

THE ROLE AND IMPORTANCE OF THE RETAIL BUSINESS OF A COMMERCIAL BANK

Sardorbek Bakhodirovich Sul-tonmurodov

Main expert, The Main operational CBS

JSC "National Bank of Foreign Economic

Activity of the Republic of Uzbekistan", Tashkent, Uzbekistan

Abstract:

This article examines the concept and essence of retail business, retail lending and retail customer service, the role and importance of the implementation of social packages of services in the development of the country's economy, the donation of local and international financial institutions and foreign banks in the formation of banking resources. Moreover, the role and importance of the development of lending to retail customers, which is significant for a commercial bank, are considered. The perspective of the development of retail banking lending and its role in the development of the country's economy is considered. Suggestions and recommendations for improving retail lending are given.

Keywords: retail loan, donation, credit resources, international financial institution, loan agreement, banking product.

To date, an important component of the development of the bank's retail business is the availability of sufficient resources, both own and attracted. The sufficiency of credit resources contributes to the stable development of the bank and affects the economic processes of the country through credit policy. The credit policy, in turn, is an integral part of the bank's overall strategy and is aimed at achieving the bank's strategic goals, such as servicing individuals and legal entities, through the development of retail lending and lending to small and medium-sized businesses. Currently, every commercial bank diversifies its risks by developing a retail business.

It is known that the implementation of the strategy for reforming the banking system for 2020-2025 and accelerating the transformation of commercial banks aimed at increasing the share of the private sector in banking assets from 15 to 60 percent is of paramount importance. "During the consistent reform of the financial sector, a number of measures have been implemented, as a result of which the necessary legal



conditions have been created for conducting a progressive banking business and strengthening the competitive environment in the sector"¹.

International practice shows that the bank's retail business can adapt to market demand in a short time compared to lending to small and medium-sized enterprises. The introduction of new products and services and their effective implementation will have a faster impact on the bank's business than servicing legal entities.

The targeted placement of attracted funds through the development of retail lending is a measure of the bank's success. The irony is that "it was the pursuit of maximizing the rate of return, the desire to get the maximum possible income from lending to corporate clients, that led many well-known banks to financial success"².

There are some difficulties in the development of retail business due to the lack of professionals in the labor market in the field of retail products and services, the high demand for specialists in the field of Internet banking, as well as the problems of standardization of business processes and ways to optimize them, building on the conveyor at the scale of bank branches. Foreign practice shows that with the determination of top managers of banks and the allocation of appropriate resources for the retail business, it is possible to build a service system in 2-3 years of hard work, and in a fairly short period to develop this area in all branches of the bank.

The main trends and potential opportunities of the banking sector show that there is a moderate growth in the total income of the population (9.7% in 2022). The share of salaries in the income structure has decreased, but the share of transfers and social payments has increased, and a significant increase in the population aged 20-40 is predicted by digital savvy. Generations Y and Z require new interactive approaches to attract an audience (gamification, personalization), 37% of the population have a bank account and 8.6% of the population make non-cash purchases and payments, 70% and 76% of the population of Internet users and smartphone holders, and the growth rate of RB (remote banking) users is significant 72% from 2018 to 2022 (the growth rate of legal entities and sole proprietors is 75%, and individuals persons 72%).

Key conclusions on the business model of the Retail business of commercial banks: there is actually no value proposition, there is no definition and understanding of the

¹ Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. DP-5992

² L.F. Muradova, "Ways to increase the profitability of commercial banks' assets in the context of modernization of the economy of Uzbekistan", PhD thesis – Vol.: 2018.



target customer sub-segment and their profiles, manual monitoring of sub-segments is carried out and there is dubbing in the customer base – 1 client in several sub-segments and several MFOs, the profitability of each sub-segment is not recorded, the RB product line is oversaturated, which requires optimization, there are no loyalty programs that can improve the customer experience and increase their brand commitment, low level of potential customer coverage by the branch network in conditions when customers perceive branches as the main channel for acquiring key banking. Therefore, banks need to determine the optimal combination of channels and their prioritization based on the target retail sub-segments.

According to the forecast of a number of organizations such as the IMF, the United Nations, and the World Bank, global economic growth is expected to slow down over the past decades due to a number of factors such as the pandemic, geopolitics, the related food and energy crisis, a sharp increase in inflation, an increase in the debt burden, and climate change.

Retail banks continue to show positive prospects despite the deteriorating economic situation and inflation. Transition to data-based management, digital modernization of risk-based profitability management processes.

The retail loan portfolio is expected to grow, but the low solvency of the population and high interest rates may be constraining factors.

Public and private banks will actively increase lending to the private sector and, in particular, retail lending in order to increase income diversification and increase margins. The solvency of individuals remains limited due to the low level of welfare and savings of the population of Uzbekistan, nevertheless, there is an increase in the retail loan portfolio due to the effect of a low base. Despite some progress made in previous years, the level of dollarization is likely to remain high in the coming years. The high level of dollarization in the banking sector remains a risk factor in the event of significant fluctuations in the exchange rate.

In 2022, mobile and Internet banking account for about half of all transactions. The popularity of electronic money is growing due to a number of advantages, such as the ability to quickly manage funds, the absence of the need to open a bank account and transparency of transactions. Of payments with electronic money, 28% for mobile operator services, 28% for utilities, 10% were payments in games and social networks, 9% for replenishment of foreign electronic wallets, 18% were local payments and other services. 92% of e-wallet holders' transactions were transferred



as payment for certain goods (services, works) to e-wallets of legal entities and 8% were carried out to transfer money to e-wallets of individuals.

Commercial banks set themselves the task of developing the interest-bearing business at a more active pace, focusing their efforts on retail lending and lending to small businesses, which in turn will help make their loan portfolio more diversified. Among the many factors for a rapid transition due to the growing public confidence in non-cash payments, the availability of financial infrastructure in the form of ATMs, terminals and bank branches plays a crucial role. Taking into account this observation, commercial banks are increasing the number of functioning ATMs in cities and regions of the country, which will eventually lead to an increase in the average annual balance on customer accounts, and therefore providing funds to maintain the volume of non-cash payments.

The noticeable increase in indicators such as the number of bank cards in circulation and the volume of receipts to customer accounts in commercial banks really indicates the current transition of the population to non-cash transactions.

Commercial banks are working to expand the range of services through remote account maintenance systems for payment card holders. The total number of users of these systems as of May 1, 2023 was 37,019,862. At the same time, the share of individuals in the total number of Internet banking users is growing rapidly and amounts to almost 97%. It is worth noting that such remote services are also offered to cardholders by non-bank payment organizations.

Considering the above, it can be concluded that the competent organization of the bank's retail business is a necessary element of economic development and has a positive impact on the standard of living of the population and the economic situation of the country. In order to improve the retail business of a commercial bank, it is necessary:

- the transition from product-oriented to customer-centric business models;
- focus on the customer experience as a whole, rather than on the individual characteristics of each product;
- increasing the customer base, targeting, and product penetration per customer;
- optimization of the branch network;
- technological leadership in data collection and analysis, development of remote channels, data security, etc.;



- flexible organizational structure with a minimum number of management levels and the introduction of agile teams; great attention to staff training and retention;
- development of roadmaps for the targeted attraction of resources for the development of retail lending;
- building the capacity of employees to assess and minimize the risks of consumer loans.

Based on the above, it should be noted that the development of the retail business of a commercial bank is extremely necessary in the socio-economic development of the country.

References:

1. Decree (2020) Decree of the President of the Republic of Uzbekistan, dated 05/12/2020 No. DP-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan.
2. Vorontsovsky A.V. (2014) Investments and financing. Methods of assessment and justification. Moscow: Publishing House of St. Petersburg State University. 528 p.
3. KPMG report "Diagnostics of the internal and external environment", 2023.
4. V. Ismagilov (2022). How to organize access to statistics for employees – in conditions of business growth // Academy of Analytics – 2022.
5. N.N. Natocheeva "Financing of investment projects: forms, criteria, priorities", Economics and Management, 2013.
6. Boy J. (2014) The best manual from the world's leading companies on project management. M.: AST; Astrel. 160 c.
7. Sulonmurodov B.B. (2024) Mechanisms and methods of financing investment projects of large enterprises, Iqtisodiy taraqqiyot va tahlil, 2024-yil, II-son fevral, <https://e-itt.uz/index.php/eitt/issue/view/20>, UO'K: 330.322.1.
8. Sulonmurodov B.B. Financing of investment projects: experience of foreign banks, International Journal of Management, IT & Engineering Vol. 13 Issue 10, October 2023 ISSN: 2249-0558 Impact Factor: 7.119 Journal Homepage: <http://www.ijmra.us>, Email: editorijmie@gmail.com.
9. Sulonmurodov B.B. (2023) Mechanisms for raising funds from international financial institutions International Journal of Marketing and Technology Vol. 13 Issue 09, September 2023 ISSN: 2249-1058 Impact Factor: 6.559 Journal Homepage: <http://www.ijmra.us>, Email: editorijmie@gmail.com.
10. Sulonmurodov B.B. (2024) Reformirovanie bankovskoy system –trends i potentialnie vozmojnosti. Economic development and analysis, January 2024,



pp. 494-498. <https://e-itt.uz/index.php/eitt/article/view/651/634>

11. Abdurakhmanov I. (2019). Theory I praktika strachovania. Uchebnik/ - T.: "Economics finance, 353-354.
12. Abdurakhmanov I. (2022). Trends in the formation of insurance sectors. FINANCE AND BANKING, 8 (3), 60-67. Retrieved from <https://journal.bfa.uz/index.php/bfaj/article/view/33>
13. Abdurahmanov I., Kazantseva, A. K., & Nosirova, G. A. (2018). Theory I praktika strachovania. Uchebnoe posobie. T.: "Economics-Finance.
14. Abdurakhmanov I. (2020) introduction of effective mechanisms of insurance market regulation and Prudential control, scientific electronic journal" //International Finance and accounting". – 2020. - T. 2.
15. Abdurakhmonov I. (2020)" Prospects for applying new marketing technologies in the insurance industry, " International Finance and Accounting: Vol. 2020: Iss. 4, Article 6. Available at: <https://uzjournals.edu.uz/interfinance/vol2020/iss4/6>.
16. Abdurahmanov I. (2020) "Efficiency of organizing the activities of insurance intermediaries in the development of insurance sector," International Finance and Accounting: Vol. 2020: Iss. 1, Article 5. Available at: <https://uzjournals.edu.uz/interfinance/vol2020/iss1/5>.
17. Abdurakhmanov I. (2022). Trends in the formation of insurance sectors. FINANCE AND BANKING, 8 (3), 60-67. Retrieved from <https://journal.bfa.uz/index.php/bfaj/article/view/33>.
18. Abdurakhmanov I. (2021). Issues of innovative development of insurance in Uzbekistan. International Journal of Management IT and Engineering, 11(7), 91-96.
19. Abdurakhmanov I. (2018). Competition in the insurance market of Uzbekistan. Asian journal of management sciences & education, 7(2), 56-61.
20. Abdurakhmanov I. (2018). Insurance market analysis methods: case-study from Uzbekistan. SAARJ Journal on Banking & Insurance Research, 7(1), 59-68.
21. Abdurakhmanov I., (2022). Trends in the formation of insurance sectors. FINANCE AND BANKING, 8 (3), 60-67.
22. Abdurakhmanov I. (2022). Prospects for the application of digital technologies in the insurance industry. FINANCE AND BANKING, 8 (1), 95-99.
23. Abdurakhmanov I. (2023) conceptual foundations for the development of insurance networks in the Republic of Uzbekistan. Autoreferat diss. i.f.D. P. 78.
24. Abdurakhmanov I. (2020) the impact of insurance services on the development of real-sector enterprises. Scientific journal" International Finance and accounting". Issue 6, pp. 1-8.