

Die tarifpolitik der geschäftsbanken

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Zusammenfassung: Der Artikel untersucht die wichtigsten Aspekte der Tariffestsetzungspraxis von Banken in Usbekistan und im Ausland. Auch die Ansichten von Ökonomen in Bezug auf die Tarifpolitik und Tarife für Dienstleistungen wurden untersucht und bildeten den unabhängigen Ansatz des Autors zu den Konzepten „Tarif für Bankdienstleistungen“ und „Banktarifpolitik“. Als Ergebnis der Studie wurden Vorschläge und Empfehlungen zur Verbesserung der Tarifpolitik von Geschäftsbanken entwickelt.

Schlüsselwörter: Geschäftsbank, Bankdienstleistungen, Preisgestaltung, Tarif, Zinssatz, Preispolitik, Tarifpolitik, Tarif der Bankdienstleistungen, Tarifarten, Bankeinkommen.

The tariff policy of commercial banks

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Abstract: The article examines the main aspects of the tariff setting practices of banks in Uzbekistan and foreign countries. Also, the views of economists related to tariff policy and tariffs for services were studied and formed the author's independent approach to the concepts of “tariff of bank service” and “bank tariff policy”. As a result of the study, proposals and recommendations were developed on improving the tariff policy of commercial banks.

Keywords: commercial bank, banking services, pricing, tariff, interest rate, price policy, tariff policy, tariff of bank service, types of tariffs, bank income.

INTRODUCTION

International finance-credit relations and the transformation of the world economy, as well as the strengthening of interbank competition at the local level raise pressing issues concerning the pricing of banking services. In the aftermath of the global financial and economic crisis and in the context of the ongoing Coronavirus pandemic, it has become clear in practice that this issue needs serious attention. In particular, the World Bank announced that in 2020 the global growth rate of the world economy would not decrease to a record level - 4.3%. In particular, the economy contracted in the United States - 3.6%, Russia - 4.0% and European countries - 7.4%. Against the background

of declining economic growth rates, a number of developed countries have adopted new monetary policy instruments in order to maintain price stability and balance of the base interest rate.¹

In the context of digitalization of the economy, it is important that commercial banks pay special attention not only to the expansion of services, but also to the improvement of tariff policy. Because, by improving the tariff policy, it is possible to further stabilize the financial condition of the bank, effectively manage the resource base and have a positive impact on them. Even in the face of strong competition, the application of various benefits in setting tariffs for services in tariff policy and their effective implementation will expand the opportunities to attract large financially stable customers to the bank.

The specificity of countries' economic system also affects the prices of goods and services, in particular, the setting of tariffs for banking services. Historically, at the time of the planned economy, the strict fixed price method was used in setting the prices for goods and services.

In the early 1990s, the development of a market economy and the diversification of forms of ownership paved the way for the establishment of banks with private and foreign capital. As a result of the establishment of banks in various forms of ownership, an environment of interbank competition began to emerge. During this period, the range of banking services and the level of their quality has increased. The development of information and communication technologies has led to the introduction of new types of remote services. At the same time, the quality and tariffs of banking services have emerged as factors that increase competition.

Nowadays, in the context of digitalization of the economy, banks are introducing various digital services, along with improving the quality of services. Competition between banks is intensifying in order to attract new customers and maintain existing ones. During this period, the customer prefers a bank that offers favorable tariffs and interest rates.

The term “tariff” derived from the Arabic language and means “assessment”, “determination”. The term is associated with the name of Tarif ibn Malik, who was historically the commander of the Muslim states of North Africa (Morocco, Algeria, Tunisia, Libya and Mauritania). In 710, he sailed from Morocco to the Strait of Gibraltar, conquered a city in southern Spain, and named the city after himself - the Tarif. Even today, the city is called Tarifa. After the conquest of the city, Tarif ibn Malik set a fee for each ship sailing through the strait. Later, people who traded on ships called this fee the “tariff”. As time went on, the term “tariff” entered the railways, customs and various sectors, especially the banking sector.²

In particular, the American economist Philip Kotler (2007) stated in his work that just as goods and services in all areas have their price, so do banking services have their price that is

¹ World Bank (2021) Global Economic Prospects, January 2021. Washington, DC: World Bank. doi: 10.1596/978-1-4648-1612-3. License: Creative Commons Attribution CC BY 3.0 IGO. - page 4.

² <https://ru.wikipedia.org>- information based on the database.

interest. British scientists Leigh Drake and David Llewellyn (1995) suggested setting tariffs in several ways in shaping the cost of banking settlement services. German economist Patricia Wruuck (2013) argues that pricing policy, as part of banking policy should include pricing for billing and payment services, credit products, and investment products. Greek scholars George Avlonitis and Kostis Indounas (2005) summarize the various methods and techniques available for pricing banking services and divide them into three major categories.

Russian economists have also expressed their views on the subject. For example, G.G.Korobova. (2006) pointed out that the object of the bank's pricing policy is interest rates, tariffs, commissions, discounts, as well as the minimum deposit amount. O.A.Ovsyannikova (2005) say that the price of banking products and services consists of tariffs and interest, and Yu.N.Goydenko and Yu.V.Rozhkov (2003) say that the price of banking products and services consists of tariffs, interest rates and exchange rates. In particular, the peculiarity of the service is that it is set in banks in the form of interest rates, tariffs and exchange rates.

Thus, in relation to the concept of “tariff of banking services”, the concept of “cost of banking services” has a broad meaning.

Economist G.A.Taktarov (2010) describes the “bank tariff” as the amount of payment for banking services, since the object of the bank's pricing policy is interest rates, tariffs, commissions, bonuses (discounts), discounts and the minimum value of the deposit.

Professor O.I. Lavrushin and others (2008) state that “bank tariff” is the amount of payment for the provision of banking services, set and charged from the customer in accordance with the terms and conditions of the service (sale of products), as well as the commission fee.

I.V.Pogorelova and S.V.Zenchenko (2013) also use the term “bank tariff” in their works. These scholars also define the concept of “bank tariff policy” as follows: “Tariff policy is a banking policy to set and change the prices of banking services. Tariff policy is not related to the bank setting interest rates for attracting and placing funds. It is understandable that economists with these views have stated that the categories of the bank's tariff and interest policies should be studied separately”.

Professor A.M.Tavasiev (2010) clarified this in his work, noting that the structure of bank policy will consist of credit, deposit, interest, tariff, technical and personnel policy, by taking into account its customers, competitors and others. However, the Russian scientist K.R.Tagirbekov (2004) stated that the structure of bank policy includes such policies as credit, deposit, price, investment, risk, collateral, work with problem loans, liquidity.

Economists N.I.Kulikov, I.R.Unanyan and L.S.Tishina (2010) clarified, that “Bank tariff policy - is a document that sets out the principles for the formation of a tariff or tariff plan of

services offered by the head office of the bank and all regional divisions for the customers or individual group of customers”.

Economists in Uzbekistan have also commented on the bank tariff policy and service tariffs. Some aspects of the topic described in the works of Uzbek professors Sh.Z.Abdullaeva, A.A.Omonov (2019), T.M.Karaliev, U.U.Azizov (2019) and O.O.Olimjonov (2012). In addition, in the scientific works of economists I.M.Alimardonov (2019) and Kh.A.Khudayarova (2020) one can find some views on this topic. In particular, I.M.Alimardonov said that in order to improve the bank's tariff policy, it would be expedient to ensure the normative level of net interest rate spread and to form a policy of cross-subsidization for banking products and customer groups. In her research, economist Kh.A.Khudayarova proposed to set banking services, as well as tariffs and interest rates for services by segmenting the market of bank customers based on economic, demographic, social norms, by taking into account the institutional, socio-economic situation in the region.

According to the results of the study, no special or in-depth scientific research on this topic has been conducted in Uzbekistan.

From the above views of foreign economists, it can be concluded that, tariff policy is an integral part of the bank's pricing policy. By taking into account the views of scholars, it can be argued that the price of a banking product (service) can be in the form of interest, tariffs and exchange rates, and by taking into account that, the price policy in the banking policy includes interest, tariff and exchange rate policy respectively.

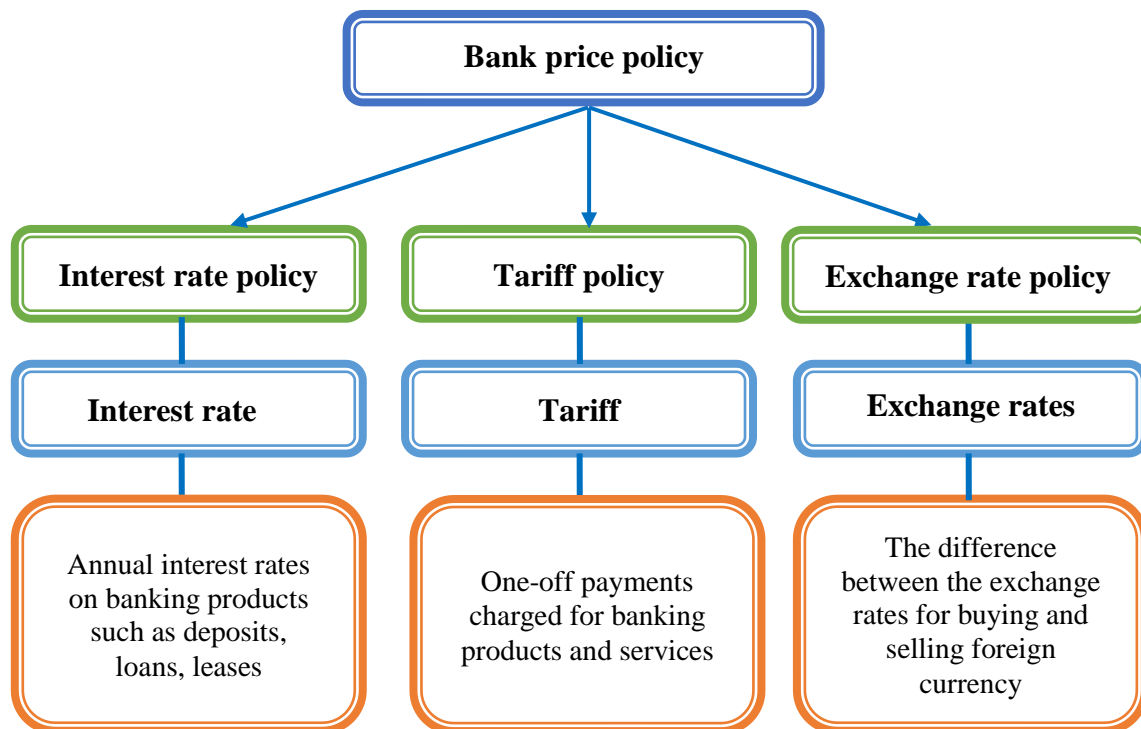


Figure 1. The structure of the bank pricing policy.³

Since banking activity is based on the achievement of financial efficiency of banking tariff policy, it is appropriate to define the concepts of “banking tariff” and “bank tariff policy”. “Banking tariff” is the amount of payment collected for the sale of the product for a fixed amount, except for the interest rates set for the attraction and placement of funds”. “Bank tariff policy is an internal document of the bank, which includes the procedure and principles of setting and changing the tariff for banking services (products) in order to achieve financial efficiency”.

METHODS

There is a comprehensive scientific approach to the problem, which includes the following specific research methods. A systematic analysis of the literature was conducted in studying the scientific and theoretical bases for improving the tariff policy of commercial banks. The scientific conclusions of the research work carried out by foreign and local scientists in this area have been studied and independent approaches have been formed. Data and indicators of the Central Bank of the Republic of Uzbekistan and commercial banks have been used.

RESULTS AND DISCUSSION

Commercial banks set the price of services in accordance with their pricing policies, based on the situation in the market of banking services and the demand and supply of customers.

A distinctive feature of the price of banking services (products) is that it is set in the form of interest rates, tariffs and exchange rates.

In the literature and practice, the service tariff as a term refers to a service fee, payment amount, commission, commission fee. Tariffs for individuals and legal entities are set for the following banking services:

- Services related to cashless payments and payments;
- Opening and servicing of bank plastic cards;
- Opening and maintaining a deposit account in national and foreign currency and other related services;
- Services provided based on remote services and banking equipment;
- Registration and accounting of export-import contracts;
- Cash operations, in particular, services related to ATMs;
- Money transfer services;
- Services on securities transactions and other services related to banking.

³ Compiled by the author’s research.
10.5281/zenodo.5651038

Tariffs for banking services are mainly set by banking specialists at the expense of a certain amount or a certain percentage of the amount for which the banking service is provided.

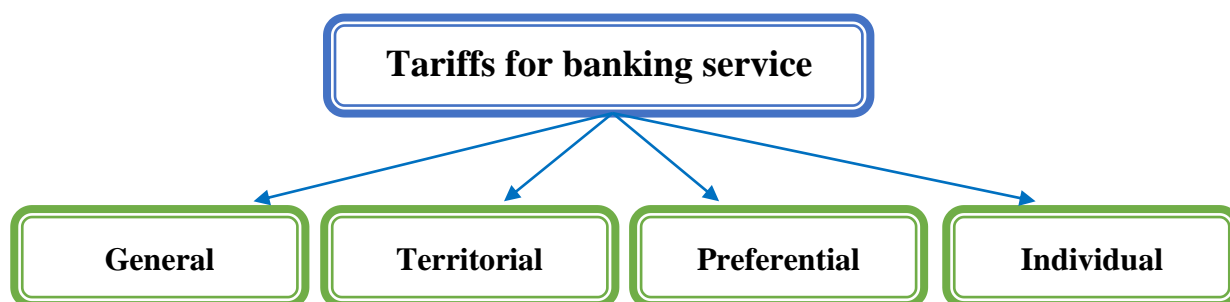


Figure 2. Types of tariffs for banking services.⁴

According to Figure 2, in practice, the following types of banking service tariffs are observed:

- General (or standard) tariffs. Tariffs set and approved for a particular service are the same for all branches and offices of the bank, as well as for their customers;
- Regional tariffs. These are approved tariffs for certain types of services provided by the bank's branches or offices located in certain regions;
- Preferential tariffs. This means that certain types of services provides at preferential rates for a particular customer or group of customers. For example, services for entrepreneurs, students or people of retirement age at reduced rates, etc.;
- Individual tariffs. An example of this is the provision of a particular service or set of services at rates that are customized for a particular customer or group of customers. In particular, special tariffs are set for services provided to VIP-clients, large corporate clients and their subsidiaries.

The amount of the tariff for banking services is formed depending on internal and external factors. For example, external factors that shape the tariff for banking services can include supply and demand, inflation, competition, government influence, emergencies. Internal factors may include the bank's costs, goals, strategy, bank management, volume of services, and so on. Analysis and management of these factors will ensure the effective conduct of the bank's tariff policy.

Tariff policy is an internal document that is important in the activities of the bank, such as credit, deposit and interest policies. Tariffs for services are approved based on the bank's tariff policy.

The amount of the tariff charged from the customer for the service reflects in the section "Non-interest income" in banks' accounting books. The share of non-interest income in total

⁴ Compiled by the author's research.
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income varies depending on the activities of each bank. For example, we analyzed the banking system of Uzbekistan.

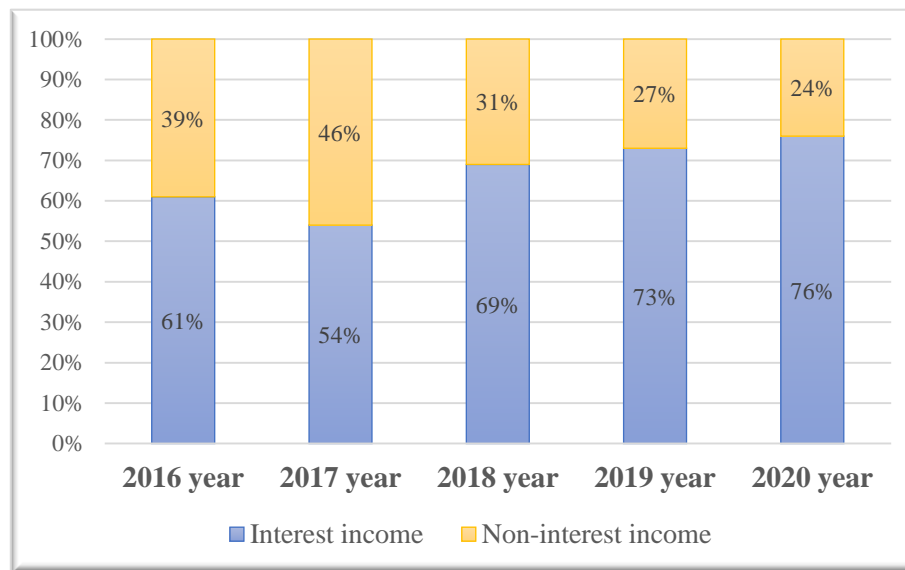


Figure 3. Dynamics of the income structure of commercial banks in the Republic of Uzbekistan within 2016-2020.⁵

As can be seen from Figure 3, the increase in the volume of financing of large investment projects by state-owned banks due to radical reforms in the banking system of Uzbekistan has also affected the structure of gross income of banks. In particular, the increase in lending more than 5 times over the past five years has ensured that the share of interest income in the bank's gross income will be higher than non-interest income. In addition, in recent years, the digitization of the economy and the development of technology have contributed to the reduction of tariffs for retail banking services. This led to a decrease in the share of non-interest income in the bank's gross income. At the end of 2016, the share of non-interest income of commercial banks of Uzbekistan in gross income was 39%, and in 2020 – 24%.

Consequently, as a result of targeted measures taken to expand the quality and scope of modern banking services to the population and businesses, in 2020 in the structure of financial services in Uzbekistan, the share of direct banking services exceeded 80%. Especially in recent years, owing to the development of information and communication technologies, banks provide a variety of remote services that are convenient for customers.

According to the data, the number of users of remote bank account management systems in Uzbekistan has increased 7 times over the past 5 years. From this, it can be observed that 93% of users of remote banking services are individuals and only 7% are legal entities. This means that banks have high potential to increase the volume of retail services to individuals, thereby increasing the bank's income, and the need to increase the volume of remote services for legal entities. At the

⁵ <https://cbu.uz> – Information from the Bulletin of the Central Bank of the Republic of Uzbekistan. 10.5281/zenodo.5651038

same time, it would be expedient to study the experience of leading banks of developed countries in setting tariffs for services and apply those that proved to be effective.

Tariffs for banking services in developed countries are set differently depending on the economy and banking system of the country, if necessary, the mentality and customs of the people.

It was observed that commercial banks of foreign countries set tariffs for services by using various methods in order to attract new customers, increase their interest in banking services and maximize profits.

In particular, one of the most widely used methods is to develop a package of services for a particular customer or group of customers and provide them at a reduced rate.

At present, the method of providing a package of services is widely used in the practice of banks in developed countries. Major US and European banks such as JPMorgan Chase, Wells Fargo Bank, BNP Paribas and HSBC Holdings use it for decades. For example, in the early 1970s, Wells Fargo Bank of the United States introduced a package of services called the “Wells Fargo’s Golden Account”. The package of services includes credit cards, individual bank cells, soft loans, access to special savings operations and other similar services. Therefore, as a result of introducing this service package, an additional 7,000 or 3 times more accounts had been opened per month (Korobova, 2006).

In addition, in the banking practice of some countries, it can be observed that the tariffs for services are set separately for customers of branches in remote areas. In this case, the tariff for services is formed separately for cities, separately for districts and rural areas, with the establishment of benefits and discounts. This method was first introduced in the practice of Sberbank and VTB (Vneshtorgbank) banks of the Russian Federation. This method is mainly used to support customers of the bank's remote branches.

One of the latest innovations concerning the tariffs for services is the introduction of preferential tariff packages for new businesses in order to attract them to the bank. In 2015, Russian banks such as Sberbank (“Legkiy Start”), Alfa Bank (“Na start”), Tinkoff Bank (“Bazoviy”), Modulbank (“Startoviy”) emphasized the need to attract entrepreneurs to the bank in their tariff policies and introduced new types of service packages. In particular, these banks provided new customers who opened an account with the right to accomplish the followings without charging them a fee: accomplish several debit cycles; accomplish a certain transaction for several days; using certain bank services for a certain period.

In the research, despite some positive experience gained by commercial banks of Uzbekistan, some problems related to their tariff policies were observed. In particular, in today's fast-paced world, most commercial banks are developing tariff plans that are not flexible but long-term. For example, there is almost uniformity in the tariffs of services provided by commercial banks to

individuals, as opposed to those of legal entities. At the same time, in most banks the fees for some services found in the approved tariff plan for 2021 are the same as those of last year. While it was also observed that the usage and application of the relevant experience of developed countries' banks is implemented slowly.

These circumstances increase the likelihood that commercial banks will not be able to adapt their tariff policies in a timely manner and customers will choose another bank in the face of rapid changes in demand against the background of radical changes in the banking system of Uzbekistan over the past 5 years.

CONCLUSION

In summary, despite the focus on the introduction of new services in the banking system of Uzbekistan in the context of digitalization of the economy, one of the pressing issues is the insufficient attention paid by commercial banks to improving tariff policy. In fact, commercial banks use a fixed and long-term tariff methods and the level of use of the experience of leading foreign banks is low, they are not able to adequately adapt to the assessment method of emerging competitors and rapid structural changes in the economy.

In view of the above, it would be expedient to improve the bank tariff policy if:

- ensuring that the bank tariff policy is developed on the basis of flexible and fair principles, based on changes in the economy, the needs of competing banks and customers;
- envisage in tariff policy the use of effective methods used in the practice of leading foreign countries in the formation of tariffs for services;
- increase the volume of these services through the establishment of regional, preferential and individual types of tariffs for underutilized banking services;
- development of the practice of providing services in preferential tariff packages in order to increase customer interest in banking services and increase interest-free income;
- increase income by providing services at favorable rates and conditions on the eve of holidays and public holidays or on special days for the population and entrepreneurs or a special group of customers;
- wide introduction of cross selling of additional products and services with the introduction of KPI (Key Performance Indicators) system of incentives for bank employees to increase the volume of services.

Implementation of the proposals and recommendations on improving the bank's tariff policy - will expand the opportunities to attract new customers, increase customer interest in banking services and, ultimately, increase the bank's revenue.

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