

# PROSPECTS FOR INTRODUCTION OF CREDIT CARDS IN COMMERCIAL BANKS OF THE REPUBLIC OF UZBEKISTAN

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**Abstract.** *Access to consumer credit in the form of credit cards has grown rapidly, becoming one of the most widely held financial instruments by households in developed countries. Credit cards provide the convenience of cashless transactions, i.e. shopping via mobile devices and the Internet. Credit cards allow consumers to defer payment to a future date and plan for a specific day, and relieve the cost pressures associated with temporary liquidity shortages.*

*The development of competition in the market of retail credit services of the Republic of Uzbekistan requires the improvement of lending practices of individuals. In commercial banks, based on the needs of individuals, it is necessary to make quick decisions in the offer of retail credit products and in the lending process. It is for this reason that in the conditions of the unstable development of the financial market, banks face the issue of managing the quality of the portfolios formed and fundamentally changing the retail lending policy. Banks offer various loan products based on the needs of customers.*

*This article describes the prospects of providing retail credit services to individuals through credit cards by commercial banks and its development in Uzbekistan.*

**Keywords:** *credit card, retail credit, refinancing rate, credit risk, inflation, credit scoring, household income.*

## Introduction

The first plastic cards that allowed bank customers to buy now and pay later were payment cards associated with certain retail stores that appeared in the early 20th century. Diners Club introduced the first universal credit card in 1949. The card allowed traveling businessmen to charge for dining at various restaurants and required payment in full each month.

Despite doubts that the credit card system could be profitable in the United States, other cards soon entered the market. Backed by Congress and the courts, Bank of America and a competing network, the Interbank Card Association, became the two major credit card issuers, eventually becoming VISA and MARSTER CARD, respectively.

Increasing competition in the market of banking services is causing a decrease in the income of commercial banks. In particular, the implementation of bank payment services by mobile operators and payment organizations, the increase in the number of entities engaged in production and sale as competitors to banks, has a negative impact on the efficiency indicators of banks. In addition, the establishment of banks of various forms of ownership in Uzbekistan and the expansion of online lending practices of digital technologies encourage competition for customers in the market of retail credit services. The use of credit cards, which are widely used in the banking practice of commercial banks in developed countries, is one of the issues that await its solution.

In developed countries, the use of bank credit cards as a means of transaction has been increasing in recent years. Researchers have observed cases of card issuers trying to justify this situation by selling credit cards to consumers in an unregulated and improper manner. A

comparison of their convenience and other advantages they provide is sufficient to explain the emergence of credit cards as a means of transaction. In particular, credit cards are increasingly being used as a substitute for checks because they are a preferred medium over traditional check transactions.

Bank credit cards have two transactional advantages over cash instruments:

1. unlike cash instruments, credit cards always eliminate the need to store and carry cash reserves sufficient to cover current expenses;

2. credit cards provide several ancillary benefits that are not available for cash and credit cards. Credit cards provide consumers with the flexibility to match their income and spending streams, easing the need to always maintain enough funds to cover current expenses. Instead of requiring you to maintain constant cash balances, credit cards require you to maintain enough money to pay off your credit card bill once a month.

By the end of 2020, the balance of loans allocated by banks to the population in the Republic of Uzbekistan amounted to 54.1 trillion soums, and 15 banks with a market share of more than 1% owned a total of 52 trillion soums or 96.1% of retail loans. The maximum share was 18.7 percent in Ipoteka Bank. By the end of 2022, the balance of allocated loans amounted to 99.1 trillion soums, and 19 banks with a market share of more than 1 percent owned a total of 96.8 trillion soums or 97.8 percent of retail loans. The share of the mortgage bank in the market of retail credit services was 15.6 percent, which decreased by -3.1 percentage points compared to 2020. The development of the level of competition can be shown by the increase in the number of banks with a share of 1% and the share corresponding to one bank in the retail credit services market in 2022 (5.1%) compared to 2020 (6.4%) decreased by -1.3 percentage points. The share of “Anorbank” and TBS banks in the sale of retail credit products is growing year by year.

In the banking practice of the Republic of Uzbekistan, the sale and servicing of retail loans to individuals through credit cards is used in the activities of some banks. In some cases, credit cards are used on an equal footing with term credit cards. Term payment cards are different from credit cards, and their use is limited to the merchant account system contracted with the bank.

The lack of sufficient research on the introduction and practical use of credit cards and the presence of legal problems with payment systems have a negative impact on the development of this sector.

#### **Literature review.**

In the studies devoted to credit cards in commercial banks, mainly the issues of assessing the creditworthiness of natural persons as borrowers and analyzing the financial situation of the client were studied. From this point of view, this article discusses the process of crediting individuals and theoretical views on their financial situation.

In the research of researcher N.Abdullaev, “Scoring model is a mathematical model that allows to compare the characteristics of the borrower with a numerical value. It is a scoring method rating that describes creditworthiness (higher probability of a successful loan agreement)” cited the definition.[1]

The researcher's conclusion that "in our conditions, the practice of mass application of scoring methods can lead to a sharp increase in cases of non-repayment of loans" is controversial. The researcher explains his opinion by such factors as credit bureaus are not active in Uzbekistan, in accordance with international experience, the population's credit-taking culture is not developed, and there is no single information field in the financial sector. [1]

Prof. Sh.Abdullaeva's research on the process of credit scoring in lending to individuals and the features of the credit scoring system is of great theoretical and practical importance. According to Sh.Abdullaeva, "Scoring evaluation is a useful system for both subjects of credit relations, both for the bank and for the client". By preventing credit losses for the bank, the client will be able to get, use and repay the loan quickly without any difficulties." In addition, it compares the advantages and disadvantages of credit allocation according to the scoring method, and shows its positive aspects and conveniences. [2]

Researcher D. Toshpolatov's scientific research defines "scoring rating system as a set of indicators and coefficients used to determine the creditworthiness of legal entities, individual entrepreneurs and individuals who apply to the bank for a loan or provide guaranty for the requested loan".[3]

According to D.Toshpolatov, when assessing the creditworthiness of individuals, the study of the credit history is based on current non-credit obligations to banks (guarantees or others), the due date until the end of the month, the existence of an overdue debt on the first tranche, other loans or mortgages based on the guarantees provided by the debtor. it is necessary to take into account information such as the existence of overdue debt on the credit and other loans of the spouse. [3]

The researcher's "suggestion on the need to use data and factors on overdue credit debts of individuals in the scoring system of commercial banks" is reflected in the scoring models of banks.

The credit bureau "Credit Information Analysis Center" (CIAC), which is the leader in the credit history market of the Republic of Uzbekistan, conducts scoring analyzes using the "Scoring CIAC" model, and the determined scoring points are of a recommendation nature. Scoring CIAC's scoring model takes into account the borrower's credit history, personal, professional, property and other factors. In addition, the "Scoring CIAC" scoring model of the "CIAC" credit bureau is based on the obligations of individuals and legal entities. [16]

Ahmet Burak Emel and others (2003) research examines the use of quantitative analysis in modern credit scoring models. The methodology based on data analysis was used to evaluate the performance of 82 industrial production firms that comprise the loan portfolio of one of the largest commercial banks in Turkey. Using financial coefficients, various factor (regression and discriminant) analyzes mainly achieved significant results, and most importantly, the information on creditworthiness of firms was confirmed by expert opinions. [4]

Blöchlinge, Andreas and Markus Leippold (2006) consider the important advantage of the scoring system to be its objectivity and the possibility of standardizing criteria in the credit decision-making process. The objectivity of the model ensures that borrowers are treated equally regardless of their race, gender, religion and other discriminatory factors. In addition, the credit scoring system is characterized by high flexibility. [6]

According to the results of their research, a properly structured scoring model also allows to significantly reduce the number of bad loans in the bank. This leads to the improvement of the loan portfolio. The study attempted to prove that the results obtained as a result of the application of the credit scoring system are less error-prone than those received by qualified personnel in the traditional method of checking customers. [6]

According to research conducted by Caplinsk, Alina and Manuela Tvaronavičienė, creditworthiness assessment is the main tool of pre-contractual and contract-contractual stages of

minimizing credit risks in banking activities. Creditworthiness assessment includes the borrower's character, marital status, previous experience, acquired professional qualifications, etc. [8]

In his research, Fensterstock pointed out the speed of analysis, simplicity of application and versatility as the main advantages of using scoring models in banking. Credit scoring has many advantages not only for lenders but also for borrowers. Scoring models are often used to review credit applications and make quick credit decisions. In addition, state-of-the-art scoring models are used to set credit limits, manage existing accounts, and predict the financial reliability of customers. [8]

Barefoot points to several key benefits of credit scoring in its research. For example, credit scoring lowers the cost of credit because it reduces human involvement in credit application evaluation.[5]

According to Ponicki, credit scoring provides a standard way of evaluating loans across the banking sector, an efficient way to conduct transactions. Credit scoring models also benefit lending institution customers by offering a simpler application process. [14]

At the same time, there are cases in the literature where the negative aspects of using credit scoring in assessing creditworthiness have been noted. The aging of the scoring system used by the bank and the rapid change of data reduce the accuracy of the creditworthiness assessment. Commercial banks will have to systematically update information on new borrowers and the requirements of the used scoring model. . It has been shown that the credit scoring method can have a negative effect on the allocation of credit to new borrowers. This is because the creditworthiness of customers with no credit history is negatively evaluated. As a result, many negative decisions are made in allocating credit.

The main aspect in the provision of credit card services by commercial banks is the assessment of the client's creditworthiness. After a decision is made to grant credit to customers with good scoring results, a credit limit is set for them.

### **Analysis and results.**

Credit card is a bank card issued by the bank to the customer as a non-cash means of payment, designed to carry out operations within the credit limit in accordance with the terms of the concluded contract. Existing customers in our republic can independently select credit cards of Humo ili Uzcard national payment systems.

A credit card is a bank card that can be used to pay for goods and services without cash from the bank's credit funds. The customer's credit card, unlike the bank's debit (overdraft) card, does not allow the cardholder (borrower) to store (collect) his own funds.

In commercial banks, customers' credit card limit can be restored, that is, a part of the loan paid by the borrower can be borrowed again. Lending limit is the maximum amount that can be allocated by the bank to the client, within which the client is given the opportunity to use the credit funds simultaneously or in installments to perform payment operations using the card/card details.

At the discretion of the credit card holder, the card can be used to pay for any goods, works and services. Using a credit card, you can make payments for online purchases in any place (shops, cafes, restaurants, etc.) just like regular debit cards. In order to effectively use a credit card in the future, before concluding a loan agreement with the bank, it is necessary to carefully study it and find out all its features, commissions and other "hidden and unexpected" situations.

In addition, you should carefully study how the grace period (if any) is calculated on your card and try not to exceed its “limit”. Interest on credit cards is calculated on actual funds used, not on the basis of the authorized credit limit.

There are advertisements and announcements about the provision of credit card services to customers by commercial banks of the Republic of Uzbekistan. The main problem of the fact that credit cards in Uzbekistan's banking practice do not work like credit cards in foreign practice is explained by the existence of a deficiency in the payment system.

The pros and cons of using credit cards by banks can be seen in the table below.

**Table 1**

**Advantages and disadvantages of bank credit cards**

ADVANTAGES	DISADVANTAGES
Ability to borrow funds for use	That interest rates are high
Use in different places and times	Negative impact on credit history when payments are overdue
Opportunity to save on purchases	Not understanding credit card terms
Safe from carrying lots of cash	Paying higher interest on payments over the limit
Create your payment history	Some banks set a commission for cash withdrawals
Get various discounts and points	If the card is blocked, you will have to wait
Opportunity to save on purchases	Establishment of additional commission payments

*Source: Compiled by the author*

When you pay for purchases with bank credit cards, you get bonuses, points and/or cash back on your credit card account. Banks have a wide network of partner companies, where you can spend credit card funds on discounts and promotions to your advantage. Co-branding projects of banks and various companies allow you to save on purchases when paying by card. Points can be redeemed for other purchases, services and features.

Financial literacy of customers and the correct use of the grace period will allow you to minimize overpayments on credit card loans and use this payment tool to your advantage. In general, the proper use of credit cards shows that it is preferable

**Table 2**

**Terms of service of credit cards by commercial banks of the Republic of Uzbekistan**

<b>№</b>	<b>Name of the bank</b>	<b>Percentage</b>	<b>Term</b>	<b>Amount</b>
1	Invest Finance Bank	35.99%	24 months	30 mln. up to soum
2	Agro Bank	27.99%	48 months	50 mln. up to soum
3	Universal Bank	30.0%	12 months	within the limit
4	Anor Bank	0.0%	24 months	30 mln. up to soum
5	Davr bank	32.0%	48 months	30 mln. up to soum

*Source: Compiled by the author.*

Credit cards offered to individuals by commercial banks of the Republic of Uzbekistan are offered to customers on the basis of various conditions. Services are provided mainly through credit cards in accordance with the terms of microcredit practice. Credit card and microloan terms and principles of operation provided by banks are close to each other. The limit amount for these cards is determined based on the results of the credit score and the financial situation. Insurance policy, third party guaranty and other types of security are used as credit security in banks' practices related to credit cards. Anor Bank credit card has a 0% interest rate, it is possible to make purchases at the specified points of sale in this bank and thereby use the bank loan.

**Table 3**

**Comparative information on terms and conditions of bank cards and retail credit products**

№	Terms of provision of retail credit services	Retail credit products		
		Microloan	Consumption	Credit card
1.	Expediency	-	+	-
2.	Availability	+	+	+
3.	Interest rate	+	+	+
4.	Term	48 months	60 months	48 months
5.	Grace period	+	+	+
6.	Issuing a card	+	-	+
7.	Loan amount	50 mln. up to soum	According to the contract	50 mln. up to soum
8.	Issuance of a credit line with or without opening	Open line	Without opening the line	Open line
9.	Interest calculation	Interest is calculated when the loan is disbursed.	Interest is calculated when the loan is disbursed	As soon as the client makes the payments, the interest is calculated on the part of the loan used.

*Source: Compiled by the author*

Commercial bank credit cards and retail credit products can be seen from the comparative data, which are close to each other and can show the different features of their registration and implementation of operations.

**Conclusion**

In commercial banks, the expansion of credit products through credit cards based on the guarantee of the employing enterprise within the framework of the salary project creates the basis for increasing the bank's income. Also, the bank allows you to sell several products.

In commercial banks, when assessing the creditworthiness of individual borrowers, indicators on the potential borrower's work experience, credit history, financial status and personal information are widely used in the analysis.

Increasing financial literacy among the population in terms of obtaining and repaying loans from commercial banks. In particular, it is necessary to carry out campaigns about the credit history of individuals and its negative impact on the possibility of obtaining a loan in the future. In the future, it is necessary to provide explanations regarding the fact that individuals will be blacklisted

(bad customer) and lose the possibility of using bank loans for a certain period of time (usually 5 years after the loan is closed). As a result, it increases the responsibility of customers to fulfill obligations on loans received from banks on time, and serves to reduce problem loans.

Another negative aspect of credit scoring is that no conclusion is provided on the rejection of a client's application for a loan. This leads to the violation of the rights of customers as consumers. The report of the World Bank also draws attention to this situation, and it is noted that it is necessary to justify the non-allocation of credit to customers based on the results of scoring.

In the retail lending practice of the commercial banks of the Republic of Uzbekistan, it is desirable to widely introduce models for assessing creditworthiness of customers based on artificial intelligence. In the practice of retail lending, the human factor is reduced and the level of credit risk is reduced.

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