), absolute liquidity ratio is 1.11 (up from 1.914 on that date), ratio of own funds to borrowed funds is 0.09 (down from 0.146 on that date), capital renewal ratio is 0.53 (up from 0.67 on that date), and the bank's own the ratio of own funds to own

Table 4. Dynamics of the main indicators of deposit and operational activities of "Aloqabank" ATB (in billion soums)¹⁴

| Indicators | "Aloqabank" ATB | | | | |
|-----------------------------------------------|-----------------|-------|-------|-------|-------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Deposits on demand | 1 314,8 | 1 036 | 1 067 | 1 499 | 2 036 |
| Savings deposits | 239,8 | - | - | - | - |
| Time deposits | 385,4 | 2 459 | 3 796 | 3 424 | 4 759 |
| Interest charges on demand deposits | 1,8 | 1,3 | 3,8 | 2,7 | 4,3 |
| Interest movements on savings deposits | 24,4 | - | - | - | - |
| Interest charges on fixed deposits | 33,2 | 135,6 | 379,3 | 405,8 | 394,5 |
| Income from commissions and fees for services | 87,3 | 105 | 137,9 | 193,2 | 271,6 |
| Income from foreign exchange operations | 43,1 | 19,9 | 22,5 | 69,8 | 72,2 |
| Fees for commissions and services | 21,7 | 32,6 | 53,1 | 96,7 | 160,8 |
| Losses from currency transactions | 1,5 | 14,8 | 14,2 | 71,1 | 49,8 |
| Salary to employees and other expenses | 62,3 | 94,5 | 133,9 | 176,3 | 236,9 |
| Fixed asset rental and storage costs | 7,1 | 9,6 | 12,8 | 20,5 | 27,3 |

According to Table 4's statistics, term deposits (4,759 billion soums as of January 1,2022) and demand deposits (2,036 billion soums as of January 1,2022) make up the majority of "Aloqabank" ATB's deposit base. For the last four years, savings deposits have been zero. During the analysis period, demand deposits were the most affordable resource. In particular, demand deposit interest payments totaled 1.8 billion soums in 2017 (0.1 percent on average) and 4.3 billion soums towards the end of 2021 (0.02 percent on average). Over this time, interest on time deposits went up from 87.3 billion soums (an average of 8.6 percent) to 394.5 billion soums (an average of 8.3 percent). It must be acknowledged that on January 1, 2022, the income from commissions and fees for services was 271.6 billion soums, while the costs in this area were 160.8 billion soums. Salary and compensation for employees increased at a high rate in the operating expense structure between 2017 and 2021 (from 62.3 million soums to 236.9 billion soums, or 3.8 times), as did the cost of renting and maintaining fixed assets (from 7.1 million soums to 27.3 billion soums in 2017 to 27.3 billion soums in 2021, or 3.8 times).

¹⁴ Author's development based on information from the official website of "Aloqabank" ATB

Conclusion and recommendation

The research's findings enable the following conclusions to be made:

- first, the aggressive entry of non-banking firms based on cutting-edge FinTech technology into the retail financial services industry, the escalating rivalry for clients and their money, as well as the progressive change of commercial banks' operations;
- secondly, the expansion of the marketplace and SuperAPP network, the increase in the volume of financing of startups specializing in the creation of financial technologies, and the integration of financial services into the private ecosystems of non-bank organizations all contribute to raising the operating costs of commercial banks for the purchase of financial technologies. In consequence, this has a detrimental effect on how profitable banking activities are;
- thirdly, ongoing upgrading of business models and operational technology is necessary for the integration of commercial banks with trade, payment, and other organizations. This necessitates strong collaboration between commercial banks and FinTech companies;
- fourthly, despite the rising volume of transactions and participants using commercial banks' remote service systems, the precautions put in place in this regard cannot be deemed enough;
- Finally, disparities between the number of people using different types of plastic cards and the number of people using remote services suggest that a section of people who have bank cards do not need the majority of the services that the bank offers. They only offer services for bank card cash withdrawals, checking account balances, and seeing transaction histories. This circumstance shows that there are certain issues with the creation of a comprehensive bundle of services that customers find appealing, combined with flaws in the public relations efforts made to bring the services provided by banks to their notice.

Commercial banks' retail service offerings are very dependent on the macroeconomic environment. Any unfavorable macroeconomic factors—such as the rate of inflation, shifts in the base interest rate of the central bank, shifts in population incomes, etc.—are reflected in the retail services market, which continues to be the primary factor directly influencing the amount of commission income for commercial banks. In light of this circumstance, the following is recommended:

It is preferable that retail banking services come in differentiating packages that take into consideration the income level, age, education, direction of activity, interests, and other traits of customers. Additionally, this bundle must come with other services, unique advantages, and cashbacks;

Instead of focusing on the bank's top priority areas of operation, the creation and execution of the policy on the development of retail services must take into consideration strategic goals that further the macroeconomic situation's improvement;

One of the major issues with banking activity is lowering reliance on corporate clients and borrowed money from diverse sources. In this instance, boosting the efficacy of initiatives meant to raise the degree of economic gain from population reductions may be the first step toward finding a solution. To do this, care must be taken to guarantee that the actual interest rates on the suggested deposits do not fall below the rate of inflation.

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