

Analysis of the Impact of Retail Banking Services on the Efficiency of Banking Activity

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Abstract: This article examines the impact of retail banking services on banking performance. Through a comprehensive analysis of relevant literature and empirical data, the authors examine various dimensions of retail banking services and their impact on bank performance. The article examines the impact of retail banking services on revenue and customer acquisition. Retail banking services are important in increasing the bank's income, improving customer relations and improving the economic efficiency of banking operations. In general, the article provides a comprehensive analysis of how retail banking services contribute to the effectiveness of banking activity and the example of joint-Stock Commercial Bank with foreign capital "HAMKORBANK".

Keywords: retail banking services, banking efficiency, retail customers, retail credit, microcredit, satisfaction with banking services, digital banking.

Introduction. The introduction and use of information and communication technologies in banking activities will serve to increase the popularity of banking services. By introducing new retail services, commercial banks prepare the ground for ensuring their financial stability and competitiveness. The reason is that the 21st century is the information age, so it is necessary to provide the services provided by the bank to clients remotely.

According to the decree of the President of the Republic of Uzbekistan No. PF-60 dated 28.01.2022 "On the new development strategy of Uzbekistan for 2022 - 2026" in order to automate production and operational processes in the real sector of the economy and in the financial and banking sectors, to increase the volume of sales and improve customer service (customer) relationship management (CRM) systems and expansion of online types of banking services, as well as the introduction of scoring systems for automatic analysis of credit allocation [1].

Analysis of literature on the subject. It is desirable for commercial banks to cover more customers and provide them with services, not by opening branches and mini-banks, but by improving the efficiency of remote banking services and saving operational costs of banks. As a result, the competitiveness of banks will increase, the level of diversification of remote banking services in banks will increase, that is, bank customers will choose remote banking services that are convenient for them (internet banking, «online banking», especially mobile banking and other types) will create a choice when using [2].

Today, the main task of our commercial banks is to increase the popularity of retail banking services and to further improve these banking services.

- standardization and automation of retail banking services delivery process;
- development of a strategy for the introduction of modern sales;
- expanding the scope of retail banking services and improving their quality;
- by modifying the banking services currently provided by banks to the population, creating new banking services can usually be done by changing the conditions of their provision in order to increase the attractiveness of current services [3].

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In the studies devoted to the improvement of banking services, "banking service" and "banking product" are separated from each other. By O. Ortiqov, "bank product" is a set of interrelated banking services and operations aimed at satisfying customer demand of banking activity in a separate form [4].

First of all, we believe that it is necessary to distinguish between "banking service" and "banking operation". The term "banking operations" refers to the conduct of banking business. O. Alikoriev, this category is considered one of the main concepts in the practice of the banking industry, because the relations that arise during the execution of banking operations constitute the essence of banking activity [5].

The stages of development of banking services have also been researched on the existence of 4 evolutionary processes [6].

V.M.Usoskin considers commercial banks to be financial intermediaries that re-provide the mechanism of redistribution of money capital between sectors and regions in society. The following basic banking operations are distinguished: accepting deposits, issuing loans, and making money payments and settlements [7].

Ragheed Yousef's research, he studied the impact of the digitalization of these banking services on the socio-economic performance of banks, focusing on indicators such as customer base, new service offering, service channels, and customer loyalty, which have a positive impact on banking [8].

Researcher Dr. Suman Garg , in a research study, studied the impact of retail banking services on the efficiency of banking after liberalization and highlighted the problems related to the awareness of customers about their rights in the implementation of services [9].

Panagiotis Mitropoulos and Ioannis Mitropoulos , they investigated the trade-off between production and service quality in retail banking that affects performance. In addition, the study found that branch size has a significant impact on service quality and overall efficiency [10].

Methods. This article examines retail banking services, in particular, remote banking services, digital banks and digitalization of banking services based on modern financial technologies and their impact on banking efficiency . Also, the methods of scientific abstraction, logical and structural analysis, grouping and segmental analysis were used in the comparative analysis of scientific, historical and practical sources as a research methodology.

Analysis. The impact of retail banking services on the effectiveness of banking activities is significant and multifaceted, affecting various aspects of banking activities and operations .

First, retail banking services play a decisive role in the formation of banks' income. These services include a wide range of products such as savings accounts, bills, loans, mortgages, plastic cards, ATMs, infokiosks and credit cards. By offering these services to individual consumers and small businesses, banks can diversify their income and reduce dependence on volatile wholesale funding sources. This diversification contributes to the stability of banks, especially during economic downturns or financial crises.

In addition, retail banking services help attract and retain customers. Retail customers form the main customer base for banks, providing a stable source of deposits and lending opportunities. By providing customized and convenient banking solutions, banks can attract and retain customers, thereby increasing their market share and competitiveness in the industry.

Retail banking services can improve the efficiency of banking operations through economies of scale and volume. As banks expand their retail operations and customer base, they can leverage cost efficiencies in areas such as technology infrastructure, distribution channels, and marketing efforts. By spreading fixed costs over a wider customer base, banks can reduce costs per unit and improve overall efficiency.

In addition, retail banking enables banks to collect valuable customer data and insights. Through interactions with retail customers, banks can gather information about their financial needs,



preferences and behavior. This information can be used to develop targeted marketing campaigns, develop new products and improve customer experience. Using data analysis and customer relationship management systems, banks can personalize their offers and optimize the allocation of resources, which leads to greater efficiency and effectiveness in customer service.

Overall, retail banking has a profound impact on banking performance by contributing to revenue generation, customer acquisition and retention, cost efficiency, and data-driven decision-making. As banks continue to innovate and evolve in response to changing customer needs and technological advances, retail banking remains the cornerstone of their business strategy and operational effectiveness. Balance of loans of commercial banks in Uzbekistan on April 1, 2024 compared to the same period of April 1, 2023 grew by 17 % and reached 478 trillion soums as of April 1, 2024, and 70% of total bank assets were loan deposits [11]. In particular, on April 1, 2023, the share of loans allocated to individuals in the total volume of loans was 26.8%, and by the same period of 2024, the share of loans allocated to individuals in the total volume of loans reached 32.1%.

The number of active clients of Joint-Stock Commercial Bank with foreign capital “HAMKORBANK” was 458,200 as of 01.01.2021, it reached 454,400 in the same period of 2022, 709,500 in 2023, and 815,100 as of July 1, 2023. The market share of active retail customers on 01.01.2021 was 2.9 percent, 2.8 percent in 2022, 4.1 percent in 2023, and 4.6 percent as of July 1, 2023. In terms of all customers, it was 8.9% in 01.01.2021, 9.6% in 2022, 11.2% in 2023, and reached 13.9% by July 1, 2023.

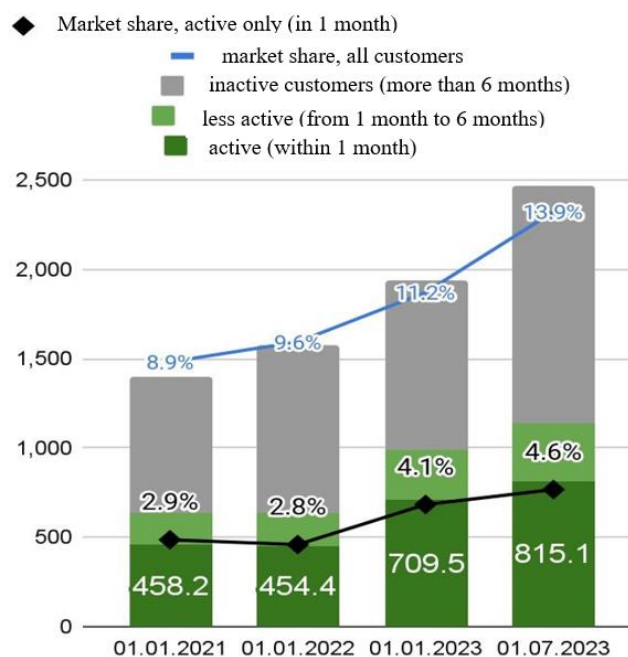


Figure 1. Joint-Stock Commercial Bank with foreign capital “HAMKORBANK” number of retail customers (thousands) and market share

Source: Compiled by the authors.

The volume of retail loans of Joint-Stock Commercial Bank with foreign capital “HAMKORBANK” as of 01.01.2021 is 1.8 billion. amounted to 2.7 billion soums by the same period of 2022. 3.8 billion soums in 2023. soums and 6.4 billion as of October 1, 2023. amounted to soum.



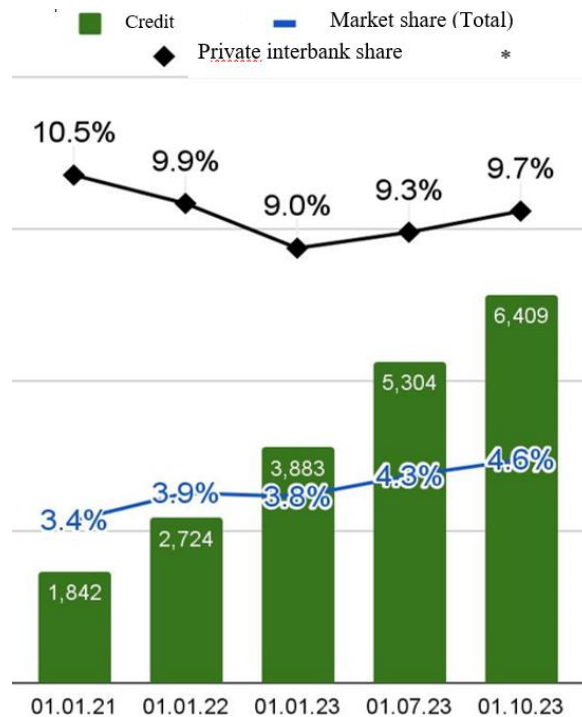


Figure 2. Cheki "Hamkorbank" ATB retail volume of loans (in billion soums) and market share
Source: Compiled by the authors.

The market share of active retail customers on 01.01.2021 was 2.9 percent, 2.8 percent in 2022, 4.1 percent in 2023, and 4.6 percent as of July 1, 2023. It was 8.9 percent in 01.01.2021, 9.6 percent in 2022, 11.2 percent in 2023, and reached 13.9 percent by July 1, 2023. As of 01.01.2021, the share of loans was 3.4 percent, and on 01.10.2023 it reached 4.6 percent, and the size of the loan portfolio increased by 3.5 times.

Table 1. Joint-Stock Commercial Bank with foreign capital "HAMKORBANK" types of loans and their conditions

No	Credit type	Credit purpose	Loan amount	Loan period	Loan percentage
1.	Online microloan	For personal consumption	1-50 mln. up to soum	From 3 months to 36 months	up to 12 months - 32% up to 24 months - 36% up to 36 months - 40%
2.	Microloan	For personal consumption	100 million from 10 times of BHM. up to soum	From 3 months to 36 months	up to 12 months -27.99%; Up to 24 months – 30% Up to 36 months – 32%
3.	Consumer loans	For consumer goods	10-200 times BHM	up to 36 months	up to 12 months -27.99%; Up to 24 months – 30% Up to 36 months – 32%
4.	Consumer credit for the purchase and installation of solar panels	For the purchase of solar panels	Up to 200 times BHM	up to 84 months	The main rate of the Central Bank +5 % (19 %)
5.	Microloan "DRIVE"	For any purpose	50 mln. up to soum	up to 24 months	48%
6.	Education loans	To study on the basis of a payment contract	According to the contract agreement	up to 84 months	14% Interest free for women
7.	Auto light (Mix)	For the purchase of light vehicles	600 mln. up to soum	up to 48 months	up to 12 months -25.99%; 12-48 months - 26.99%
8.	Auto light (National)	For light vehicles manufactured by "GM Uzbekistan".	600 mln. up to soum	up to 48 months	up to 12 months -25.99%; 12-48 months - 26.99%

Source: Compiled by the authors.



In addition to the terms of Table 1 above, we can provide additional information on retail loans. That is:

- application review period – 3 working days; when the complete set of documents required by the bank is submitted;
- loan repayment time: every month, in the amount indicated in the repayment schedule;
- early repayment of the loan: it is possible to early repayment without additional fees and penalties;
- Penalty for k deducted interest - 0.1% per day;
- collateral: at least 125% of the loan amount.

Factors influencing a positive decision on credit allocation:

- positive credit history;
- existence of a permanent source of income;
- required collateral for the loan;
- completeness of the list of submitted documents.

Factors affecting the negative decision on credit allocation:

- negative credit history;
- lack of permanent source of income;
- lack of collateral security for the loan;
- that the list of submitted documents is incomplete.

The order of the President to create a wide network of "banking service offices" in all regions was mentioned in the decision PQ-4498 dated 10.24.2019. As a result, all commercial banks provide their customers with a large number of "banking service offices" in the regions.

According to the decision, offices can provide the following services:

- opening deposit accounts, accepting deposits;
- making payments and international money transfers;
- currency exchange;
- consumer credit and microcredit;
- other additional services depending on the demand in the service area [12].

Table 2. Composition of non-interest income of Joint-Stock Commercial Bank with foreign capital "HAMKORBANK" in 2023

No	Indicators	Total	Share
1	Total non-interest income	242 476	18.3%
1.1	ATM income	42 012	3.2%
1.2	Income from remittances	37 856	2.9%
1.3	RKO	36 609	2.8%
1.4	Sberbank online	35 657	2.7%
1.5	One-time commission income	23 653	1.8%
1.6	Vash	20,926	1.6%
1.7	Terminal income	15,008	1.1%
1.8	Plastic card income	5 680	0.4%
1.9	Exchange rate difference on sale of foreign currency	3 744	0.3%
1.10	Income from one-time payments	1 410	0.1%
1.11	Spot	1 308	0.1%

Source: Compiled by the authors.



In 2023, the non-interest income of Joint-Stock Commercial Bank with foreign capital “HAMKORBANK” made 18.3% of the total income. 3.2% of the income from ATMs is 42012 mln. soums, 2.9% of the income from money transfers is 37,856 mln. soums and others RKO 2.8%, Sberbank online 2.7%, one-time commission income 1.8%, VASh 1.6%, income from terminals 1.1%, income from plastic cards 0.4%, foreign currency sales income from exchange rate differences was 0.3 percent, income from one-time payments was 0.1 percent, and income from spot operations was 0.1 percent.

Joint-Stock Commercial Bank with foreign capital “HAMKORBANK” through "Bank services offices". 56 billion in 2020. soums, 83 billion in 2021. soums, 149 billion in 2022. soums and 242 billion in 2023. earned an interest-free income of soums. In 2021, compared to 2020, non-interest income increased by 48.1%, in 2022 by 79.2% and in 2023 by 62.5% (Figure 3).

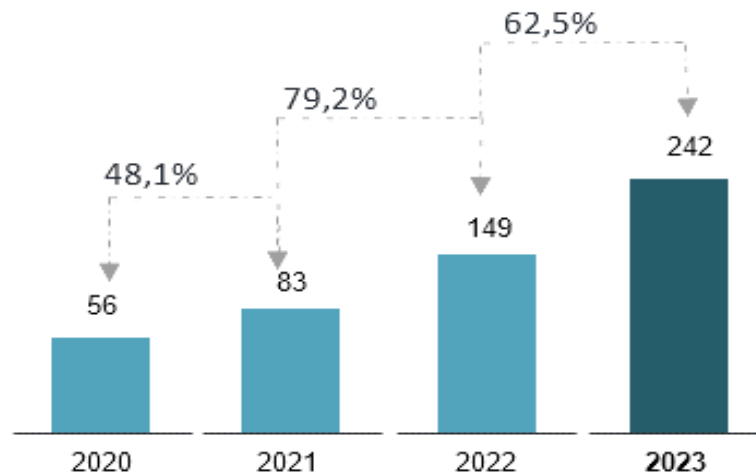


Figure 3. Joint-Stock Commercial Bank with foreign capital “HAMKORBANK” non-interest income (in billion soums)

Source: Compiled by the authors.

Joint-Stock Commercial Bank with foreign capital “HAMKORBANK” Bank services offices". 451 billion in 2020. soums, 504 billion in 2021. soums, 724 billion in 2022. soums and 1079 billion in 2023 earned interest income of soums.

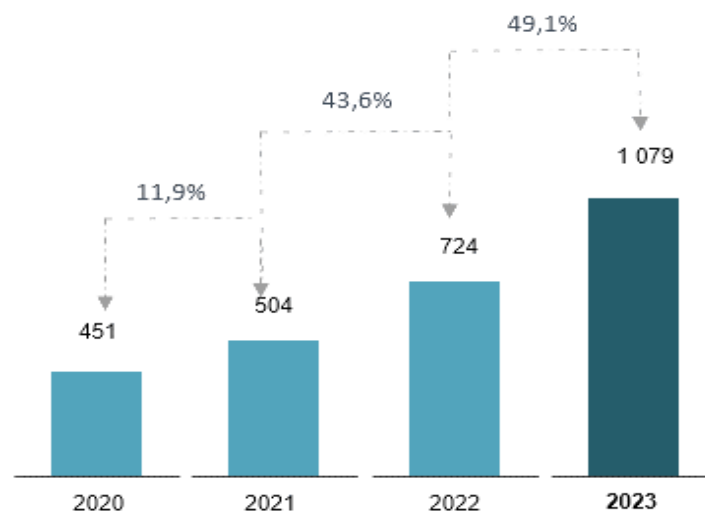


Figure 4. Joint-Stock Commercial Bank with foreign capital “HAMKORBANK” Bank services offices" interest income (in billion soums)

Source: Compiled by the authors.

In 2021, compared to 2020, non-interest income increased by 11.9%, in 2022 by 43.6% and in 2023 by 49.1% (Figure 4).



Customer satisfaction with banking services in banks gives them the opportunity to clearly define the directions of introduction of new types of services.

International standards for banking services primarily determine the level of activity in accordance with the views and needs of customers, who may be buyers or users. According to this information, by understanding the needs and desires of customers, organizations are required to achieve a better position in the market and to be flexible in relation to changes. It is also based on the research of B.Mutafelija and H.Stromberg that organizations should take measures to continuously improve customer satisfaction and services [13].

Conclusions. Although the retail services of the commercial banks of the Republic of Uzbekistan have been expanding over the years, they are far behind the international level. At the same time, in the commercial banks of our republic, including Joint-Stock Commercial Bank with foreign capital "HAMKORBANK", which is the main object of the research, the practice of providing a number of modern retail banking services, including the full implementation of digital retail services, managing the client's funds, placing them in international markets, is not sufficiently developed. Also, studying the requirements of bank customers serves as a basis for the creation of new retail financial services.

the conducted research showed that we consider the following proposals appropriate for the introduction and improvement of new types of retail services in commercial banks of the Republic of Uzbekistan:

- while studying the world experience in modern commercial banks, while strengthening the function of financial intermediation, it is desirable to expand the activities outside the bank balance sheet, to diversify the activities;
- differentiation and diversification of the types of banking services provided based on the experience of world banks, and further improvement of the quality of services, in particular, the development of banking infrastructure, especially in remote areas, further expansion of the scope of retail services with the wide use of information and communication technologies;
- the experience of developed countries, including optimization of the retail business portfolio of banks, internal rating, wide use of economic mathematical methods in evaluating the efficiency of banking operations, introduction of modern financial technologies;
- as a result of assessing the effectiveness of retail banking services through the "SAP" program, it becomes possible to evaluate the income from banking products and their compliance with market requirements;
- On the basis of GAP analysis, the method of determining the services provided by commercial banks and the attitude of customers to them was improved by combining factor analysis. On the basis of this method, effective management of banking service and consumer relations and introduction of new types of services should be considered as the main approaches;
- It is desirable to create and use special ICT-based marketing platforms developed for mobile marketing, internet marketing and crowdmarketing as important tools for banks to carry out effective marketing research in their activities. In particular, in today's competition, where the Internet, ICT and mobile communication systems are increasingly developing, which strategic marketing concept commercial banks use and which innovative marketing technologies are based on, acquires significant scientific, methodological and practical importance.

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