



Article

Ways to Develop Retail Services of Commercial Banks

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Abstract: Uzbekistan has gone through major reforms in the banking sector which are mainly related to the increase of financial services and the increase of transparency and trust in commercial banks. The retail banking sector continues to face numerous challenges, including overcentralization of decision-making, overly complicated loan procedures, insufficiently developed retail services, low availability of microloans, poorly developed ATM networks, and limitations on foreign currency transactions, despite these reforms. Although cross-country examples illustrate with compelling evidence why innovations in retail services remain advantageous, little research has examined their local applicability to suit Uzbekistan's unique socioeconomic, institutional, regulatory settings. The aim of this paper is to provide an assessment of the state of retail banking services provided by commercial banks of Uzbekistan; reveal systemic problems, and opportunities for development by means of digital transformation and customer orientation. The research indicates an increase in banking service centers, non-bank credit institutions broaden, and greater adoption of digital forms of banking including mobile banking and online services. Still, profitability measures are unstable, as deeper current returns on assets and equity have contracted—regardless of improving net interest edge. By utilizing such theoretical perspectives on retail banking alongside empirical evidence derived from Uzbekistan's financial environment this study appraises customer requirements in conjunction with institutional performance comprehensively. Results indicate that potential sustainable development of retail banking services to the customers directly is focusing on strengthening and protecting customers, reducing bureaucratic barriers, increasing financial inclusion, in the course of adapting and implementing the international best practices to local environment, all of which may lead to intensified competition and better citizens' confidence in the banking system.

Keywords: Uzbekistan banking system, commercial banks, retail banking services, digital banking services, credit institutions, lending services, deposit services, payment systems.

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1. Introduction

As a result of the reforms being implemented in Uzbekistan, market mechanisms for providing services are being introduced in the banking system, their types are being expanded, and financial transparency for entrepreneurs and the population is increasing. New banking services are being introduced that facilitate currency exchange operations for the public, and opportunities are being created for individual entrepreneurs to purchase foreign currency. At the same time, a number of problems and shortcomings are observed in respecting the rights and legitimate interests of banking service consumers, especially in the regions, and in expanding financial transparency, as well as in further enhancing the service culture and trust in the banking system [1].

Firstly, the excessive centralization of authority in decision-making regarding loan allocation hinders the clear delineation of responsibilities between head banks and their branches [2].

Secondly, the complex mechanisms for reviewing loan applications limit the possibility of obtaining loans quickly [3].

Thirdly, the inability of commercial banks to issue microloans prevents an increase in microloan accessibility, and high interest rates on the services of microcredit organizations and pawnshops in most cases lead to a deterioration in the financial situation of consumers.

Fourthly, the underdeveloped retail banking services market and the lack of modern approaches to establishing partnerships with clients are creating grounds for excessive bureaucracy and red tape [4].

Fifthly, the absence of a state processing organization for executing non-cash payments using bank cards is affecting the security, continuity, and reliability of retail payment systems and hindering the implementation of modern technological solutions in innovative projects accessible to the general public.

Sixthly, the collection of service fees and other charges for reviewing and issuing loans (microloans) is leading to an increase in the real cost of borrowing [5].

Seventhly, the inclusion in contracts of clauses allowing unilateral changes to service tariffs, interest rates on issued loans and attracted deposits, as well as the provision of one service conditional on the use of an additional service, is violating the rights of banking service consumers.

Eighthly, the existing restrictions on foreign currency withdrawals from bank payment cards and the insufficient number of ATMs are preventing adequate service provision for currency exchange operations.

Addressing the aforementioned issues necessitates further refinement of mechanisms to ensure the protection of banking service consumers' rights and increase the level of financial transparency, taking into account innovative development trends [6].

Literature review

The development of the retail banking services market, unlike other segments of banking activity, is dependent on geographical, ethnic, economic, and political factors, and the state of this banking services market varies across different countries. Therefore, when forming, managing, and developing strategies for this market, it is essential to thoroughly examine these factors and analyze market development trends [7].

Today, the concepts of banking services, products, and operations are frequently encountered in leading economic literature. The theoretical foundations, essence, types, and roles of these concepts have been studied to varying degrees in the works of domestic and foreign scholars [8].

When considering the concept of banking services, we find that this concept is interpreted differently in various literature sources. In our research work, we have set ourselves the goal of examining the views of several economists and formulating our own approach [9]. For example, economist Ye.F. Zhukov included only financial services in the concept of banking services, considering that banks mainly perform operations. He divided banking operations into active and passive operations, and included leasing, factoring, forfeiting, and trust operations among the bank's financial services [10].

Ye.B. Shirinskaya classifies the bank's consulting services as off-balance sheet services, since the bank receives income from these services, even though they do not affect changes in the assets and liabilities of the bank's balance sheet [11].

In some economists' articles, retail banking services are defined as the sum of services provided to individuals. For instance, in F.Suyarov's article "Retail Banking Services Market," the retail services of commercial banks are defined as follows: "Retail banking is the provision of numerous banking services to individuals". Defining the concept of retail banking services as "activities to provide banking services to individuals" is not strictly correct, because any organization consists of individuals, and most of them, whether they like it or not, may have to conduct financial operations with individuals who are their clients [12].

In his dissertation research, Sh.Z. Zokirov came to the scientific conclusion that "Retail banking services are a set of coordinated actions resulting in the use of funds for the client's personal needs." As we mentioned above, we do not fully agree with this definition, since some banking services do not involve the movement of funds [13]. Thus, providing a precise legal definition of retail banking services is a challenging issue. From the perspective of the purpose and technology of banking services, in our opinion, "Retail banking services are financial services provided by banks and other financial institutions to individuals, rather than to corporate clients or organizations." It should also be emphasized that the bank's retail services are aimed at the general public and, unlike corporate services, are intended for primary consumption [14].

2. Materials and Methods

This work was aimed at the comprehensive analysis of development of retail services in commercial banks of Uzbekistan, methods were developed for theoretical bases and practical results. Qualitative and quantitative methods, respectively, were applied to ensure a comprehensive view. Induction and deduction methods to interpret the dynamics of retail banking services market with existing gap identification and focused strategic improvement. Modification: Expert assessment methods were incorporated to check the findings and make recommendations as science-based. The fundamental method in this research was secondary data from official sources, including reports of the Central Bank of Uzbekistan, statistical bulletins and legislative documents; in addition scientific literature that formed the conceptual framework for this study. Three foreign practices in retail banking were analyzed, with the analysis applied in the context of the banking sector of Uzbekistan. We conducted statistical and tabular analyses to assess the indicators of profitability, growth in banking service centers, and the performance of credit organizations, making it possible to objectively quantify trends and results. Simultaneously, customer-focused aspects that reflect accessibility, transparency, and trust in banking services were interpreted through descriptive analysis. This triangulated approach fostered the robustness of the analysis via connecting theoretical insights to empirical data. The methodology, integrating macroeconomic indicators, institutional structures and customer behaviour patterns, provided sufficient theoretical basis to support conclusions as well as practical implications relevant to policy making and strategies to enhance retail banking services in Uzbekistan.

3. Results and discussion

The development of the commercial banking services market not only allows for the distribution of capital to all sectors of the country's economy but also provides information to the population, accelerates payments, and creates a number of other conveniences and opportunities.

In these conditions, the financial aspects of retail banking services should focus on the income generated for the bank and meeting the needs of bank clients.

From this perspective, it is advisable to examine more deeply the retail services of commercial banks from both a financial standpoint and in terms of satisfying customer needs.

Today, although commercial banks of the Republic of Uzbekistan do not fall into the category of specialized retail banks, most of them actively engage in this type of retail banking services, which imposes a certain responsibility on them. This is because individuals are considered the most vulnerable segment of bank clients. Consequently, any issues in this area of banking could lead to serious social tension. For this reason, a sufficient legal framework has been established in Uzbekistan to guarantee the deposits of the population. The purpose of this law is to attract idle funds of the population to banks and increase their trust in banks. The state's guarantee of full repayment of citizens'

deposits in commercial banks, regardless of the amount, and measures aimed at encouraging the growth of the population's deposits in credit institutions serve to strengthen public confidence in the banking system [15].

When discussing the role of retail banking services in generating income for commercial banks, it is first necessary to mention their most common types. The classification of retail banking services has been thoroughly studied in specialized literature and scientific works. However, in practice, the retail services provided by local commercial banks can be listed as follows (Figure 1).

Retail services shown in Figure 1 belong to traditional types of services and have remained one of the main service categories since the early years of banking system development. However, today, on a global scale, types of retail services provided by commercial banks that align with the digital economy are rapidly evolving. Modern retail banking services comprise a set of financial services offered by banks to individuals.

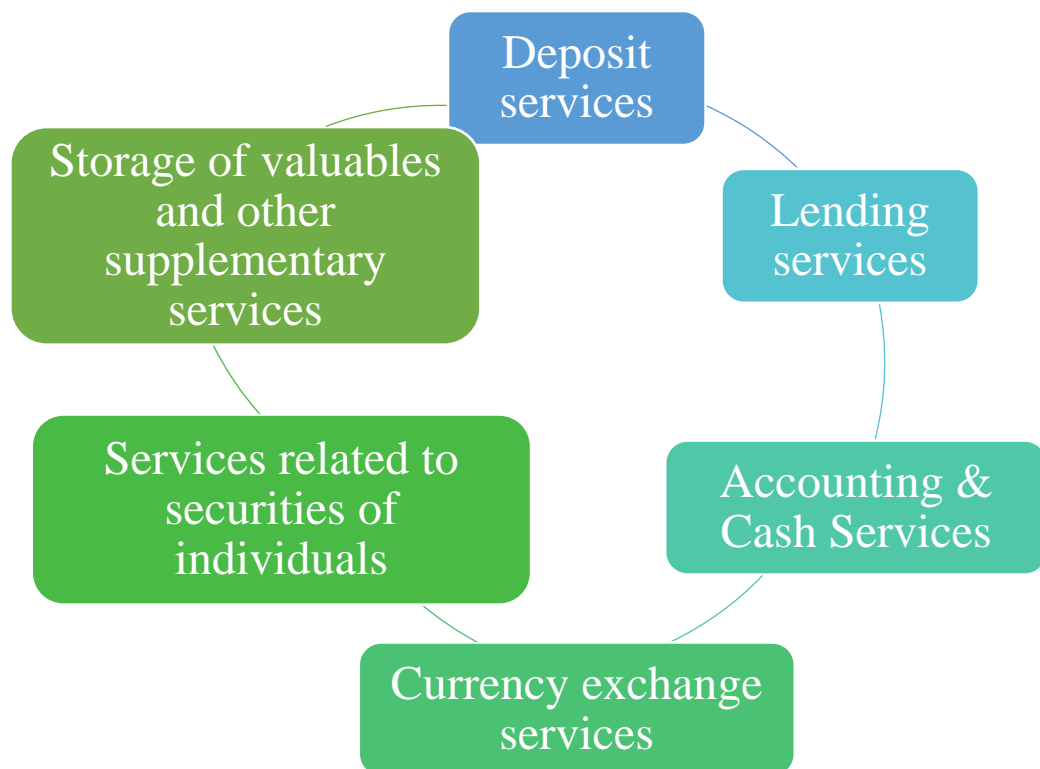


Figure 1. Types of bank retail services in financial terms¹

These services encompass a wide range of operations: opening and maintaining accounts, granting loans, issuing and servicing bank cards, executing payments and money transfers, as well as providing consulting services. In the current environment, banks are actively implementing new technologies to enhance service efficiency and attract customers. Mobile applications, online services, and the use of chatbots are clear examples of this. In practice, retail banking services must ensure financial inclusion. Indeed, commercial banks are striving to provide financial services to all segments of the population, including those who previously lacked access to banking products.

Today, commercial banks operate banking service centers to develop retail services. These centers play a crucial role in financing small and medium-sized businesses by providing loans and investment products. They offer convenient access to various banking services, which helps clients manage their funds effectively. The centers foster competition in the financial market by offering clients a wide range of services and products.

¹ Author's development.

Many centers conduct educational programs that help the population better understand financial instruments and personal finance management. They contribute to maintaining the stability of the banking system by providing risk and liquidity management services. Thus, banking service centers not only contribute to economic growth but also improve the quality of life of citizens by providing access to necessary financial resources and information. It should be noted that newly established banking services

At centers, qualified bank employees provide a wide range of financial and consulting services to legal entities and individuals. There, one can open accounts and plastic cards, apply for loans, make deposits, and perform all types of payments and international money transfers. Modern ATMs and info kiosks operate 24/7. This allows for withdrawing cash from national and international plastic cards, making payments for utilities, mobile operators, landline phones, cable television, and internet services on any day of the week, at any time of the day.

Furthermore, the universal cash desks located in the centers will eliminate the need for customers to wait in long queues. A single employee can answer any question and provide quality service. Credit organizations and their structural subdivisions play an important role in providing such services. In Uzbekistan, the figures in this area are developing with a positive trend (Table 1).

Table No.1

Number of credit organizations and their structural subdivisions²

Credit organizations	Years						Change, (+,-)
	2020	2021	2022	2023	2024	2025	
Credit organizations, total: including:	147	160	178	199	204	229	82
Commercial banks, of which:	30	32	33	32	35	36	6
State-owned banks	13	13	12	12	10	9	-4
Other banks	17	19	21	20	25	27	10
Non-bank credit organizations, of which:	117	128	145	167	169	193	76
Microfinance organizations	56	63	71	85	84	100	44
Pawnshops	61	64	73	81	84	92	31
Mortgage refinancing organizations	0	1	1	1	1	1	1
Branches of commercial banks, total	850	861	860	832	696	288	-562
Banking Service Centers (service offices and mini-banks)	1,050	1,222	1,241	1,543	1,816	1,720	670
24/7 branches	902	1,452	2,346	2,974	3,723	4,447	3,545

According to the data in Table 1 above, the number of banking service centers increased by 670 units on January 1, 2025, compared to January 1, 2020. This indicates that in the development of banking services in our country, the operations of banking service centers are being properly organized to serve clients. This situation demonstrates that when commercial banks have the necessary information about clients and market conditions, they can consistently implement the principle of customer orientation in their activities and have the ability to quickly adapt to the characteristics and interests of specific clients. A modern commercial bank is an organization that attracts funds and places them in its own name under the terms of repayment, payment, and urgency. The main purpose of the

² <https://cbu.uz/> Compiled by the author based on information from the website

bank is to mediate the transfer of funds from creditors to borrowers and from sellers to buyers. To carry out commercial activities, banks must have the necessary amount of funds at their disposal. A distinctive feature of banks is that, on the one hand, they attract temporarily idle funds from various sources, and on the other hand, they allocate these funds to meet the needs of companies, institutions, and individuals requiring monetary resources.

To increase the bank's income, it is possible to consider strategies associated with an increase in commission income. It is important that the bank's loan portfolio be directed towards the growth of services for legal entities and individuals. In the future, the bank should develop comprehensive credit services, including long-term cooperation with clients. This approach allows bank clients to obtain the most favorable terms, which leads to an increase in the number of transactions through the bank. The results of the analysis of profitability indicators of the banking system in the republic can be seen below (Table 2).

Table No.2

Banking system profitability indicators³

Date	Net profit before tax to total assets ratio (ROA)	Net profit to total equity ratio (ROE)	Net interest income to total assets ratio	Ratio of net interest income on loans to total loan investments	Ratio of net interest income to total liabilities	Net interest margin ratio to total assets
1	2	3	4	5	6	7
01.01.2020	2.2	16.7	3.6	4.7	4.5	3.9
01.01.2021	2.2	10.3	3.8	5.1	4.6	4.5
01.01.2022	1.3	6.1	3.7	5.1	4.4	4.2
01.01.2023	2.5	13.3	4.3	6.2	5.1	4.9
01.01.2024	2.6	14.2	4.4	6.2	5.2	4.9
01.01.2025	1.4	6.6	4.4	6.4	5.2	4.9
Difference (+,-)	-0.86	-10.10	0.81	1.74	0.76	0.98

According to the data in Table 2 above, in the banking system of our country as of 01.01.2025, the total net profit before tax We can observe that the ratio to assets decreased by 0.86 coefficient compared to 01.01.2024, and the ratio of net profit to total capital also decreased by 10.10 coefficient, which affected the profitability of the banking system. However, in the activities of commercial banks, the ratio of net interest income to total assets increased by 0.81 coefficient, the ratio of net interest income received on loans to total loan investments increased by 1.74 coefficient, the ratio of net interest income to total liabilities increased by 0.76 coefficient, and the ratio of net interest margin to total assets increased by 0.98 coefficient, which indicates the development of banking services in our country's banking system. In general, when classifying retail services of commercial banks from a financial perspective, services related to plastic cards, which are one of the operations included in the category of retail services, were left out. This is because the listed banking operations have a hundred-year history, while operations related to plastic cards are relatively new and belong to the category of more recent operations. If we pay close attention, operations related to plastic cards can be included in most of the classifications listed above.

4. Conclusion

Today, the development of the banking system in the Republic of Uzbekistan and the improvement of interbank competition pose the task of enhancing commercial bank

³ <https://cbu.uz/> Compiled by the author based on information from the website.

services and introducing new banking products. Consequently, the increase in interbank competition necessitates the improvement of retail services offered by commercial banks to the population within the banking system.

The development of retail services in commercial banks requires, first and foremost, a thorough examination of the unique features of the existing financial and credit system in our country. In this regard, special attention should be paid to the following:

- History of the banking system's development. Our country's independent banking system does not have a very long history; therefore, when identifying the characteristics of the credit system, it is necessary to study the history of the banking system starting from the Soviet era.
- Structure of the banking system. Our banking system structure consists of the Central Bank at the top tier and commercial banks at the lower tier.
- Monetary policy of the Central Bank. As the Central Bank occupies the highest level of the country's banking system, its policies directly affect the services provided by commercial banks.
- Specialization of commercial banks. Although all commercial banks in the Republic of Uzbekistan are universal banks, some banks have not yet lost their specialization in certain sectors of the economy. For example, the People's Bank still The main customers are individuals. Some large banks, however, are not particularly interested in working with individual clients.
- Location of commercial bank branches. As we know, improving the retail services of commercial banks requires, first and foremost, an expansion of the bank branch network. In this regard, it is important to study the locations of branches and determine which retail services are in high demand in each area. This issue is being addressed with the introduction of remote banking services.
- Non-bank credit organizations. The development of non-bank credit institutions can increase competition in the retail services market of commercial banks.

In developing retail services of commercial banks, it is necessary to implement the following directions:

1. Develop mobile applications, Internet banking, and other digital solutions to simplify customers' use of banking services.
2. Create personalized offers based on customer data analysis, which allows for better meeting their needs.
3. Introduce new services, such as insurance, investment products, and credit cards with unique terms.
4. Train employees in effective customer interaction skills and implement an adequate approach for smooth communication.
5. Open new service centers in areas with insufficient banking infrastructure to attract new clients.

The development of retail services should be flexible and focused on adapting to changing customer needs, which will allow commercial banks to remain competitive in the market.

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