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Research Article

DIGITALIZATION OF RETAIL LENDING PRACTICE IN COMMERCIAL BANKS OF THE REPUBLIC OF UZBEKISTAN

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ABSTRACT

Lending to individuals is an important source of income for banks, as well as a means of turning the needs of the population into demand and creating a basis for improving their well-being. In this regard, the study and improvement of lending to individuals, the coordination of relations between commercial banks and customers, and the development of the economy are of great importance. In this article, the theoretical aspects of lending to individuals have been studied and relevant recommendations have been developed.

KEYWORDS

Individual, loan, mortgage loan, consumer loan, microcredit, retail lending, debt load, solvency, bank credit policy, household income, borrower's purchasing power, inflation rate, economic growth, gross domestic product, Central Bank.

INTRODUCTION

Lending to individuals by commercial banks is an important source of income for banks, as well as creating the basis for turning the needs of the

population into demand and improving their well-being. Also, production and services in the

country serve as an important tool for creating GDP as a whole.

As of January 1, 2017, the share of loans in our Republic issued by commercial banks to individuals in the assets of banks amounted to 11.2 percent, and the share of GDP - 3.7 percent, as of January 1, 2023, the balance of loans amounted to 101.0 trillion soums . the figure was 18.1% and 11.4%, respectively[1].

The practice of lending to individuals using plastic cards in Uzbekistan, i.e. an overdraft loan in the amount of up to 3 times the average monthly salary (pension) based on information about the income of an individual (client) is issued in a renewable (revolving) form for a period of up to 12 months, with the condition of phased repayment in accordance with the overdraft agreement. In turn, in order to manage risks when lending, the client, along with an application to a commercial bank for an overdraft, presents a copy of the passport, a document with data on income (certificate of the amount of wages received, pensions and other incomes), most importantly, no more than 3 times exceeding the average monthly salary (pension) of the borrower. As a result, the practice of household payments based on mobile banking or bank cards is growing in the regions, and the operation of the payment system is accelerating[2].

The development of competition between commercial banks in the Republic of Uzbekistan, the creation of banks of various forms of ownership, in particular, an increase in the number of banks with the participation of foreign

capital, have a positive effect on the situation of interbank competition. This, in turn, contributes to an increase in the supply of various credit products by banks to the population.

The progress and development of lending to individuals has led to an acceleration of credit relations, an increase in the forms and types of lending, positive changes in the organization of lending based on information technology and other similar processes. Under these conditions, of course, it becomes necessary to study both the theoretical and legal aspects of lending to individuals by commercial banks. The reason is that when organizing credit relations that arise between the bank and the client and entering into contractual relations, it is important to correctly interpret and apply economic concepts.

In the domestic economic literature, lending to individuals is mainly used in two terms. The concepts of "consumer credit" and "retail credit" issued to individuals are widely used. Although these concepts have some common features, some authors use these concepts interchangeably, while others explain them separately from each other. This creates uncertainties in the statistical and analytical processes of conducting scientific research, evaluating the practice of commercial banks in issuing loans to individuals.

Digital lending is a technology that enables financial institutions to deliver services faster while improving productivity and increasing lending profits. This allows potential borrowers

to apply for loan products from any internet-connected device from anywhere in the world.

However, with the development of technology and the development of consumer demands, the concept of digital lending is becoming increasingly relevant. Customers are waiting for banks to review their applications and make a decision. Now that paperless services have become the norm, banks need to provide customers with non-traditional digital lending methods to keep up with the times. Digital lending has the following benefits:

1. Simplify the application process. The collection and digitization of customer data on a single platform increases the transparency of processes and speeds up decision making.

When a bank uses a digital banking platform, the entire financial package is automatically updated when the client provides the necessary information to complete the application.

2. Digitization of credit information. Digitization of the flow of information and access to it will greatly benefit the entire lending process. This increases transparency and reduces the complexity of data analysis.

3. Use of credit data for analysis. Lenders and analysts often use different valuations and valuation methods. These discrepancies often lead to miscalculations that lead to bad credit decisions and inaccurate reports.

However, the digital credit system integrated into the digital banking platform can quickly and

accurately analyze, approve and evaluate each loan product. At the same time, as a result of collecting all information related to lending in one place, the accuracy of assessing banks' portfolio risks and making strategic decisions will increase.

4. Offering the functions of mobile lending and electronic signature of documents. Some clients in particular prefer to take out loans via mobile phones as they are accustomed to doing most of their day to day tasks from their phones and loan applications are no exception. They don't want the hassle of visiting physical offices to collect, fill out, and sign relevant paperwork.

5. Providing loan options for low income or non-registered clients. Financial institutions rely heavily on credit ratings in traditional lending practices. Credit scores offer lenders a comprehensive look at a prospect's past loan behavior[3].

On the other hand, digital lending has moved away from stringent checks on short-term loans. They do not rely on credit scores or any financial information, which is convenient for first-time borrowers.

Today, with the help of mobile applications of banks, bank customers through their mobile devices will be able to pay utility bills, payments from mobile operators, loans received in the name of individuals, as well as transfer funds from one plastic card to another.

It is also possible to make payments to various service providers through the MUNIS payment

system. In addition, thanks to mobile banking, the following opportunities have been created:

- payment for the services of an Internet provider and digital television, payment for the services of a mobile operator and a city telephone connection, payment for utilities, payments to the budget and making other payments;
- making lump-sum payments and other payments for consumer goods and services rendered;
- making payments on consumer and mortgage loans;
- view and fill in the account status;
- obtaining information about the balances of the deposit and accrued interest on it;
- it is possible to obtain information on a plastic card, contactless transfer of funds from card to card, online conversion, overdraft credit, online deposit registration and other services[4].

Features of lending to individuals in commercial banks are as follows:

1. Small loan amount;
2. Lending to individuals has the same model;

3. Community of the credit organization;

4. Simple and convenient lending procedure;

5. Orientation of the loan to meet individual needs;

6. Formation of initial deposits in the process of lending;

7. Providing a loan without a specific purpose, etc.

Commercial banks of the Republic of Uzbekistan provide loans to individuals in accordance with the credit policy, loan products and modular loans developed by each bank.

In the table below, we consider the change in the balance by type of loans issued by commercial banks of the Republic of Uzbekistan to individuals.

The share of loans issued by commercial banks to individuals in the total volume of credit investments for the analyzed period increased from 19% to 26%, amounting to 100,949 billion soums as of January 1, 2023 . mortgage loans (46% of the total) We see that practices such as consumer loans (25% of the total) and microloans (15% of the total) tend to increase in recent years.

Table 1

Change in the balance of loans issued by commercial banks of the Republic of Uzbekistan to individuals (billion soums)

| Name of the indicator | 01.01.2020 | 01.01.2021 | 01.01.2022 | 01.01.23 |
|-----------------------|------------|------------|------------|----------|
| | -- | -- | -- | -- |

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Balance of loans granted to individuals | 39 934 | 54 888 | 69 496 | 100 949 |
| Mortgage loans | 20 326 | 28 301 | 35 946 | 46 460 |
| Consumer loans | 3 177 | 5 737 | 9 429 | 25 234 |
| microloan | 5492 | 12 237 | 12 795 | 14 651 |
| Microloans for business activities | 6467 | 8 613 | 11 326 | 14 567 |
| Other loans | 4472 | 0 | 0 | 36 |
| Total credit investments | 211 581 | 276 975 | 326 386 | 390 049 |
| Balance of loans to individuals, total | 39 934 | 54 888 | 69 496 | 100 949 |
| The share of loans to individuals in the total amount of loan investments.% | 19% | 20% | 21% | 26% |

Source: Compiled by the author based on reporting data from the Central Bank of the Republic of Uzbekistan.

The conditions for lending to individuals by commercial banks and their convenience, the reduction of various obstacles in obtaining a loan serve to increase lending. This provision is confirmed by the fact that the balance of loans issued by commercial banks to individuals in 2022 (100,949 billion soums) compared to 2021 (69,496 billion soums) increased by 1.45 times or by 31,453 billion soums .

As a result of digital transformation, optimization of bank service processes, revision of the bank structure and transfer of the lending process to one-stage lending:

- the share of employees working with clients has been increased from 16-20% to 50% (in international practice this figure is 90%);
- part of the bank building intended for customer service increased from 30-40% to 55% (in international practice this figure is 80-90%);
- the average number of loans per 1 employee increased from 10 to 22 per month (in international practice, this figure is 33);
- as a result of creating greater convenience for customers, the share of users of remote banking

services has increased from 11% to 50% (in international practice, this figure is 85%)[5].

Microloans are issued by banks only to individuals on the basis of the terms of repayment, urgency and payment. The amount of a microloan depends on the solvency of the borrower, but should not exceed 50 million soums . Microloans are issued in the national currency by issuing cash or transferring funds to a bank card. To date, microloans can be obtained in 18 banks of Uzbekistan. Among the banks that

do not issue microloans : Infin Bank, Asaka Bank, Halk Bank, Mikkreditbank , Davr Bank, Kapitalbank , Universal Bank, Ziraat Bank, Uzagroexportbank . , "Turkestan Bank", " Madad Invest Bank", " Uzbekiston KDB Bank", " Saderat Bank", " Hi-Tech bank ". Currently the most profitable a microloan can be obtained from Trustbank at a rate of at least 22% for a period of two years. At the same time, the maximum amount of microloans of 50 million soums are provided by 11 banks of the country.

Table 2
Information on loans issued by commercial banks[6]

| Banks | Interest rate % | Term | Microloan amount, sum |
|--------------------------|------------------------|------------------|--------------------------------------|
| Tenge bank | 26 | 3 years | From 20 million to 50 million |
| Hankor bank | 26-30 | 3 years | Up to 50 million |
| Poytakht bank | 26-28 | 1-2 years | Up to 50 million |
| Anor bank | 36 | 1 year | Up to 10 million |
| Microcreditbank | 27-28 | 1 year | Up to 50 million |
| Ziraatbank | 24 , 3-26 , 5 | 1-3 years | Up to 50 million |
| Turonbank | 26 | 3 years | 24.5 million |
| Trustbank | 22-26 | 3 years | Up to 50 million |
| NBU | 28 | 1 year | 24.5 million |
| Ravnaqbank | thirty | 1 year | Up to 30 million |
| Orientfinancebank | thirty | 1 year | Up to 15 million |

Information on microloans issued by commercial banks shows that all 33 banks operating in our

republic issue microloans with different terms, amounts and interest rates. The highest rate on

microloans is 36%, this type of microloans is provided by Anorbank . The amount of microloans in this bank is up to 10 million soums , and the loan term is very short, up to 1 year. Also in Tengebank , Hamkorbank , Ravnakbank , Orientfinancebank , the term of loans is about 1 year, the amount is from 15 million to 50 million. Interest rates in these banks are higher than in other banks and amount to 30%. We see that the cheapest loans are in Trustbank .

We consider it expedient to implement measures in the following areas in order to improve the practice of lending to individuals by commercial banks:

1. Full explanation to the population of the conditions and types of credit products offered by commercial banks to individuals. In particular, providing information on the interest rate of the loan, its repayment schedule and schedule.

2. The use of assessment models based on artificial intelligence in the practice of lending to individuals by banks. Today, in the process of lending to individuals, a scoring system for assessing creditworthiness is widely used. The organization of scoring based on artificial intelligence makes it possible to provide quick

loans to customers while reducing the human factor.

3. Article 15 of the Law of the Republic of Uzbekistan dated May 6, 2006 No. 33 “On Consumer Credit” provides that “Providing a financial consumer loan for the production of consumer goods (services) produced in the Republic of Uzbekistan, it is advisable to include imported goods (services) in paragraph “ by transferring funds to the bank account of the issuing enterprise or executing organization by a bank or other credit institution.

4. The expansion of lending by commercial banks under the guarantee of the employer within the framework of the salary project creates the basis for increasing the bank's income. It also allows you to sell multiple banking products.

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