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The Improvement of Retail Lending in Commercial Banks

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Abstract: The article examines the process of providing retail loans in commercial banks of Uzbekistan and ways to improve it. The article also analyzes the dynamics of changes in the share of loans to individuals in commercial banks of the Republic of Uzbekistan in the country's gross domestic product (GDP).

Key words: retail lending, evaluation methods, debt burden, credit risk, population indebtedness, financial indicators, credit risk concentration, transformation, evaluation system.

Introduction.

In Uzbekistan, reforms aimed at ensuring sustainable economic growth and enhancing competitiveness emphasize the importance of improving the lending mechanism of commercial banks. The measures implemented to reform and strengthen the banking and financial system have contributed to the growth of bank capitalization, an increase in lending volumes, the expansion of the range of services provided, and the strengthening of the banking system's role in the country's economic development. However, in order to further improve the quality of banking services and strengthen interactions with the entrepreneurial sector, the optimization of commercial banks' operational methods remains a priority. Additionally, it is crucial to enhance the trust of the population and businesses in the banking system as a reliable and stable partner.[1]

In Uzbekistan, under current conditions, priority is given to the modernization of the banking system. The main efforts are focused on the implementation of innovative technologies and software that meet international standards, the development of educational loan programs, the provision of mortgage loans under market conditions to address housing issues, and the expansion of the range of retail credit products tailored to the needs of the population. Particular attention is paid to improving risk management and the processes for assessing the creditworthiness of individuals when providing loans. Among the main challenges are the low share of retail loans in the overall loan portfolio, the high concentration of credit risk in the mortgage and auto loan segments, the increase in non-performing loans, and the insufficient effectiveness of methods for assessing the financial condition of borrowers. The solution to these issues requires the development of scientifically grounded recommendations and practical measures aimed at improving research activities and eliminating identified shortcomings.

The shortcomings of the credit policy of commercial banks in Uzbekistan and the existing practices of providing retail loans, as well as the reasons for their occurrence, including the mismatch of banking procedures with global standards and client needs, as well as the limited applicability of lending methods used in developed countries to the conditions of the republic, have identified the reasons for the current problems in the activities of commercial banks in

[1] The Decree of the President of the Republic of Uzbekistan dated September 12, 2017, No. PP-3270 "On Measures for the Further Development and Strengthening the Stability of the Banking System of the Republic" https://lex.uz/docs/- 3342348.

lending to individuals. This includes studying the priorities and best practices of foreign banks based on practical analysis and developing scientifically grounded proposals for adapting effective lending methods to the activities of commercial banks in Uzbekistan.

Literature Review on the Topic

Scientific research on the activities of commercial banks in the area of providing retail loans, as well as the improvement of the regulatory framework governing this sector, is conducted periodically. However, the development of reforms in this field requires continuous attention. Economic models that were successful in the past may no longer align with contemporary challenges, making it necessary to either update them or develop entirely new solutions.

The content and key aspects of providing retail loans have been widely discussed in the works of both foreign and domestic economists. Among foreign researchers, notable scholars include J. Sinki, D. E. Dollan, F. Mishkin, A. Mian, A. Sufi, and D. M. Norton. Domestic scholars have also contributed to the study of this topic, including O. I. Lavrushin, G. Beloglazova, E. Zhukov, G. Korobova, S. Kudryashov, A. Polischuk, A. S. Lavrishko, and N. I. Zhirkin.

In addition, the peculiarities of retail lending, consumer loans, and the practical aspects of lending to individuals are addressed in the research of Sh. Abdullaeva, A. Omonov, T. Koralieva, I. Kulliev, Ch. Nazarova, and S. Rayimnazarov.

It is important to note that the concept of "lending to individuals" is sometimes misinterpreted, being reduced solely to "consumer credit." In reality, the range of credit products for individuals offered by commercial banks is extremely diverse. Many authors define loans for individuals as borrowings based on basic credit principles and aimed at meeting the various needs of borrowers. In a broad sense, retail lending refers to the provision of financial services aimed at meeting the personal needs of the population and supporting their current consumption. Thus, retail credit is seen as a tool that contributes to improving the living standards of borrowers and addressing their immediate financial needs. The development of credit activities is a process directly related to the management of bank assets. It includes banking activities focused on managing the credit portfolio and the lending process, with the goal of minimizing or preventing credit risk.

Analysis and Results.

The sustainable development of the welfare of individuals actively participating in the economic growth of Uzbekistan is closely linked to the activities of commercial banks. This necessitates the introduction of new models aimed at improving the quality of banking services for individuals, including the use of innovative solutions in the field of lending.

In recent years, commercial banks have significantly changed their operations, focusing on simplifying the borrower service process and paying particular attention to remote service channels, such as online banking and mobile applications.

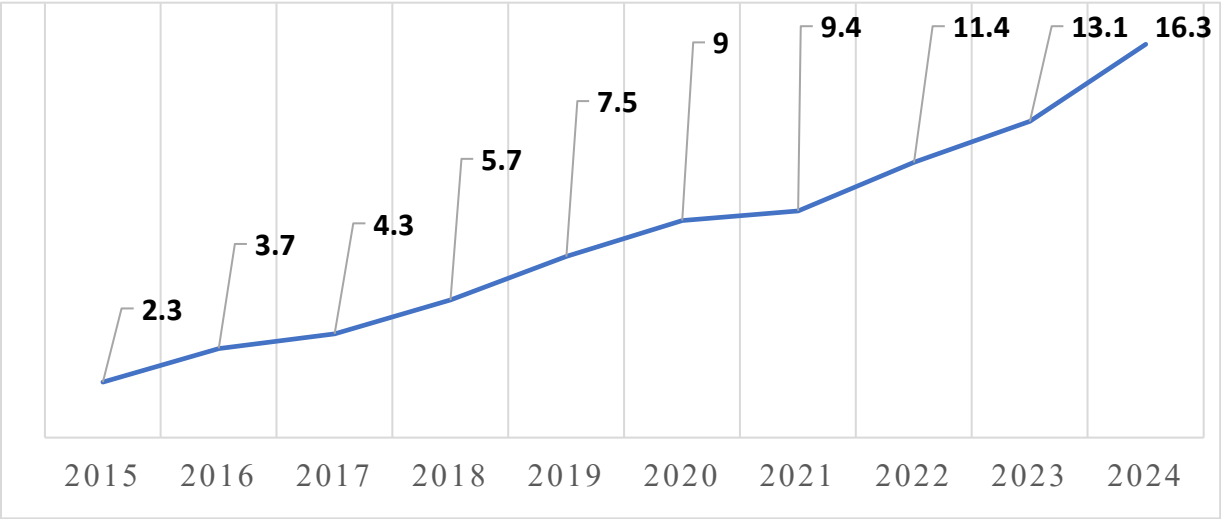


Figure 1. Dynamics of the change in the share of loans to individuals in commercial banks of the Republic of Uzbekistan in relation to the country's Gross Domestic Product (GDP), (in percentage).

From 2018 to 2024, the volume of loans provided to individuals by large commercial banks in the Republic of Uzbekistan shows steady growth. The largest increase in lending to individuals is observed at Kapital Bank, where the volume of loans increased by 4.624 billion UZS from 2018 to 2024.

The share of retail loans in the Gross Domestic Product (GDP) of the country over the past ten years in commercial banks of the Republic of Uzbekistan has shown a growth trend. In 2024, compared to 2015, this indicator increased by 14%. This result, in turn, signifies an increase and development in the activities of commercial banks in providing retail loans. The retail loan portfolio of commercial banks should be analyzed by types of credit products. This is important because such analysis allows identifying which types of credit products enable banks to take leading positions in the retail credit services market. Below is the analysis of credit products conducted at ACB "Ipoteka Bank" and JSC "Poytakht Bank" during the period from 2019 to 2024.

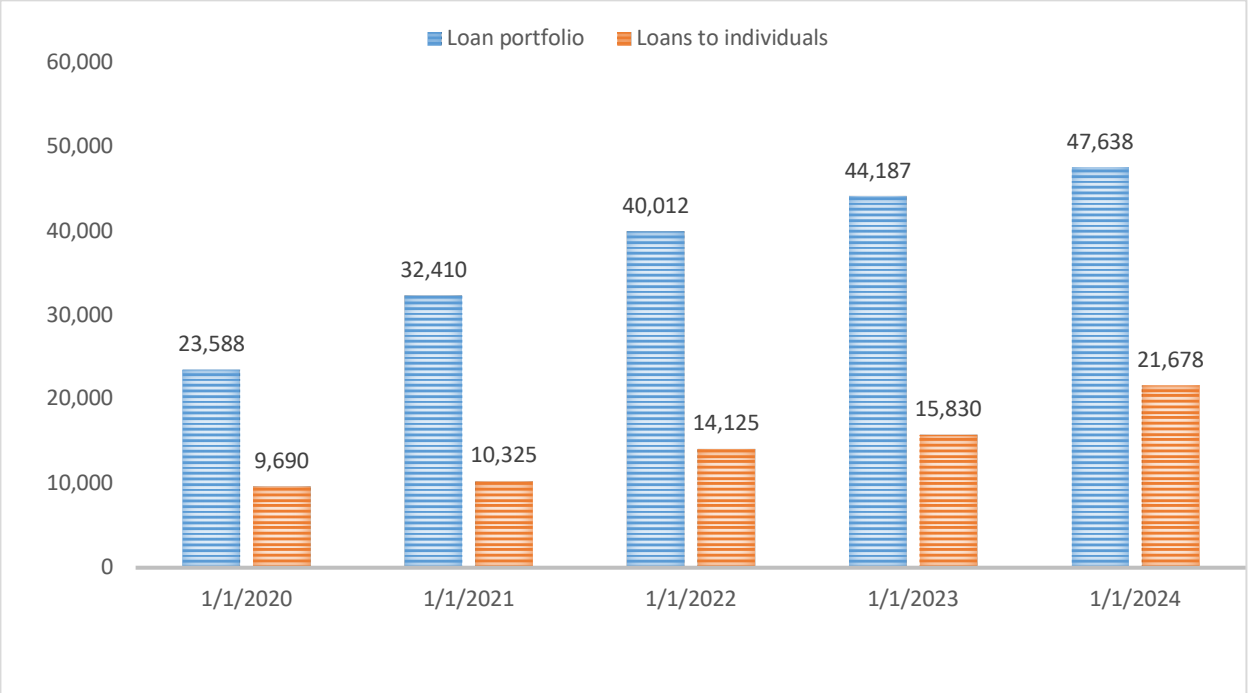


Figure 2. The share of loans to individuals in the total volume of credit investments of ACB "Ipoteka Bank" (billion UZS).

Figure 2 shows that the share of loans to individuals in the total volume of credit investments of ACB "Ipoteka Bank" has demonstrated steady growth over the past five years. As of January 1, 2020, this share was 41.1%, and by January 1, 2024, it had increased to 45.5%. The analysis of changes in the share of loans to individuals in the total volume of credit investments from 2019 to 2023 shows an increase of 24,050 billion UZS in the volume of such loans.

From 2019 to 2023, ACB "Ipoteka Bank" experienced a consistent growth trend in the volume of loans issued. Every year during the period under review, the concentration of loans to individuals remained the most significant among all types of lending. In 2023, loans to individuals accounted for 54.2% of the total volume of issued loans. In our opinion, the growth of this indicator is the result of an increase in the volume of mortgage loans provided to individuals.

Table 1 Analysis of the structure of the retail loan portfolio of ACB "Ipoteka Bank" (billion UZS))[2]

Type of loan	Indicator	2019	2020	2021	2022	2023	Change in 2023 compared to 2019
Mortgage loan	Amount	2529,1	3513,2	2565,5	2565,5	2716,5	187,4
	Average interest rate, in %	8,5	10,8	14,5	15,3	19,8	11,3
Car loan	Amount	40,9	383,9	1089,6	203,0	2215,6	2174,7
	Average interest rate, in %	23,3	24,2	22,9	23,5	22,5	-0,8
Educational loan	Amount	7,5	4,4	122,5	482,4	604,9	597,4
	Average interest rate, in %	14,4	14,2	14,4	14,0	14,1	-0,3
Microloan	Amount	211,7	875,8	1523,9	1776,9	3932,1	-0,4
	Average interest rate, in %	32,5	27,4	23,6	24,4	26,7	-5,8
Other loans to individuals	Amount	179,2	171,3	259,3	22,1	37,9	-141,3
	Average interest rate, in %	**21,5**	**23,2**	**23,0**	**24,2**	**19,5**	-2
Total		**2968,4**	**4948,6**	**5560,8**	**5049,9**	**9507,0**	**6538,6**

The volume of car loans in the retail loan portfolio of ACB "Ipoteka Bank" has significantly increased over the past 5 years. As of December 31, 2023, it amounted to 2,215.6 billion UZS, which is 2,174.7 billion UZS more than in 2019. The average interest rate on auto loans decreased by 0.8%, reaching 22.5%. The number of mortgage loans issued to the population increased by 187.4 billion UZS, reaching 2,716.5 billion UZS on December 31, 2023, compared to the same period in 2019. The average interest rate on mortgage loans decreased by 0.3%.

JSC "Poytakht Bank" was established in 2018 in the form of a joint-stock company in accordance with the legislation of the Republic of Uzbekistan. In November 2021, a decision was made to transfer 100% of the charter capital shares, previously owned by the Tashkent city administration (Khokimiyat), to the Agency for State Asset Management of the Republic of Uzbekistan for subsequent privatization of 100% of the shares.

[2] Source: compiled by the author based on the annual reports of JSC "Poytakht Bank".

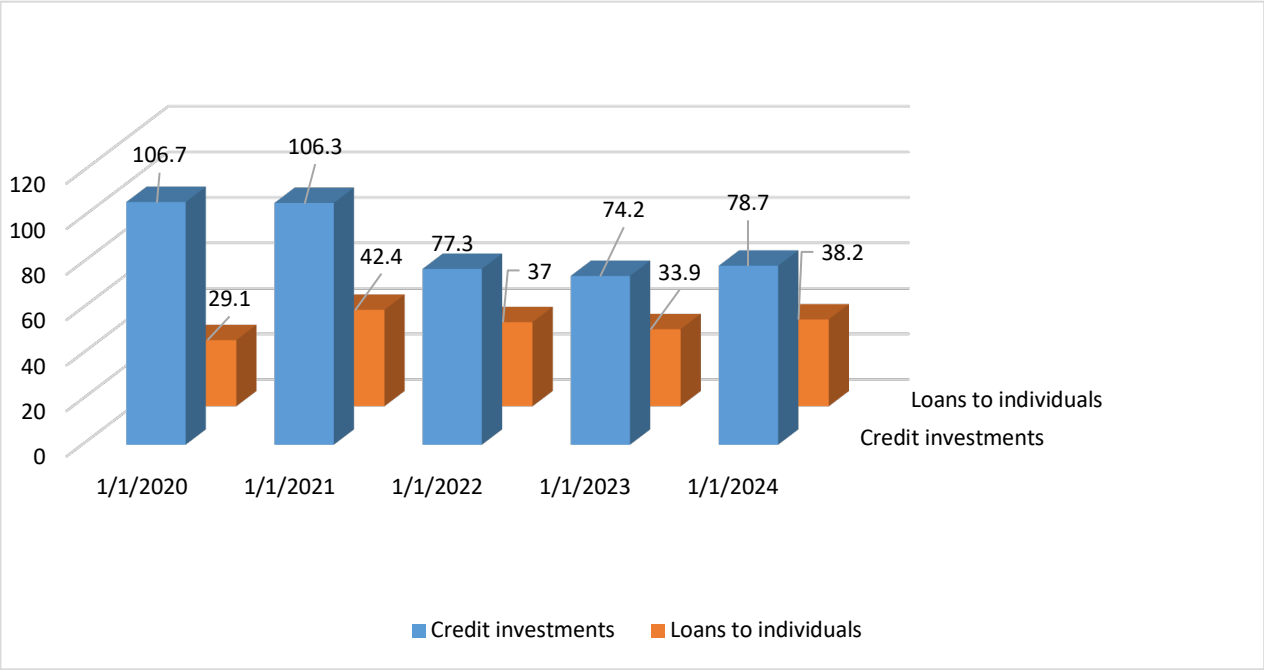


Figure 3. The share of loans to individuals in the total volume of credit investments of JSC "Poytakht Bank" (billion UZS).

The share of loans to individuals in the total volume of credit investments of JSC "Poytakht Bank" has been dominant since 2020 and shows unstable dynamics. When examining the changes from 2022 to 2023, it can be noted that the volume of loans to individuals increased by 4.5 billion UZS.

The loan portfolio is the main source of the bank's income and an important risk factor when placing assets. The quality and structure of the loan portfolio have a significant impact on the bank's financial results, its stability, and business reputation.

The increase in the share of retail loans in the structure of credit investments of commercial banks contributes to the growth of interest income. An important aspect is also the successful implementation of the bank's strategic plans to attract clients.

The assessment of the process of lending to individuals includes the analysis of several key indicators, which help banks and regulators track the quality and efficiency of working with retail borrowers. Methods of evaluating the process of lending to individuals by specific indicators allow for the analysis of the effectiveness, risks, and sustainability of the credit policy.

Problems with the repayment of overdue loans arise when a borrower is unable to fulfill their obligations. This leads to financial losses for the bank. However, with sufficient reserves, the losses are partially covered, which reduces their impact on the bank's financial stability. To reduce the volume of problem loans, banks actively use debt recovery mechanisms through the realization of provided guarantees and collateral. Another effective tool remains the recovery of losses through the sale of borrowers' pledged property. These measures help minimize risks, maintain the stability of the loan portfolio, and improve the financial position of the banks.

Conclusions

In Uzbekistan, a key task today is strengthening reforms and modernizing the economy, moving it to a higher level of development. To successfully implement these goals, aimed at improving the state of the country and enhancing the welfare of the population, it is necessary to strengthen the role of banks in improving the living conditions of individuals.

Strengthening public and individual trust in the banking system is an important task. To achieve this, it is necessary to create a system that guarantees their rights based on the law and ensures

stable and efficient functioning. Frequent changes in regulations negatively affect trust, and a long period of stability is required to restore it. Most large banks are focused on servicing specific industries, which leads to the formation of an informal "single state" within the system. In the future, it would be advisable to merge these banks, creating opportunities for the growth of private and non-governmental banks.

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