

American Journal of Economics and Business Management

Vol. 9 Issue 6 | **pp.** 594-601 | **ISSN:** 2576-5973

Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

Financial Aspects of Retail Banking Services and Their Role in Ensuring Interbank Competition

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Abstract: This article examines the financial aspects of retail banking services and their role in ensuring interbank competition. Retail banking services, including deposits, loans, payments, plastic cards, remote banking services and other financial products provided to the population, play an important role in expanding banks' income base, increasing the number of customers and improving the quality of services. The article also highlights the impact of retail services on bank liquidity, the formation of interest and non-interest income, the development of long-term financial relations with customers, and the enhancement of competitiveness.

Keywords: retail banking services, commercial banks, interbank competition, financial stability, bank income, digital banking services, remote banking services, customer base, banking products, competitiveness.

Introduction

Today, the development of retail services in the banking system is considered one of the important areas of commercial banks' activities. Deposits, consumer loans, mortgage loans, plastic cards, payment services, money transfers and remote banking services provided to the population have a direct impact on the financial performance of banks. In particular, under the conditions of widespread implementation of digital technologies, providing customers with convenient, fast and high-quality services is becoming one of the main factors of competition among banks.[1]

Retail banking services are of great importance in forming the income base of banks. Through these services, commercial banks have the opportunity to increase not only interest income but also commission income. At the same time, attracting the population's idle funds into the banking system, supporting consumer and investment activity through credit products, and expanding customer coverage through remote services have a positive impact on the financial stability of banks.[2]

In the context of interbank competition, the quality, price, convenience and innovative features of retail services appear as important criteria for attracting and retaining bank customers. Today, customers pay great attention not only to traditional banking services, but also to mobile applications, internet banking, online lending, QR payments and other digital services. This requires banks to diversify their range of services, develop an individual approach to customers and improve the efficiency of financial services.[3]

Citation: Utkir qizi S. M. Financial Aspects of Retail Banking Services and Their Role in Ensuring Interbank Competition. American Journal of Economics and Business Management 2026, 9(6), 594-601.

Received: 10th Mar 2026
Revised: 11th Apr 2026
Accepted: 11th May 2026
Published: 09th Jun 2026

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The relevance of studying this topic lies in the fact that retail banking services have a direct impact on the financial results, customer base, competitiveness and market share of commercial banks. Therefore, analyzing the financial aspects of retail banking services and scientifically highlighting their role in ensuring interbank competition is of significant importance.

Literature Review

In studying the financial aspects of retail banking services and their role in ensuring interbank competition, the scientific views of foreign scholars serve as an important theoretical basis. F. Kotler emphasizes that, in the service sector, a deep study of customer needs and the provision of high-value products and services are among the key factors ensuring an enterprise's competitiveness. This approach is directly applicable to retail banking services as well, since commercial banks gain customers' trust and strengthen their market position by providing convenient, fast and high-quality services.[4]

In M. Porter's theory of competitive advantage, special importance is attached to service differentiation, cost optimization and strategies aimed at specific customer segments. In banking activities, this approach is reflected in expanding the range of retail services, optimizing service prices, developing financial products that meet customer needs and improving the quality of banking services. This, in turn, contributes to the formation of a healthy competitive environment among banks.[5]

A. Parasuraman substantiated that service quality is evaluated through the difference between customers' expectations and the services they actually receive. In his view, reliability, responsiveness, employees' competence, an individual approach to customers and service conditions are important criteria in service delivery. In retail banking services, these factors play an important role in increasing customers' trust in the bank, attracting them to long-term cooperation and ensuring the bank's competitive advantage.

A. Berger pays attention to the interrelation between costs, income, management quality and technological capabilities in assessing bank efficiency. Based on his scientific approach, it can be stated that the use of digital technologies, mobile banking, internet banking and remote payment systems in retail banking services reduces bank costs, increases the speed of service delivery and creates additional sources of income. As a result, retail services have a direct impact on the financial stability and competitiveness of banks.[6]

X. Freixas evaluates banks as financial intermediation institutions and notes that their main functions include attracting deposits, issuing loans, providing payment services, ensuring liquidity and managing financial risks. This approach provides a clearer understanding of the economic essence of retail banking services. Through retail services, banks attract household funds, offer credit products, create convenience for customers through payment systems and expand their income base. In this regard, retail banking services appear as a factor that influences the financial performance of commercial banks and occupies an important place in interbank competition.

Research Methodology

The study comprehensively examines the financial aspects of retail banking services and their role in ensuring interbank competition. Within the framework of the research, the theoretical and economic foundations of retail banking services, as well as the impact of deposits, loans, payments, plastic cards, money transfers and remote banking services on bank income and the customer base, were analyzed.[7]

In addition, factors shaping competition in the retail services market, such as service quality, pricing policy, digital technologies, customer convenience and service diversification, were assessed using economic-statistical, comparative analysis and generalization methods.

Result and discussion

In the context of a market economy, the banking services market and its development play a special role in the implementation of economic reforms. It is no coincidence that in each of his speeches, the President of the country emphasizes that reforming and liberalizing the banking system is one of the main issues facing us today.[8]

The development of the commercial banking services market not only contributes to the distribution of capital across all sectors of the national economy, but also creates a number of conveniences and opportunities for the population, such as providing information, accelerating payments and other services.

Under these conditions, special attention should be paid to the financial aspects of retail banking services, the income they generate for banks, and their ability to satisfy customer needs. From this perspective, in our research, we aimed to examine retail services of commercial banks more deeply from the point of view of bank finance and customer satisfaction.[9]

From a financial point of view, retail banking services can be divided into the following types:

- savings services;
- lending services;
- account and cash services;
- currency exchange services;
- services related to securities for individuals;
- safekeeping of valuables and other additional services.

Savings services. These services refer to the collection, accumulation and safekeeping of individuals' funds in accounts denominated in various currencies. Such services may also include contractual transactions with individuals, for example, savings certificates. Deposit operations may also be used by legal entities; however, the attitude, approach and motives related to the resources placed by them differ from those of individual deposits. Therefore, such operations belong to another area of the bank's corporate business. Individuals' savings can be classified according to several principles:

a) By type of deposit: demand deposits, term deposits, savings deposits and conditional deposits;[10]

b) By placement period: demand deposits, deposits placed for up to one year, and deposits placed for more than one year;

c) By the currency in which the savings are placed: deposits in national currency and deposits in foreign currency;

d) By type of interest payment: interest may be calculated on the deposit balance or at the end of the accounting period, in most cases at the end of the month under a bank deposit agreement, interest may be paid at the end of the contract period.

e) By type of interest calculation: interest may be calculated with or without adding it to the remaining balance, that is, with or without capitalization;

interest may be calculated at a simple or compound interest rate;

interest may be calculated at a fixed or floating interest rate.

If we study this issue more thoroughly, it becomes clear that savings services do not belong to a single group of operations with the same purpose. The Figure 1. funds placed in these services offered by banks on an interest basis can be divided into specific groups depending on their purpose and customer interests.[11]

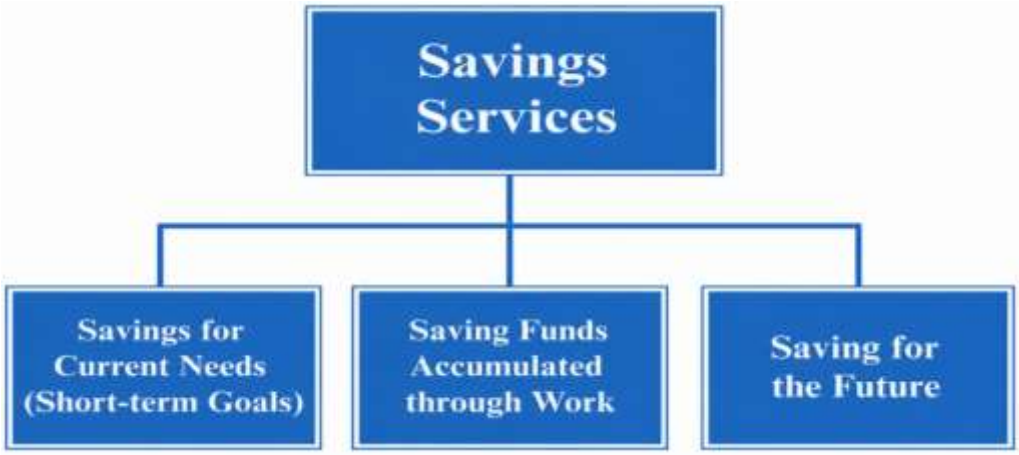


Figure 1. Savings Services According to Customer Needs.

Therefore, banks' savings business can be studied on the basis of the following three directions. In this case, the approach is based on the customer's needs.

First, the need for savings funds. For example, a customer may place his or her funds in a bank in order to accumulate capital and earn income for purchasing an apartment or another expensive product or service.

Second, the need to keep surplus funds when there is no specific purpose. For such customers, the interest rate of the deposit type offered by the bank is important, and they may keep their surplus funds in banks for a long period of time.[12]

Third, the need to receive regular funds. In practice, statistical data show that the majority of such customers are usually pensioners. Banks should treat such customers with special attention, because these customers usually perceive the bank as a formal financial institution and may have relatively low trust in banks.

Among retail banking services, the savings business is one of the most widespread and familiar types of services for the population. Bank deposits occupy the main place among savings services.

Regarding the economic essence of deposits, a deposit can be defined as temporarily idle funds placed by a depositor in one of the credit institutions through a deposit account for safekeeping for a certain period.[13]

This type of banking service also existed during the former Soviet period. At that time, there were also term deposit types, and their interest rates were higher than those of demand deposits. When studying the deposit services offered by banks, it should be particularly noted that this is one of the most demanded and most widespread services among customers, as well as one of the most necessary services today.

Funds placed in deposits are returned to the customer upon the first request in accordance with the established law and contract. The legal basis of retail services will be discussed in more detail in the next paragraph. Therefore, commercial banks are obliged to preserve deposits and, at the same time, fulfill their obligations to depositors.

In practice, banks noticeably attract deposits more actively through holiday and anniversary savings products. This is because such types of deposits usually include more preferential conditions. Banks have already realized that the funds of citizens are among the most promising sources of resources for them.

As noted above, this type of retail service is the most widespread and the most popular among the population. However, despite this, household deposits do not currently have a very high share in the structure of bank resources.

The following factors play a key role in attracting household savings to banks:

- First – the reliability of the bank, where the customer evaluates the bank's reputation and history of development;
- Second – the level of interest rates on the bank's savings products, which is one of the most important factors;
- Third – the bank's branch network and the quality of its services.

Although commercial banks of the Republic of Uzbekistan are not classified as specialized retail banks today, most of them are actively engaged in this type of retail banking service, which imposes a certain level of responsibility on them. This is because individuals are considered the most vulnerable group of bank customers. Therefore, problems in this area of banking activity may lead to serious social tension.[14]

For this reason, Uzbekistan has created a sufficient legal framework for guaranteeing household deposits. The purpose of this legislation is to attract the population's idle funds to banks and increase their confidence in the banking system. The fact that the full repayment of citizens' deposits in deposit accounts of commercial banks is guaranteed by the state, regardless of the amount of deposits, as well as measures aimed at stimulating the growth of household deposits in credit institutions, serves to strengthen public confidence in the banking system.

However, despite this, the Figure 2. share of individuals in bank deposits is not at a high level. In this regard, it would be advisable to introduce more new types of services. One such new service is the "Birdamlik" deposit. The essence of this service is that for every 150 euros placed in the depositor's account, the depositor receives 115 points, and these points are accumulated. If the customer's points reach 3,000, he or she obtains the opportunity to receive a microloan in the amount of 1,500 euros at a preferential interest rate. If the points reach 40,000, the customer may obtain a mortgage loan for a period of five years at a preferential interest rate, including mortgage insurance; if insurance is not taken, the loan is provided with an additional interest rate. This type of service is quite widespread in France.



Figure 2. Credit Services for Retail Customers in Commercial Banks.

This Figure 3. type of retail service can be studied by dividing it into certain categories according to its purpose.

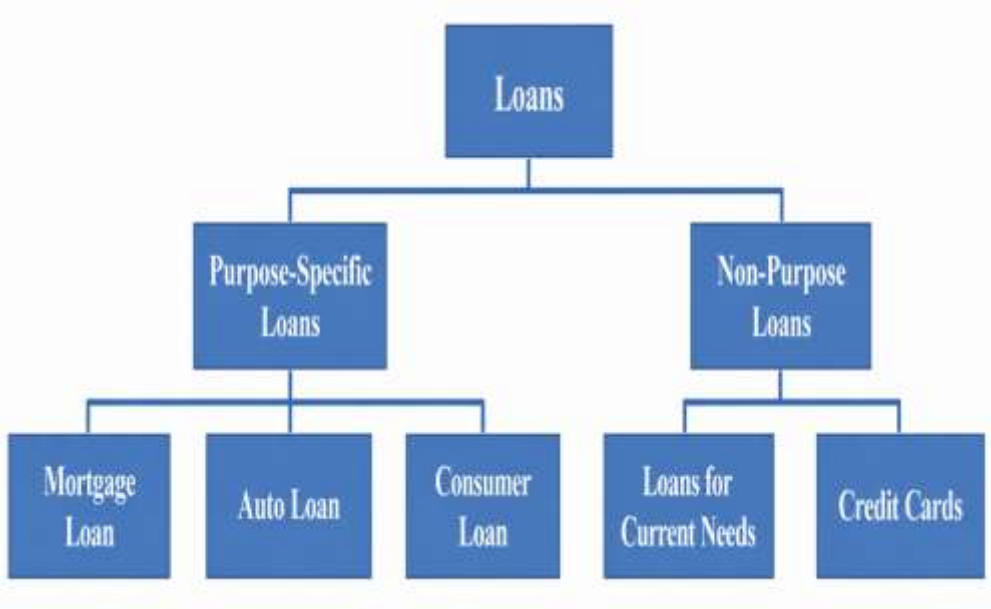


Figure 3. Types of Loans for Individuals.

It should also be specifically emphasized that the expansion of consumer credit reduces the circulation of cash in the economy and, through this, helps prevent inflation to a certain extent. In developed countries, a large part of goods turnover is ensured through this type of credit instrument.

Based on social surveys, it has been found that in the United States, 50–60 percent of the population aged between 20 and 40 use this type of credit. Consumer credit can be classified according to several criteria. For example:

By security: unsecured or blank loans and secured loans;

By maturity: short-term and long-term loans;

By form of credit: commodity or cash loans, while commercial banks provide financial loans in monetary form;

By circulation of funds: one-time and revolving loans, including loans through credit cards and other single asset-liability accounts;

By the form of interest collection: interest collected at the time of issuing the loan, interest paid at the time of loan repayment, and interest paid during the year according to the loan agreement;

By purpose: targeted and non-targeted loans, including loans for urgent needs, overdrafts and others.

Providing loans to individuals creates complex marketing and technical challenges for banks. When classifying such loans, it is advisable to distinguish them mainly according to their purpose, because this type of classification makes it easier to monitor the loan. Accordingly, monitoring the purposes for which loans are issued helps the bank conduct effective marketing activities.

In some foreign countries, mortgage loans issued to individuals are included in the category of consumer credit.[15]

Conclusion

In conclusion, retail banking services play an important role in strengthening the financial position of commercial banks and ensuring interbank competition. The development of deposits, consumer loans, mortgage loans, payment services, plastic cards, money transfers and remote banking services directly contributes to the expansion of

banks' income base, the growth of the customer base and the improvement of service quality.

The research shows that savings services are one of the most important types of retail banking services, as they allow banks to attract temporarily idle funds of the population and use them as a stable source of financial resources. At the same time, customers choose deposit products mainly based on the reliability of the bank, the level of interest rates and the quality of banking services. Therefore, the introduction of flexible, convenient and customer-oriented deposit products is important for increasing public confidence in the banking system.

Retail lending services also have a significant financial impact on banks. Consumer loans, mortgage loans, credit cards and other forms of lending not only generate interest income for banks, but also support the purchasing power of the population and stimulate economic activity. However, the effective organization of lending to individuals requires careful assessment of creditworthiness, proper monitoring of loan purposes and the use of modern risk management mechanisms.

The analysis also confirms that the competitiveness of banks in the retail services market depends on service quality, digital technologies, pricing policy, customer convenience and the diversification of banking products. In modern conditions, mobile banking, internet banking, online lending and remote payment systems are becoming key factors in attracting and retaining customers. Therefore, commercial banks should improve their retail strategies, expand innovative services and develop individual approaches to different customer groups.

Overall, the financial aspects of retail banking services are closely connected with bank liquidity, profitability, resource base stability and customer loyalty. The further development of retail services in commercial banks will serve to strengthen interbank competition, improve the quality of financial services and increase the role of banks in meeting the financial needs of the population.

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