

PROSPECTS FOR THE DEVELOPMENT OF COMPETITION IN THE MARKET OF BANKING SERVICES OF THE REPUBLIC OF UZBEKISTAN

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ABSTRACT

Direct or indirect regulation of the banking services market serves to prevent and minimize negative situations that may occur. Regulation and control of the market of banking services by the Central in banking activities is changing the market of banking services and creating a number of advantages. The processes of selling banking products to customers and providing banking services to them are optimized, and digital banking services are expanding. In this article, the market of banking services in the Republic of Uzbekistan is researched, trends specific to its change and existing problems are studied, and recommendations on important directions of development are given. Bank will not only develop inter-bank competition in the country, but also create a basis for increasing the quantity and quality of banking services. The introduction of advanced banking technologies

KEYWORDS: *Banking Services Market, Retail Services, Corporate Services, Online Services, Payment Operators, Business Model, Interbank Competition, Digital Bank, Private Bank, Central Bank.*

INTRODUCTION

Fundamentally changing the principles of interaction with customers in the market of banking services and offering services based on the needs of customers is important for the sustainable development of commercial banks. The increase in the number of organizations competing with banks in the market of banking services is causing a decrease in the income of banks. In particular, the expansion of the activity of banks providing payment-mediation services, payment organizations, i.e., non-bank legal entities authorized to perform activities related to the provision of payment services, entities that sell goods and services in return for term payment, has an effect on increasing competition in the market of banking services.

In the market of banking services, the margin of banking products is shrinking, and the importance of comprehensive offers for customers is increasing. In particular, the marginality has decreased due to the reduction of commission income due to the fact that the banks made tariffs for debit transactions free. Instead of loans provided by banks to customers at high interest rates for the purchase of necessary tools, manufacturers offer to sell in exchange for installments, reducing the marginality of bank loans. In addition, the duration of customer service is a positive factor in the profitability of banks, and the longer the relationship with the customer, the more profitable the cooperation is for both parties. A bank's profitability is influenced by the bank's business model, resource funding and current financing structure, and risk appetite.

Today, globalization is an important tool in the development of the banking services market. The essence of globalization is that the development of all branches and sectors of the economy is influenced by global factors rather than national and regional factors. As a result of the globalization of banks, the nature and forms of competition in the financial market are changing. Banks are forced to compete not only with each other, but also with other financial institutions, including insurance organizations, investment funds, non-state pension funds and other financial companies, as well as with business entities operating on the basis of various term payments.

One of the important types of banking services provided to customers by commercial banks is their deposit services. Deposits are a type of service that serves to form the resource base of banks and increase the customer base. The activity of commercial banks in the market of deposit services determines the efficiency of the bank's activity.

In the market of banking services in the Republic of Uzbekistan, "the low level of financial popularity due to the orientation of business models of banks to serve corporate clients, non-bank financial organizations, slow development of innovations and information systems", requires increasing the popularity of banking services and further development of the market of retail banking services.

In addition, the establishment of banks in the Republic of Uzbekistan with different forms of ownership, in particular, the increase in the number of banks with the participation of foreign capital, has a positive effect on the environment of interbank competition and stimulates the development of the banking services market. This increases the offer of banking products and services offered by banks to the population and business entities in the market of banking services.

LITERATURE REVIEW

Banking services and the market of banking services have been studied by domestic and foreign research scientists, and research work is being carried out in certain directions today.

R.Ben and V.Dinger conducted empirical studies on the effect of interbank competition on bank risk and drew relevant conclusions. This study proposes a new empirical approach focusing on the relationship between bank competition and bank risk in the deposit market. This approach closely follows the traditional theoretical views of competition and risk relations and focuses on the risks that arise in banks. According to their conclusion, competition in the market of deposit services increases the bank's optimal risk selection by significantly increasing the cost of bank liabilities. Since banks can substitute retail and corporate lending, competition in the deposit market is linked to retail market conditions and their combined effect on the risk of bank assets is assessed. [1]

The market of bank credit services and interbank competition in the credit market have not been comprehensively researched. Theoretical and practical aspects of banks' lending practices have been studied by many domestic and foreign economists and researchers.

Competition in the banking sector is encouraged by the benefits. The theoretical point of view is that increased banking competition is an important factor in increasing business investment and improving economic growth, while serving to lower credit interest rates. Competition has a positive effect on the possibility of obtaining a loan, customers will be able to choose banks, consider the possibilities of receiving offers from banks on various credit services. Interbank competition serves to ease credit constraints in developing countries, and this is consistent with the market power hypothesis.

The relationship between competition and credit risk in banking markets has been empirically studied by researchers Chiara Canta. It assessed the competitiveness of local markets using a dataset of all bank loans to Norwegian firms. Banks' non-performing loans and loss coverage rates were analyzed to determine the relationship between the level of competition and risk. According to the results of their analysis, competition leads to a decrease in loan interest rates and an increase in the volume of loans. At the same time, it makes it difficult for small and newly established companies to get loans.[2]

According to research by Braggion and Ongena (2019), "competition also has a negative effect on lending, and if this effect is significant, competition can increase the risk level of banks by reducing the information available to banks." Of course, the results of empirical studies on the relationship between credit risk and competition are mixed. Some cross-country studies show that the banking system is stable in countries with a high level of market concentration.[3]

According to the research conducted by Jung (2016), the researcher formulated conclusions by relating it to the competition between banks and analyzing its effect on performance in order to extend the credit scoring. In this study, a two-sided bank competition model is considered, that is, banks compete both in the financing market and in the credit market. Also, according to the researcher's conclusion, "strong competition increases the rate of deposits, which, in turn, increases the rate of lending to firms and increases the cost of financing in the economy. In addition, intense deposit competition will drive some banks with more efficient lending technology out of the market.".[4]

A 2018 report by Deloitte found that individuals who received five mortgage offers could save an average of more than £6,000 over the life of their mortgage. In a competitive market, consumers have the power to choose who to borrow from, the type of mortgage that suits their specific needs, and in some cases, the type of mortgage and payment schedule.[5]

RESEARCH METHODOLOGY

This article analyzes the activity of commercial banks in the market of credit services. Practical recommendations on strengthening the position of commercial banks in the market of credit services, attracting customers with a good credit history and financial stability, and developing competition in the market of credit services have been developed. Grouping, comparative and structural analysis, induction and deduction, analysis and synthesis and other methods were used in the analysis process of this research. Also, comparative analysis was carried out on the basis of statistical data, reviews and practical data of the banking system of the Central Bank of the Republic of Uzbekistan.

ANALYSIS AND DISCUSSION OF RESULTS

It is important that the services provided by the commercial banks of the Republic of Uzbekistan to the population and economic entities meet the requirements of international banking practice standards in terms of quantity and quality indicators. The incomplete formation of the interbank competition environment in the country has a negative effect on increasing the type and quality of services provided to clients.

The services of commercial banks can be divided into two large groups according to their economic content and intended purpose:

1. Services performed to maintain the bank's liquidity at a certain level.

2. Services performed for the purpose of obtaining income. There is a certain ratio between these two groups of services, which allows to maintain the quality of banking activities at a certain level. While some of the services performed to ensure the bank's liquidity bring income to the bank, the reason for their existence is to maintain the bank's overall liquidity at a certain level.

The market of banking services is limited to the list of banking services and other banking operations defined by the current legislation, but has the right to carry out non-banking operations that ensure the organization of banking activities. The market of banking services can be divided into the following three segments, determined by the tasks and functions of the banking system:

- the market of services for the organization of money settlements;
- the market of services for attracting funds to the banking system;
- market of placement services of involved funds.

In addition to the classification of the market of banking services by product types, it is possible to study by grouping taking into account other characteristics of banking services. Banks meet the needs of customers by attracting free funds and placing them on a risk-based basis, as well as intermediation practices.

In addition, the geographical coverage of the banking services market can be divided into local, regional, national and international markets. The domestic market of banking services is formed within the country and provides banking services in accordance with the license issued by the Central Bank. Regional covers neighboring countries or a specific union territory. The international markets of banking services are expressed both in the world global market and in the banking services markets at the level of individual interstate associations.

By consumer types of banking services:

- market of corporate services - market of business entities;
- the market of retail services - the market of individuals;
- market of state organizations;
- the market of financial and credit institutions.

The main feature of our presentation of the classification of banking services by types of consumers is that bank tariffs are developed according to this classification, and the procedure for providing services differs from a practical point of view.

Bank customers can be classified based on their relationship with the bank and their interaction. In this regard, depending on the permanent relationship with the bank, the following customers can be divided:

- permanent customers - characterized by long-term relations with the bank and focused on using banking services of only one bank.
- random (one-time) customers are customers who use the bank's services for a one-time or short period of time or use them accidentally.
- potential customers - create the basis for the growth and development of the bank, and the intention to benefit from banking activities can be manifested in both explicit and hidden (latent) forms.

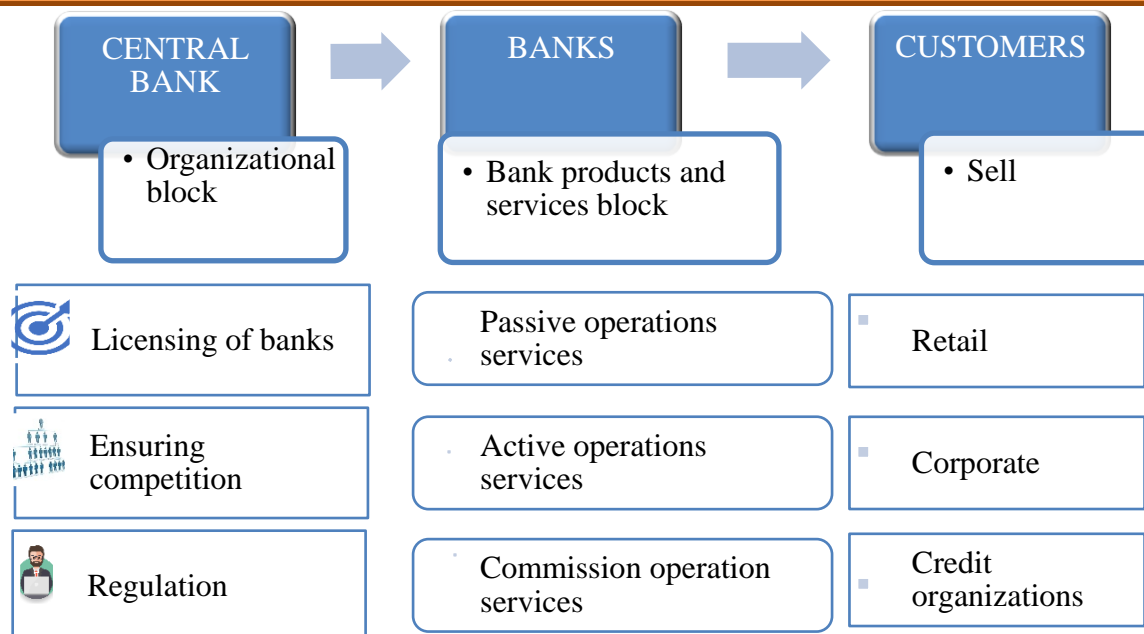


Figure 1. Mechanism of organization and implementation of banking services market.

The market of banking services, according to its institutional structure, is an integrated mechanism with a bilateral socio-economic nature between economic entities. The market of banking services is regulated in accordance with the requirements of current legislation and international legislation.

As a regulator, the Central Bank is necessary to analyze the banking market and identify and regulate problems that may affect the stability of the banking services market.

When assessing the state of the banking services market in the economy, the ratio between the volume of services sold and the number of actual and potential buyers of the product in a certain area is used to assess the level of saturation of the market with certain services or the level of banking coverage of the market.

The World Bank analyzes the number of customers using banking networks, the number of customers using credit and deposit services of banks, and other directions in order to assess the availability of banking services in the banking system of the countries of the world.

The following table shows the number of commercial bank branches of the countries and the level of provision of services to how many people are provided by this indicator. This data includes the population that has the legal capacity to open bank accounts and use banking services.

Table 1. Changes in the number of branches of commercial banks
(per 100,000 people)

State	Years					Change	
	2017	2018	2019	2020	2021	quantity	%
Italy	44,6	40,9	39,2	37,7	34,5	-10,1	-23%
Kazakhstan	2,8	15,2	14,7	14,1	13,1	10,3	365%
Malaysia	10,2	10,2	10,1	9,0	8,7	-1,5	-15%
Turkey	17,3	16,8	16,1	15,4	15,0	- 2,3	-13%
Uzbekistan	37,9	35,9	39,9	42,4	48,0	10,1	27%

From the data of the table, it can be seen that instability was observed in the cross-section of countries and a decrease was observed in developed countries, while in developing countries, the number of banking networks per 100,000 people showed an increasing trend. In the last 5 years, the trend of decrease in developed countries is related to the transfer of banking services from the traditional form to the online form, and the decrease occurred due to the reduction of some existing branches of banks.

In Kazakhstan and Uzbekistan, the growth trend is observed, and as of January 1, 2022, the number in Kazakhstan was 13.1, compared to the corresponding period of 2018, which increased by 10.3 or 365 percent. In the banking system of Uzbekistan, it was 48.0 and it can be seen that it increased by 10.1 or 27% during the period of analysis.

Table 2. Changes in the number of deposits in commercial banks
(per 1,000 people)

State	Years					Change	
	2017	2018	2019	2020	2021	quantity	%
Argentina	1148,2	1 214,4	1 180,8	1 357,5	1 417,8	269,6	23%
Italy	667,6	720,6	691,0	716,6	733,5	65,9	10%
Latvia	1395,6	1 343,9	1 252,1	1 265,5	1 282,1	- 113,5	-8%
Malaysia	708,8	705,2	708,4	705,9	714,4	5,6	1%
Turkey	1 345,7	1 463,5	1 593,9	1 777,5	1 913,7	568,1	42%
Uzbekistan	576,2	600,8	593,2	622,7	687,8	111,6	19%

According to the data of Table 2, while there was an increase in most of the countries, there was a decrease in Latvia, and the number of depositors decreased due to the decrease in the country's population. During the period of analysis, it occurred in the Turkish banking system and amounted to 1,913.7 at the beginning of 2022. Also, as of January 1, 2018, it was the country where the largest number of deposits were opened among the analyzed countries. In the last 5 years, there has been an increase in the opening of deposit accounts in banks, and this includes all accounts opened by one person. A growth trend is observed in Uzbekistan, which increased by 111.6 or 19% during the analysis period.

Table 3.Changes in the number of borrowers in commercial banks
(per 1000 people)

State	Years					Change	
	2017	2018	2019	2020	2021	quantity	%
Argentina	395,63	407,36	407,32	396,44	390,76	- 4,9	-1%
Italy	538,1	529,37	552,22	552,48	555,25	17,2	3%
Latvia	327,64	323,1	313,54	297,07	294,82	- 32,8	-10%
Malaysia	319,78	318,45	313,82	311,03	309,41	- 10,4	-3%
Turkey	799,64	773,11	761,73	846,75	872,71	73,1	9%
Uzbekistan	88,26	113,58	152,92	177,16	210,67	122,4	139%

During the period of analysis, when the number of borrowers allocated credit in the banking system was evaluated in relation to every 1000 persons, instability was observed in the cross-section of countries. From the data in the table, it can be seen that there has been a sharp growth in the banking system of Uzbekistan. The main reason for this is the rapid growth of retail lending practices in the banking system of Uzbekistan. The Turkish banking system, which saw a decrease in the countries of Latvia and Malaysia, is also the leader in terms of the number of individuals who received loans, which increased by 73.1 or 9% during the analysis period.

In the analysis of the market of deposit services of the Republic of Uzbekistan, the share of the banks with a large share in the banking system in the market of services will be analyzed and evaluated, the level of competition in the market of bank deposit services will be assessed and conclusions can be drawn.

Table 4. Changes in the share of TOP banks with a high share in the deposit services market of Uzbekistan, (in percent)

Top banks	2019	2020	2021	2022	2022 years compared to 2019 years
TOP3	36,0	34,1	32,9	36,4	0,4
TOP5	53,0	51,0	48,6	50,0	-3,0
TOP10	76,7	76,7	76,0	73,3	-2,6

Based on this information, we will analyze the share of banks with a high share in the services market. The 3 banks with the highest share of the deposit services market during the analysis period owned 36 percent of the total market in 2019, and in 2022 they accounted for 36.4 percent of the market, an increase of 0.4 percentage points during the analysis period. In 2022, the share of the 3 largest players in the market was 36.4 percent, which was the maximum during the analysis period.

During the period of analysis, the share of TOP5 and TOP10 banks in the market of deposit services showed a significant decrease. The share of TOP5 banks in the market of deposit services decreased from 53% to 50% or by 3 percentage points. The share of TOP10 banks in the services market decreased by 2.6 percentage points during the analysis period.

The increase in the number of banks in the banking system of the Republic of Uzbekistan and the improvement of the competitive environment have a positive effect on reducing the level of concentration in the market of deposit services and increasing the quality of services offered to customers. Based on the data in the following table, information is provided on the change in the number of banks in the share segment of the deposit services market.

Table 5. In the section of shares in the deposit services market of the Republic of Uzbekistan change in the number of commercial banks, (units)

Market share	2019	2020	2021	2022	2022 years compared to 2019 years
The number of banks with a share of 0-5 percent	21	23	23	24	3
The number of banks with a share of 5-10 percent	6	5	5	5	-1
The number of banks with a share of 10-15 percent	0	1	2	1	1
The number of banks with a share above 15 percent	1	1	0	1	0
TOTAL	28	30	30	31	3

Analysis of changes in the number of banks was carried out by dividing shares in the market of banking services into 4 groups, that is, by 5 percent intervals. It can be seen that the number of banks with a share of up to 5% increased from 21 to 24 during the analysis period.

Newly established banks with the participation of private and foreign capital in the banking system are actively entering the market of credit services. At the same time, these banks are having a significant impact on the market of credit products by introducing remote credit services. The share of the state-owned banks in the credit services market is decreasing year by year, while the share of banks with other forms of ownership is increasing.

In the analysis of the credit services market, the analysis and assessment of the service market share of banks with a large share in the banking system allows to draw clear conclusions about the level of competition in the credit services market.

Table 6. The group of banks with a high share in the market of credit services of banks and its change, (in percent)

Top banks	2019	2020	2021	2022	2022 years compared to 2019 years
TOP3	52,3	50,3	47,5	46,3	-5,0
TOP5	69,3	68,3	66,4	64,2	-4,9
TOP10	88,5	88,4	86,3	85,2	-2,7

Based on the data of Table 6, the share of banks with a high share in the market of credit services in the analysis period, the 3 banks with the highest share in 2019 owned 52.3 percent of the total market, in 2022 they owned 46.3 percent of the market, and this indicator increased during the

analysis period. decreased by 5 percentage points. This situation is considered positive and shows that the level of concentration of banks in the market of credit services has a tendency to decrease.

During the period of analysis, there was a significant decrease in the share of the 5 and 10 banks with a high share in the market of credit services. The share of TOP5 banks in the market of credit services decreased from 69.3% to 64.2% or 4.9 percentage points. The share of TOP10 banks in the market of credit services decreased by 2.7 percentage points during the analysis period.

The creation of digital banks in the banking system, the increase in the number of private banks and the improvement of the competitive environment have a positive effect on reducing the level of concentration in the credit services market and increasing the quality of services offered to customers.

Analyzes were carried out on the basis of statistical data on the activity of commercial banks in the market of bank credit services for 2019-2022. Analysis of changes in the number of banks was carried out by dividing shares in the market of banking services into 4 groups, that is, by 5 percent intervals. Based on the data in the table below, information is provided on the change in the number of banks in the segment of shares in the market of credit services.

Table 7. In terms of shares in the credit services market of the Republic of Uzbekistan change in the number of, (commercial banksunits)

Market share	2019	2020	2021	2022	2022 years compared to 2019 years
The number of banks with a share of 0-5 percent	21	23	23	24	3
The number of banks with a share of 5-10 percent	4	4	4	4	0
The number of banks with a share of 10-15 percent	2	2	2	2	0
The number of banks with a share above 15 percent	1	1	1	1	0
TOTAL	28	30	30	31	3

It can be seen that the number of banks with a share of up to 5% in the credit services market increased from 21 to 24 during the analysis period. This situation is mainly related to the entry of new banks into the market. Banks with a share of 5-10 percent in the market of credit services remained unchanged during the analysis period, making up 4. There are 2 banks with a share of 10-15% in the market of credit services.

CONCLUSION

We believe that it is appropriate to implement measures in the following important areas of development of banking services of the Republic of Uzbekistan:

1. To offer banking services suitable to the needs of clients.

Based on the study of the development traditions of the world market, it is evident that the quality of services provided to bank customers depends on the level of development of digital services. Today, keeping customers in the bank is losing its importance in a certain sense. Today, in order to excel in the competition in the banking services market, in addition to providing banking services in international practice, it is expanding its client base by conducting client activities and automating

its activities. Including keeping the necessary accounting records for the activities of clients, creating billing systems or offering services aimed at automating the activities of clients in other areas.

2. Expansion of cross-selling in the practice of selling banking products and providing services;

By developing cross-selling in commercial banks, in addition to the main product, it involves selling packages of additional programs and services related to it. For example, when selling credit products, services are sold by offering a bank card and offering the convenience of credit payments through the bank application. Also, insurance is offered in addition to the loan product and deductions can be made from the partner insurance company to cover overdue loans or bad loans.

3. Complex transformation and privatization of banks.

The following can be achieved through corporate transformation and subsequent privatization of state-owned banks in the Republic of Uzbekistan:

- international standards of optimization of business processes and management quality will be introduced;
- through the introduction of modern technologies, the process of allocating loans will be simplified;
- introduces digital banking services and expands the coverage of remote banking services, including contactless payments;
- automated scoring system, digital identification and credit conveyor are widely used;
- in banks, a modern system of labor remuneration is formed based on the evaluation of the results of each employee's activity.

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