

INNOVATIONS IN THE RETAIL SEGMENT OF BANKING ACTIVITIES IN UZBEKISTAN

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Abstract

This thesis examines the impact of innovations on the development and structure of the retail banking business. The modern stage of banking service development, taking place under conditions of increasing competition and crises in the global financial market, is characterized by three main trends: the growing role of innovative technologies, an increase in the volume and variety of retail banking services, the formation of new segments in the customer service market.

Keywords: Banking innovations, banking products, business processes, competitive advantages, remote banking services.

Introduction

A key condition for the successful development of banks today is the introduction of new banking products tailored to customer preferences, changes in their promotion strategies, and the modernization of internal organizational structures and control systems. These improvements contribute to faster decision-making and the creation of an effective risk management system.

The implementation of innovations in domestic banks is essential for fully meeting the needs of corporate and individual clients in a changing macroeconomic environment. This aligns with the modern concept of banking marketing, which prioritizes customer orientation.

The focus on quality in the development of the banking sector in Uzbekistan determines its viability, stability, and operational efficiency in the context of financial globalization. From the customer's perspective, the main goal of banking innovations is to add new beneficial features to products. At the same time, for banks, the key outcome of innovation is an increase in financial performance. Innovations should be regarded as any improvements in banking business processes that lead to:

- increased revenue or reduced costs,
- risk optimization,
- gaining competitive advantages (expanding the customer base, increasing market share, etc.).

Research methods

The methodological basis of the study is an institutional approach to managing the development of innovative banking technologies in Uzbekistan, including the analysis and practical



generalization of their essence. An analysis and synthesis method was used to examine the management structure of innovative banking technologies, as well as the growth rate of digital banking services and the expansion of the retail banking segment in the regional context.

Analysis and results

The main areas of innovation implementation include the development and modernization of services, the adoption of new methods to improve service quality, and the organization and planning of internal banking processes. Innovations in these areas contribute to increasing customer loyalty, reducing labor costs, enhancing the efficiency of the bank's operations, and, ultimately, ensuring the bank's technological dominance in the market. Innovations in the retail banking sector primarily emerge as proprietary product and process innovations. These involve improving the forms and methods of organization and management within the bank, modifying work regulations, and increasing the accessibility of banking services for a wide range of consumers—individual clients.

The classification of proprietary banking innovations can be based both on traditional criteria (such as product and process innovations) and on characteristics determined by the specifics of banking activities, particularly their interdependence with customer requirements and preferences.

In economic literature, banking innovations are typically classified based on various factors, including the reasons for their emergence (reactive and strategic), their role in banking operations (core product innovations and supporting innovations), their innovation potential, the scope of their impact, their degree of novelty, the type of customer needs they fulfill, their relationship with developers, the timing of their appearance, and other criteria.

Innovative changes in the retail banking sector of the Republic of Uzbekistan exhibit several distinctive features:

- Innovations in domestic banks are primarily **enhancing** rather than radical. They focus on improving existing banking products (modifications), technologies for their promotion, management methods, and other aspects.
- Technological innovations mainly originate in other sectors of the economy (such as telecommunications and electronics). As a result, the country's lag in high-tech industries leads to dependence on foreign manufacturers and high costs for acquiring new technologies available in the market.
- The retail banking services market in Uzbekistan heavily relies on banking products, technologies, and procedures implemented in other countries. Consequently, there is a lack of unique innovations. Most innovations are **replicated**, meaning that the products and technologies already exist in domestic or foreign banking practices and are adopted by banks to provide similar services and maintain competitive positioning.
- The main driving force behind innovations in retail banking products and technologies, as well as banks' independent developments, is the changing customer needs. These changes are driven by economic transformations in the country and the evolution of forms, methods, and the nature of interactions with business entities.



Changes in the retail product lines of domestic banks are generally assortment modifications accompanied by minor adjustments in banking business processes. These changes are not perceived by the market as innovations and do not bring significant long-term benefits to banks. At the same time, marketing innovations—such as new forms of positioning banking products, accompanied by advertising campaigns and promotional offers—although they do not contain groundbreaking business ideas or require significant development costs, can generate a notable short-term effect (e.g., increased deposits, loans, card-based transactions, etc.). The market's receptiveness to technological (process) innovations—which require substantial bank expenditures for development or acquisition and have a long payback period—is considerably lower since the core product itself remains unchanged with the same consumer characteristics. Therefore, in the current conditions, the formation of a retail banking innovation strategy should prioritize "networked innovation solutions" and the development of systemic banking innovations. The priority areas for innovation development in the retail banking segment of banks in the Republic of Uzbekistan should currently include:

- Automation of banking business processes, the introduction and development of self-service and remote banking technologies, as well as virtual banking technologies.
- Enhancement of management forms and methods, aimed at integrating managerial and control procedures into the bank's daily operations; in personnel management, this includes ensuring the specialization of top managers and maximum universalization of operational staff.
- Integration of business consulting procedures into the responsibilities of all bank client managers.
- Structural and functional changes in bank divisions, enabling multichannel customer service.
- Optimization of the regional network of domestic banks, based on the principles of segmentation and specialization.
- Adaptation and implementation of international banking best practices, standards, and unification efforts in banking organization, regional bank development, risk management, accounting, supervision, and auditing.

Automation of banking business processes includes several aspects, one of which is the implementation of self-service and remote banking technologies (such as ATMs and self-service kiosks). The data supporting the above-mentioned aspects are clearly illustrated in the following charts: (Figures 1, 2).

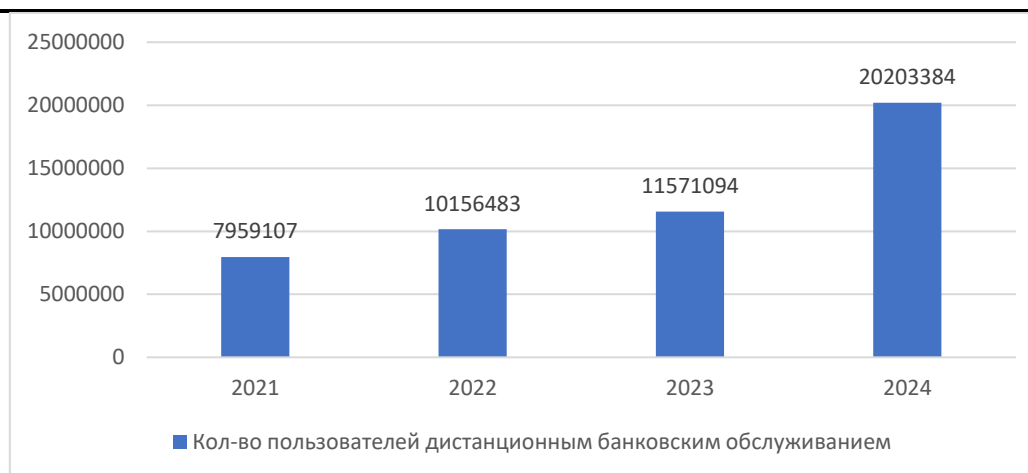


Figure 1. Dynamics of changes in the number of online banking service users in the Republic of Uzbekistan from 2021 to 2024 (in thousand people).¹

According to the data from the graph, the number of users of remote banking services has been growing significantly each year, with mobile and internet banking, virtual banks, and chatbots remaining the top priorities.

Another key tool is ATMs and self-service kiosks, which not only enhance customer convenience but also serve as an important instrument for optimizing business processes, reducing costs, and increasing competitiveness. The implementation of such technologies improves customer experience, expands functionality, and reduces the time employees spend on routine operations.

The introduction of ATMs and self-service kiosks with extended capabilities helps banking institutions to cover a wider market, especially in areas without bank branches. This improves the accessibility of banking services for customers who are unable to visit offices and allows banks to expand their service network with minimal costs.

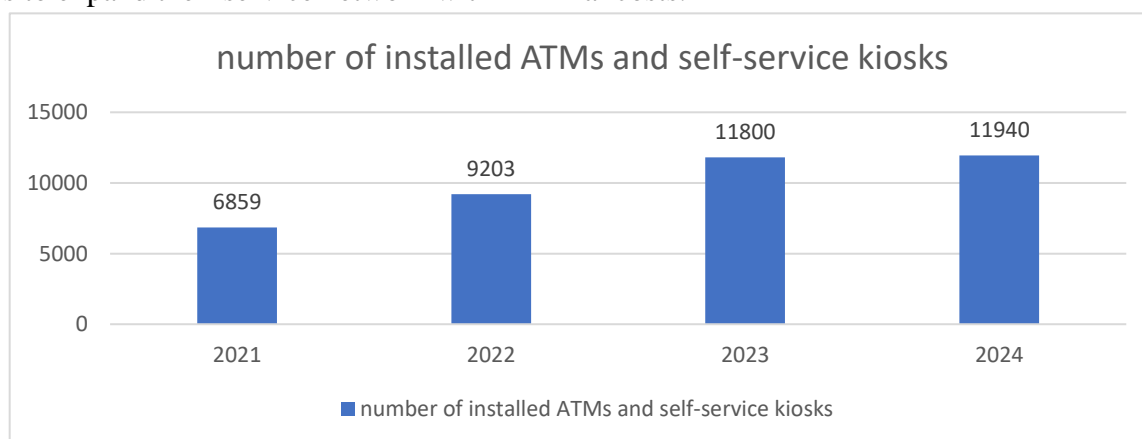


Figure 2. Dynamics of changes in the number of installed ATMs and self-service kiosks from 2021 to 2024 in the Republic of Uzbekistan, thousand units.²

¹ www. cbu.uz – official site of Central Bank of Uzbekistan

² www. cbu.uz – official site of Central Bank of Uzbekistan

The introduction of ATMs and self-service kiosks with extended capabilities helps banking institutions to cover a wider market, especially in areas without bank branches. This improves the accessibility of banking services for customers who are unable to visit offices and allows banks to expand their service network with minimal costs. According to the Central Bank of Uzbekistan, the number of ATMs and self-service kiosks increased by 45% from 2021 to 2024, reaching over 20,000 units nationwide. As a result, the share of cashless transactions via self-service devices grew by 30% over the same period, significantly enhancing customer convenience and operational efficiency.

Conclusion

The introduction of information technologies into banking activities was also addressed in the "Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025." In the part concerning process automation, the following development paths were outlined:

- Involvement of international consulting companies to diagnose the efficiency of banks' information systems, assess their compliance with existing requirements, and evaluate the potential for implementing modern products.
- Joint development of a set of measures to modernize banking information systems with the involvement of international consulting companies.
- Implementation of an automated system for collecting, processing, and analyzing information based on "Big Data."
- Optimization and automation of administrative and operational procedures through the introduction of "RegTech" and "SupTech" technologies.

To leverage the achievements of international banking practices, the strategy outlines several development paths. The plan includes developing ten professional training programs aimed at enhancing the qualifications of banking personnel in high-demand areas such as risk management, corporate governance, and project analysis. Every year, at least 150 specialists from the Central Bank will undergo training at foreign training centers, including those of the Swiss National Bank, the Bank of Russia, the National Bank of Poland, the Bank of Korea, and the Joint Vienna Institute. Cooperation will be established with training centers of Gazprombank, Sberbank of Russia, and the Center for Strategic Research at Moscow State University. At least ten training sessions and seminars will be organized monthly at the Corporate Training Center of the Central Bank, involving foreign experts to enhance the qualifications of banking sector specialists, including experts from the IMF, WB, EBRD, ADB, VISA and Mastercard companies, as well as auditing and consulting firms.

In conclusion, it should be noted that in the context of rapid financial globalization and changing customer needs, banks in the Republic of Uzbekistan must actively integrate modern digital solutions to optimize business processes, improve service quality, and enhance accessibility. Innovations in the banking sector are not just a trend but a necessity, as the implementation of new technologies and process automation not only increases operational efficiency but also significantly improves the customer experience. According to recent data, the volume of non-cash payments in Uzbekistan increased by 75% over the past three years, demonstrating the growing popularity of digital banking tools. Moreover, the number of mobile banking users has



doubled since 2020, indicating a shift in consumer preferences towards convenient and fast financial services.

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