Prospects for the Development of Retail Payment Systems in Banks

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Abstract: As a result of improving the efficiency of retail payment in banks, the possibility of increasing competitiveness, full satisfaction of customer needs and profitability increases. This study explored various strategies and technologies that can be used to optimize retail banking operations. In addition, in the dissertation, ways to increase the efficiency of retail payments and reduce operational costs of banks were studied. It should be noted that banks that invest in these areas can achieve significant improvements in service delivery, operational efficiency and overall financial performance. Overall, this study provides a deeper understanding of how banks can use modern technological advances to improve retail payment efficiency.

Keywords: retail payment, retail banking service, efficiency, financial technologies, individuals, ATM, plastic card.

Introduction

The introduction and use of modern technologies in banking activities will serve to increase the popularity of banking services. By introducing new services, commercial banks prepare the ground for ensuring their financial stability and competitiveness. Because in the conditions of digital transformation of banks, it is necessary to create the possibility of remote implementation of services provided by the bank to customers.

In this regard, the Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. PF-4947 "On the strategy of actions for the further development of the Republic of Uzbekistan" can be cited. This decree focuses on 5 priority areas of development of our country (PF-4947 (2017)). Among them, in the 3rd section called "Priority directions of economic development and liberalization", the tasks of ensuring the stability of banks and effective use of technologies in service provision are defined.

Also, the adoption of the decision of the President of the Republic of Uzbekistan No. PQ-3270 of September 12, 2017 "On measures to further develop and increase the stability of the banking system of the Republic" (PQ-3270 (2017)) is of particular importance.

The rapid movement of information flows in the banking practice of Uzbekistan creates the need to improve financial services. At this point, in the Decree of the President of the Republic of Uzbekistan dated January 17, 2019 " On the state program for the implementation of the strategy of actions in the five priority directions of the development of the Republic of Uzbekistan in the "Year of active investments and social development" No. PF-5635 (PF- 5635 (2019)) expanding the types of services provided through bank cards, sharply increasing the number of bank cards and equipment serving them (payment terminals, infokiosks and ATMs) in the regions, calculating important performance indicators for the activities of commercial banks in order to improve the quality of banking services, integrating the national payment system with international payment systems , wide introduction of modern information and communication technologies in the relations between the bank and the client, remote service to the bank accounts

of bank clients issues of expanding the possibilities of using display systems ("SMS-banking", "Internet-banking", "Mobile-banking"), including the further expansion of financial services based on digital technologies (Mamadiyarov Z.T., 2019).

Improving the efficiency of retail payments in banking practice, establishing effective relationships with customers in the introduction of new banking products, increasing the competitiveness of commercial banks and using digital technologies in their effective operation, as well as using innovative approaches to providing new banking services to customers, new financial methods in the provision of banking products and services scientific development of banking services aimed at applying technologies, reducing service costs in banks, increasing the competitiveness of commercial banks conducting research is important.

Literature review

The banking service facilitates the optimal execution of banking operations, and the banking services developed and sold together with the banking operations create the banking product.

In their research, Orazio Attanasio, Britta Augsburg, Ralph De Haas, Emla Fitzsimons, Heike Harmgart found evidence that lending to individuals is more likely to open family businesses in rural areas. In addition, they witnessed an increase in consumption among non-highly educated rural women who received loans from them" (Orazio Attanasio, Britta Augsburg, Ralph De Haas, Emla Fitzsimons, Heike Harmgart, 2011). This group of scientists is based on the results of research on lending to individuals. Business loans and consumer loans given to individuals were discussed. In our opinion, retail loans do not consist only of business and consumer loans, in particular, mortgages, overdrafts and microloans are left out.

Also, another foreign economist N.V. Mordvintseva considers retail banking services as "retail payment in the activity of banks is understood as an independent prospective direction of development of banking activity, and its goal is to provide services and sell products by banks to the majority of the population" (Mordvintseva N. V., 2010). In fact, the author prefers to do research relating retail banking services to banking business. These ideas are appropriate at a time when the financial literacy of the population and customers is increasing. The definition of retail banking as a separate banking business is particularly commendable. Because the population's demand for banking services and the volume of its use are increasing year by year.

According to L.V.Tatarinova, "The distinguishing feature of retail banking business from corporate business is the establishment of individual, personal relationships and the implementation of the concept of "client-manager"" (Tatarinova L.V., Perfileva O.O., 2017). The author analyzed the characteristics of retail banking services according to the composition of customers and is more based on individuality. For private commercial banks, commercial banks with a small number of customers, the author's views are correct, but in large commercial banks with a large number of customers, it is not possible to establish a personal relationship between the bank and the customer. In addition, in the digital economy, the personal relationship between the bank and the client is not important, that is, the bank and the client do not know each other when entering into economic relations through banking applications and are limited by the general terms of retail service. Therefore, in our opinion, it is not possible to apply this definition to all banks.

A.S. Goncharuk defines that "Retail banking services are services based on standardized banking products to meet the personal, family needs of the population that are not related to commerce" (A.S. Goncharuk, 2012). Here we can see that the author has a one-sided approach to retail services. Retail services are primarily defined as services provided to individuals and their families, although the number and form of retail services provided to individuals is increasing. Banking services such as micro-leasing, micro-credit, micro-loans are excluded. In addition, when defining retail banking services, we can see that the bank did not take into account intermediation, modern banking services, which are important in the context of the digital economy and the provision of rapidly developing innovative services.

Modern banking services currently used in global practice are divided into credit, operational, investment services, in addition to factoring services, leasing services, trust operations services, consulting and information services.

Research methodology

Based on the information of the Central Bank of Uzbekistan, the situation of retail payment processing in the commercial bank was analyzed. The method of data grouping, analysis and synthesis, systematic analysis, comparison, and experiential evaluation was used in the preparation of the article.

In addition, the balance and index method is widely used to study the functional relationship, and the parallel folding, analytical grouping, dyspeptic analysis, and pegpesion and coupling analysis methods are widely used to study the coupling relationship.

Analysis and results

The impact of retail banking services on the efficiency of banking activity is significant and multi-faceted, and affects all aspects of banking activity and activity.

Second, retail banking plays a crucial role in shaping a bank's bottom line. This service includes a wide range of products such as savings account, settlement, credit card, mortgage , plastic card, ATM, infokiosk and credit card. By offering this service to individual consumers and small businesses, a good bank can diversify its portfolio and reduce its reliance on volatile capital funding sources. This diversification also contributes to the bank's profitability, especially during economic downturns or financial crises.

Commercial banks widely use modular lending technologies in providing retail credit products. Modular lending conditions are based on the technology of deciding whether or not to allocate a loan according to the customer's order based on strictly defined conditions and the result of the scoring analysis. The use of modular loans in banks simplifies the process of allocating credit to customers and allows for a quick decision on the loan.

In the practice of retail lending of commercial banks, the issue of regulating the debt burden of individual borrowers is considered important. In this regard, bank loans are allocated based on the analysis of the borrower's debt load indicator and his indebtedness to other banks. The expansion of online lending practices of individuals in commercial banks creates a number of conveniences for customers as well as banks. However, banks' mobile applications do not provide complete information about loan rejections. Failure to give a clear answer to the reason why the client's application was rejected causes a violation of the consumer's rights to use bank credit services.

It is considered appropriate to add an additional clause to the regulation No. 3030 "On the minimum requirements for the activities of commercial banks in the implementation of mutual relations with consumers of banking services" that the banks must provide full information about the reasons for refusing to grant loans to customers in online lending practices. As a result, individuals understand the reasons for the rejection of a loan application, in particular, due to circumstances such as credit history, high debt burden, or lack of income, and it has a positive effect on increasing their financial literacy and timely fulfillment of loan obligations in the future (Kulliev I.Ya., 2024).

The Central Bank of the Republic of Uzbekistan widely uses the following instruments to regulate commercial banks' lending practices to individuals:

1. Determining the risk level of loans allocated to individuals in commercial banks;

2. Determining the debt burden of individual borrowers on loans (microloans);

3. Determining the amount of loans allocated to individuals in the law and by-law regulations.

1. Determining the risk level of loans allocated to individuals in commercial banks.

According to the regulation No. 2693 of the Central Bank of the Republic of Uzbekistan, which was registered by the Ministry of Justice of the Republic of Uzbekistan on July 6, 2015 with No. 2693, the risk level of loans allocated to individuals is determined

Table 1. Risk levels of loans to individuals (Regulation No. 2693)*

No	Annual interest rate	Risk level	Risk level for pending and delinquent loans
1.	**in national currency** The main rate of the Central Bank is + 9 percent on loans with an interest rate and below	100%	200%
2.	**in national currency** From the main rate of the Central Bank + 9 percent band to the main rate of the Central Bank + 13 percent band	150%	
3.	**in national currency** Loans with the central bank's main rate + 13 percent interest rate and above	200%	

* except for mortgage loans

Based on the level of interest rates of loans granted to individuals by commercial banks, the risk level is set up to 200 percent. In order to prevent individuals from increasing their payments and debt burden, high interest rate loans are assigned a high risk level. The provision of loans at a high interest rate in banks increases the total amount of assets in the account of the bank and reduces the indicators of bank capital.

In addition, the risk level is set at 200 percent for loans of banks that are in court proceedings and (or) have outstanding debts. This requires taking measures to reduce problematic and litigation loans in commercial banks.

Table 2. Risk levels of residential mortgage loans (Regulation No. 2693)

Description	Loan amount to collateral amount ratio (KGN)				Risk level for pending and delinquent loans
	KGN<50%	50%≤KGN<75%	75%≤KGN<100%	100%≤KGN	
Risk level	35%	50%	100%	150%	200%

Mortgage loans to the population are provided with real estate and the liquid nature of the collateral, the risk level for these loans is set from 35 percent to 150 percent. Up to 200 percent of delinquent and pending mortgage loans are classified as risky assets.

2. Regulation of lending practices of individuals who borrow through debt burden.

Loans to borrowing individuals according to Regulation No. 3205 "On the procedure for calculating the debt burden of borrowing individuals on loans (microloans), the permissible amount of debt burden, as well as limiting the growth of debt burden" registered by the Ministry of Justice of the Republic of Uzbekistan on December 19, 2019 or by limiting the procedure for calculating the debt burden when disbursing microloans, the permissible amount of the debt burden, the growth of the debt burden including daily maximum interest rates are regulated.

The debt burden indicator is defined as the ratio of the average monthly payment of the allocated loan and the average monthly payments of the borrower and co-borrower on all available loans (microloans) to the amount of the approved average monthly income of the borrower and co-borrower.

According to the regulation, the debt burden indicator is calculated when the sum of the sum of the loan (microloan) and the principal balance of the borrower under the current loan (microloan) contracts exceeds 50 times the amount of the basic calculation when allocating a microloan

(microloan) to each borrower by banks and microcredit organizations or by pawnshops.

Also, in order to limit the debt burden, the Central Bank has established that the debt burden indicator of an individual should not exceed 50 percent when disbursing loans (microloans) from the lender. The highest daily interest rate for all credit (microloan) contracts allocated by the lender to individuals should not exceed 0.3%, but the amount of interest, brokerage fee, penalty and other liability measures should not exceed half of the annual loan amount.

When determining the amount of credit allocated to individuals, the debt burden indicator is used, and the debt burden indicator should not be higher than the specified 50 percent. A commercial bank should offer an alternative amount to the client when the borrower's debt burden exceeds the specified limit.

There are mainly 3 methodological approaches in international practice when assessing the credit burden of individuals from a macroeconomic point of view

1) Payment *-to-income ratio indicator* ,

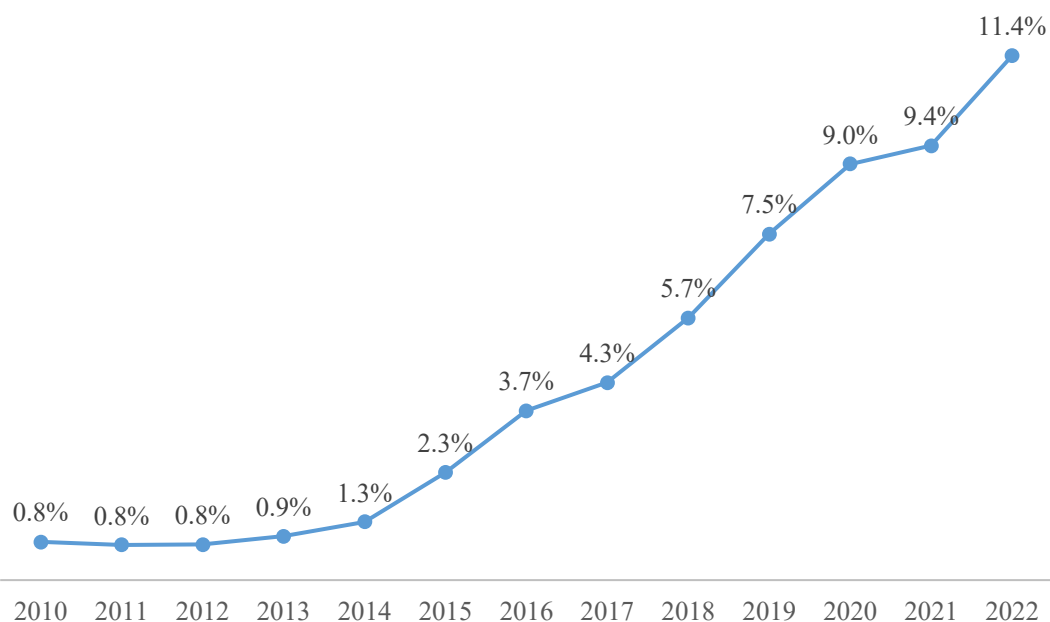2) Debt *-Service-Ratio*

3) Debt *-to-GDP* indicator is used.

Figure 1. Changes in the share of the balance of loans allocated to the population by commercial banks of the Republic of Uzbekistan in GDP, (%)

Source: Compiled by the author.

At the macro level, it is possible to evaluate the general situation from the analysis of data such as aggregated statistical data for the country, including the total credit debt of the population *(loan balance allocated to individuals by commercial banks), the* total income of the population, and the size of the gross domestic product.

The share of the balance of loans allocated by commercial banks to individuals in GDP has steadily increased in 2010-2022. The reason for the relatively high change in the analysis period of 2017-2022 is explained by the fact that in the Republic of Uzbekistan in recent years, within the framework of state programs, the volume of mortgage loans has been significantly increased in order to improve the housing conditions of the population, and the volume of credit funds directed to financial support of their entrepreneurial activities has increased.

In addition, the above analyzes do not include information on sales of auto loans in the primary and secondary markets, and other household items based on installment payments. If the information about the transactions made on the basis of term payment outside the banking

system is taken into account, the debt burden of the population may be much higher than the level determined during the analysis.

According to the analytical data of the Central Bank of the Republic of Uzbekistan, 60-70 percent of the total mortgage loans in 2018-2021 were mortgage loans with a ratio of loan payment to income (PTI) higher than 51 percent ("Analysis of Debt Burden and Risks" 2022).
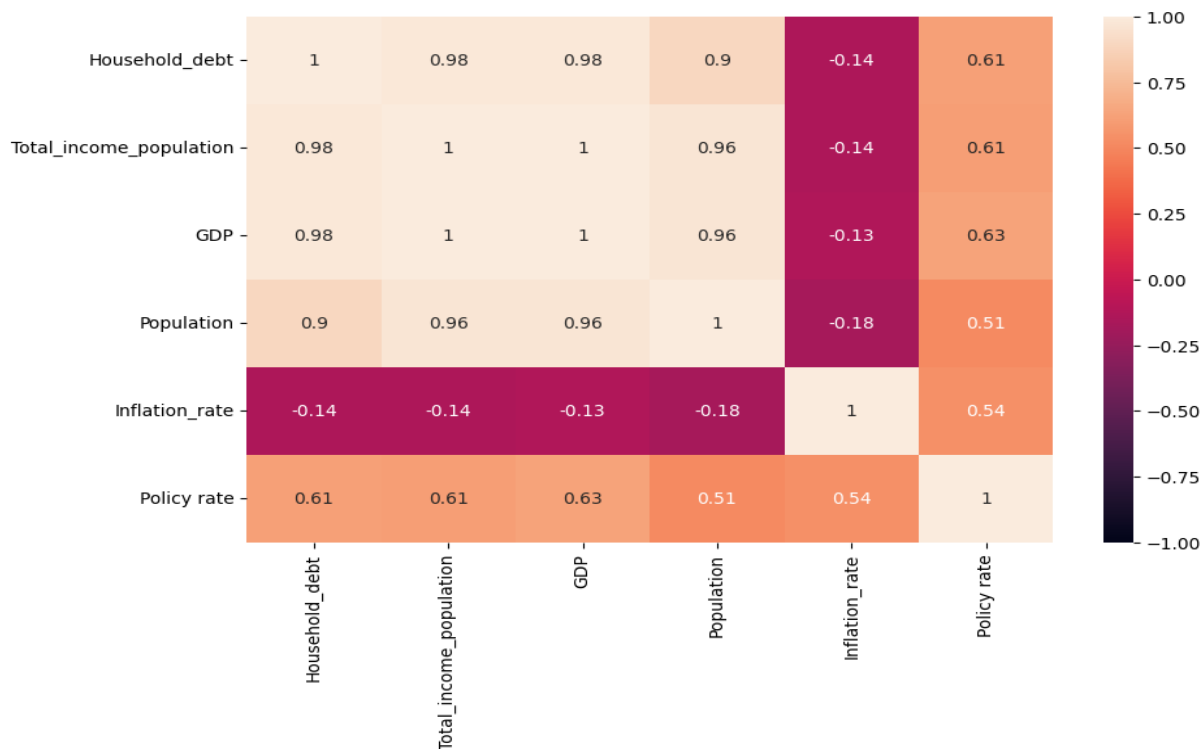

Figure 2. Results of correlational (method='pearson') analysis of factors affecting the balance of loans allocated to individuals by commercial banks of the Republic of Uzbekistan

Source: Compiled by the author.

The results of correlation (method='pearson') analysis of factors influencing the balance of loans allocated to individuals by commercial banks of the Republic of Uzbekistan are presented in Figure 5 below.

Population income (0.98) and GDP (0.98), population growth (0.9) are highly related to the factors influencing the change of the balance of loans allocated to individuals in 2010-2022. In addition, the Central Bank's refinancing rate (0.61) had a weak correlation. It can be seen that there is an inverse relationship with the country's inflation rate (-0.14).

3. Determining the amount of loans allocated to individuals in laws and regulations.

The amount of loans allocated to the population by commercial banks in the Republic of Uzbekistan was regulated by law and bylaws. According to Article 5 of the Law No. 765 dated April 20, 2022 of the Republic of Uzbekistan "On Non-Bank Credit Organizations and Microfinancing Activities", it is noted that "a borrower who is a natural person can be granted a microloan in the amount not exceeding fifty million soums on the basis of solvency, term and repayment conditions" (Law No. 765, 2022).

In accordance with the above legal documents, the maximum amount is determined for regulation in order to ensure the correct distribution of the population and the areas where they live.

The specific aspects of lending to individuals in commercial banks are as follows:

1. The fact that the loan amount is small;

2. The fact that lending to individuals has the same standard;

3. Generality of credit organization;

4. Simple and convenient lending procedure;

5. The purpose of the loan is to meet personal needs;

6. Formation of initial deposits in the lending process;

7. Allocation of credit without a specific purpose, etc.

According to Article 5 of the Law No. 765 dated April 20, 2022 of the Republic of Uzbekistan "On Non-Bank Credit Organizations and Microfinancing Activities", it is possible to "grant microloans in the amount not exceeding fifty million soums to a borrower who is a natural person on the basis of solvency, term and repayment conditions" and commercial banks, microfinance and payment organizations, as well as microloans it is noted that pawnshops have the right to carry out microfinancing activities.

In the above documents, which define the procedures related to granting loans to individuals and providing microcredit services, it is not envisaged that individuals have legal capacity, that is, they must be 18 years old, or that individuals who have legal capacity can be consumers of services.

In the banking practice of Uzbekistan, the practice of lending to individuals who do not have legal status is organized in accordance with the practice of providing credit services to legal entities. In this case, business entities that do not have legal status direct the loan not for personal needs, but for business activities. Individuals are granted loans for personal consumption and long-term use.

Clarification of the definitions and views given by the above economists, the classification of loans to individuals and clarification of its features lays the groundwork for a broader disclosure of its content.

The credit policy of commercial banks clearly indicates the types and terms of loans offered to individuals. In a broad sense, loans can be divided into 2 types based on the object and purpose of loans to individuals:

1. Purposeful.

2. Without purpose.

Targeted loans to physical customers are made by transferring money based on a contract concluded with a third party for the purpose of purchasing goods and services. Funds provided to individuals through microloans, overdrafts and credit cards, which have been developing widely in the last 5 years, are made without a purpose, that is, by giving the client's bank account or cash.

Conclusion

As a result of the conducted research, I consider the following proposal appropriate for improving the efficiency of retail payment in the retail bank of the Republic of Uzbekistan:

➢ it is desirable to diversify its activity with new types of financial services, having learned the world experience in the modern banking system;

➢ Differentiating and diversifying the range of banking services based on the experience of the world banking system and further improving the quality of services, in particular, improving the banking infrastructure, especially in remote areas, expanding the scope of expanding retail services with the wide use of financial technology. In particular, innovative technological tools in the banking service: ATM, mobile applications, increasing the quality of internet and wide use of Internet-based software;

➢ development of developed countries, including optimization of the bank's retail payment

portfolio, creation of an internal ranking, extensive use of economic mathematical methods in evaluating the efficiency of the bank's operations, and the use of modern financial technology;

➤ use of Open Banking API technology in order to improve the quality of banking services, attract customers, collect and analyze more information about them and offer customized services to them, use improved scoring to provide loans at favorable rates ;

➤ in the process of developing digital banking services, increasing the level of customer orientation and increasing the types of financial services and improving their quality based on the personalization of offers, using the CRM (Customer Relationship Management) system;

➤ As an important tool for banklap to carry out effective mapping research in its activities, it is desirable to create and use a special ICT-based mapping platform developed for mobile mapping, internet mapping and computer mapping. In particular, in today's competitive environment, where the Internet, ICT and mobile communication systems are constantly developing, what strategic mapping concept is used and what innovative mapping technology is based on it is of great scientific, methodological and practical importance.

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