



BANKING SERVICE AND BANKING SERVICES: A CONCEPTUAL APPROACH

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Abstract

The article deals with the author's conceptual approach to the categories of "banking service" and "banking services" definitions under the influence of information-network economy factors. The "banking services", which include specific activities to support the product line developed in the context of direct provision of specific services, the sale of a particular product, the implementation of the specific transaction concept are narrower than "banking service", which provides all system activities, providing service in the bank for all kinds of services, banking products, transaction and results from previously executed processes, or their combinations. The modern theoretical tendencies have been analyzed regarding the bank functions in the context of client's banking service (retail banking). The banking service is identified in terms of both the process and the result. Regarding the process, of course, it belongs to the quality and efficiency of banking services, and concerning the results, it refers to the quality and efficiency of banking services respectively, which involves the sale of a banking product, providing banking services, and conducting banking transactions. That is, from the client's point of view during the banking process ("banking services"), he gets a certain set of values, including the satisfaction of client's characteristics and quality of bank products, transactions and services. However, the final stage of its relations with banks is to obtain some material benefit from the resulting set of proposed banking products and technologies, in other words, from common banking service, which appears as a set of services resulting from this process.

Keywords: *banking service, banking services, client, retail banking, process, result, service, theory of financial intermediation*

1 INTRODUCTION

In terms of the information-network economy, any expansion of banking activities primarily requires to improve the service system, that is, more rapid introduction of so-called multi-channel service providing service operations, offering and selling of products. For this, it is relevant to look O.V. Ivanova's opinion, which within the proposed

strategy of innovative activity perfection and innovative development of banks, offers to examine a bank as "services" company (Ivanova, 2011, p. 10). However, in our view, services can be considered only as an instrument that provides an opportunity to improve the quality of banking service. Loyalty to this approach is confirmed by the fact that in recent decades there were widely implemented innovations - technological ways of offering banking products and services, operations, particularly in the light of traditional cash management services for households, taking

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into account individual financial and technological capabilities of the client ("home banking", "wap-banking", ATMs with advanced features, "internet banking", etc.). As a result, according to the National Bank of Ukraine for three quarters of 2013 banks significantly increased the number of ATMs and terminals. Banks established almost 39 thousand ATMs and about 195 thousand of terminals (as of January 1, 2013 Banks established over 36 thousands of ATMs and nearly 163 thousands of terminals) (Finance.UA, 2013). The greatest number of active cards and infrastructure for their service as of October 1, 2013 were in Kyiv, Dnepropetrovsk, Donetsk, Kharkov and Odessa. The number of banks - members of the payment card systems was 143 (Finance.UA, 2013). According to statistics from the National Bank of Ukraine at the end of 2013 in Ukraine there were registered 183 banks and banking outlets retail products - 19.5 thousand units. According to the European financial experts, the best Ukrainian bank in 2013 became Privatbank, which entered the top of the best banks in the ranking of Swat "Bank of the Year 2013", leading financial magazine industry "The Banker" (belonging to the group "The Financial Times"). It should be noted that each year the experts of the magazine determine the bank of the year among financial-credit organizations of 150 countries of the world.

In 2013 the prestigious prize claimed more than 530 banks in the world, which were evaluated by a group of criteria, including as qualitative (profitability, quality of assets and financial stability) as well and quantitative (involving capital; Agreement "M & A"; introduction of new technologies, products and business-directions) (Anon., 2013). Thus, "The Banker" noted that orientation to modern technologies give the possibility for Privatbank during last year to double the number of transactions for clients through the Internet Banking system, and become a leader in the region by popularity services for the payment of smartphones. So, for success, retention and expansion of customer base, banks must respond quickly not only to fluctuations of financial markets, and in some degree - for quick needs of existing and potential clients, which serve as an important segment of households (Anon., 2013).

In general, banking service or banking services concerning the needs of households acts as a category that primarily characterizes increasing of the specific weight of their services, operations and products in the financial - credit relationship, and secondly, it promotes international integration activities under the influence of globalization. Actually, globalization foresees a network of integrated markets for goods and services as well as the rights and competencies. Logically, it changes the relationship between the seller and the buyer in which the basis of interaction acts not only capital, but also network and information (Garin, 2009, p. 20). Thus, such a category as "retail banking" needs comprehensive research in the aspect of informatively - network economy influence, which is one of the issues in modern banking theory.

2 CATEGORY "BANKING SERVICE", AS A SUBJECT FOR THEORETICAL ANALYSIS

Retail banking is a subject for analysis of both the business press, publications and complex scientific researches. In particular, certain aspects of innovative banking service activity introduction in modern terms are presented in papers of K.A. Antonov (2012), A.U. Bodnar (2012), Vasiliev A.V., Gerasimova E.B., Tishina L.S. (Monitoring kachestva bankovskih uslug: monografiya, 2004), O.V. Ivanova (2011), Y.M. Krivich (2010), and by the last research of priority directions of retail banking are devoted scientific articles of A.S. Goncharuk (2012), M.U. Starenkov (2012). However, retail banking category in terms of "service to society", which is the result of information-network economy influence factors and is considered fragmentally. According to the Law of Ukraine "On Banks and Banking Activity" banking is considered as "bringing in cash deposits of households and legal entities and placing these funds on its behalf, on its own terms and at its own risk, account opening, banking service of households and legal entities" (Zakon, 2015). Such interpretation should take into account the specifics of the banking market, as well as the specifics of the consumer goods market and also the specifics of the financial market, which are considered through the demand and supply mechanism of financial and credit

institutions. Logically, the demand for banking products, services, and operations form the basis of the needs of customers (in our study - households). It forms its financial behavior presented in three levels: client, savings and service areas.

Client needs can be grouped into three main categories:

- need for consumption items (in case of cash, products that can be purchased by cash);
- need for cash in savings in order to maintain and / or enhancement;
- need to ensure quality of cash circulation.

Then, the definition of “retail banking service”, can be represented as follows: “banking service (in the context retail banking) - is banking that provides a high level of supply of banking services, transactions, products to meet customer demand by households, savings, consumer needs and requirements, related to the circulation of money, the ultimate goal of making a profit”. (Gorditsa, 2014) In most of the sources on banking, particularly overseas, the analogue definition “banking service” as “banking services” is always present. Let us explain this statement in two directions. On the one hand, the retail banking service in translation from English means “service”, an activity that addresses the needs of anyone, called service. This category, as “banking services” market information and service

households, is more appropriate at present. It includes:

- First, the use of information resources, including:
 - Customer database;
 - A database of documents for various transactions;
 - A set of networks, which provide the opportunity to work with a variety of information objects;
- Secondly, the reverse exchange of information with customers through both personal and interactive communication;
- Third, a variety of information processing in the automatic mode, the so-called “service support” in the next stage after sale.

The proof of this statement is that banks sell the product line features over online service technology, defined set of services, products that can be used through the operation of software and hardware self-service (ATM, terminals, self-service stalls, etc.) and other forms of E-banking. However, these products, of course, cannot cover all types of banking service, and mostly contain simple banking transactions that are supported by the provision of timely information. Everyone can also give an example of the use of so-called extended service in a personal approach concerning retail banking services program “private banking”, and so on.

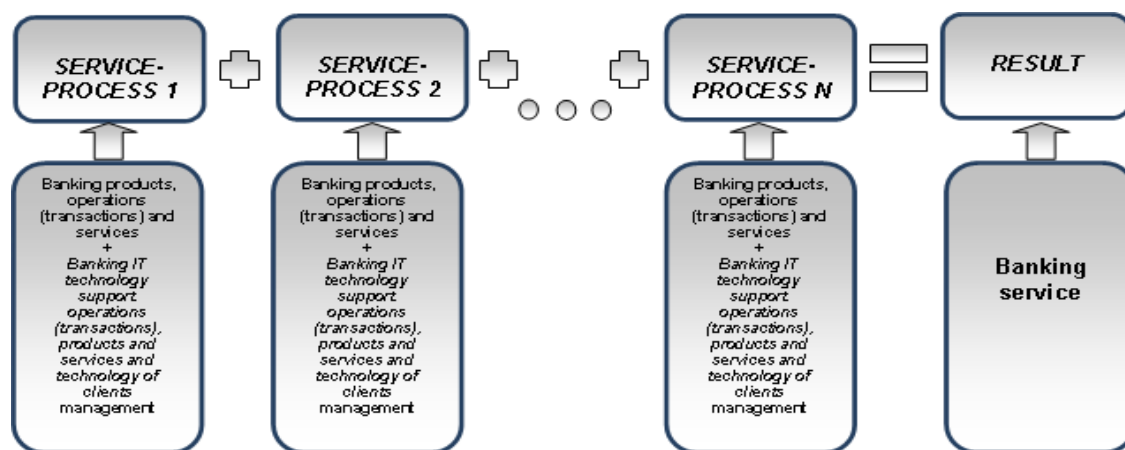


Fig. 1. Formula banking service (author's view)

On the other hand, there is also an appropriate approach which distinguishes differences of the definitions of “customer service” as “banking services” and “banking service”. This justifies the logic of differentiation of concepts: process and

result. Regarding the process, of course, it belongs to the quality and efficiency of banking services, and concerning the results, the quality and efficiency of banking services respectively, which involves the sale of a banking product,

providing banking services, conducting banking transactions. That is, from the point of view of the client during the banking process (“banking services”), he gets a certain set of values, including the satisfaction of client characteristics and quality of bank products, transactions and services. (Gorditsa, 2014) However, the final stage of its relations with banks is to obtain some material benefit from the resulting set of proposed banking products and technologies, in other words from common banking service, which appears as a set of services, and this is the result of this process (see Fig.1).

Thus, due to the set of such services, it should be distinguished: whether the bank provides traditional banking service, a complex banking service, or even refers to the system of financial supermarket.

Taking into account the above-mentioned, we will analyze communication factors of the system: a “client” - “services” - “banking service” for three-level approach to meet the needs of clients:

1. “Banking service” and “client”;
2. “Banking service” and “services”;
3. “Client” and “services”.

For the first (highest) level it is characteristic that both the client and the bank expect some results from the cooperation chain “banking service - the client”.

For the first (highest) level it is characteristic that both the client and the bank expect some results from the cooperation chain “banking service - the client”. In accordance with the necessities, the purpose of client appears in that the expected characteristics of bank product (services, operations) must coincide with their real consumption, wherein a certain level of security acceptable to the individual risk must be taken into consideration. From another point of view, the purpose of the bank represents the offer of banking products, services and operations with the loyal risk, that meet client’s needs and gives the planned profit. Consequently, this level of meeting demand proposal is the result.

For the second (middle) level – “banking service – services” - respectively are meeting service needs of the bank. For a bank the embranchment of modern service consists of such characteristics as: IT level; the use of innovative technologies;

operation ability of adjusting and removal of failings; level of own developments or dependence on other communication technological organizations; availability of the complex systems; security (avoidance of the interference possibility), the flexibility of CAS, presence of paperless accompaniment of operations. Thus, that is a level of demand that occurs in the process of banking.

For the third (lowest) level - the “client – services” - the main thing for the client is that the functional characteristics of the product line meet demand service, which in turn contains such concepts as “quality service”, namely: availability (a network of point of sale), informative and consultative support, operations efficiency, consistency, functional gap-lack of complex package of products and services; the provision of security services and products, pricing, loyalty programs.

Thus, the “service” is expected to meet the needs of high-quality banking service, which includes not only functional - technological characteristics, but also organizational approach. In relation to the point of view of bank, it is a level of demand. Consequently, in our view, the banking services can be described as activity from diminishing of duration of service, operation ability of decision-making, sequences of operations, comfort in sale products or services (personal visit to the bank and / or the use of remote banking services (RBS)), the quality of the product line, absence of concealed information and financial security providing in general. Thus, “banking services” provide concrete activity on product line service, in the context of direct provision of specific services, sale of a particular product, the realization of concrete operation. This concept is more limited, than banking service, which covers, all systems of service providing all types of services, products, operations and is the result of pre-made process or their amount. Relationship of production of the banking product line with its subsequent usage is accompanied by a variety of banking services (technological, mass, personal, innovative and the like). First, modern development of banking services is characterized by the intensive use of various marketing elements, aimed at introducing the so-called client-oriented strategy; secondly, such approach envisages that the production of concrete bank product is aimed at a concrete

client; thirdly, there are surely dependent consumer banking products, services and operations of making, especially for standardized mass products, services and operations; fourthly, the intersection of client demand with the possibilities of bank is finding of certain coordination which brings this process over in an action, that is client demand is met through bank proposal service technology and this states the continuity of the reproduction process. Starenkov M.U. approach is appropriate in which “client-oriented banking services” is considered as a service which is to be interpreted, from one side, “as a process which is directed on forming and meeting of client needs in innovative banking operations and technologies”, and from the other side, – “as a result of the bank’s relationships with clients, which is characterized by the level of client acquisition before organization – economic decision making and also by the level of their contentment and loyalty” (Starenkov, 2012, p. 10). Such position considers the client not as mass client, but a unique contractor which maximally can be involved in product designing. Accordingly this product is provided with maximally possible

key characteristics which will satisfy a client necessity in future. That is, during the period of development of the product line, the first thing to take into account is maximum possible personal consumer values that this product line will be endowed, while further cooperation with the bank as a service organization, will be characterized not as process of provision, but as certain result. Quality of service by nature is not material component, however it is a basic factor which influences on the financial constituent of this process - that is, the using of certain banking products, services, operations to obtain financial benefits in various forms of increased financial and others for both the client and the bank.

3 BANKING SERVICE IN THE THEORY OF FINANCIAL INTERMEDIATION

Taking into account these above-mentioned suppositions, it is possible to indicate the following three-level conceptual approaches concerning the significance of bank for households in modern information-network economy (see Fig 2.)

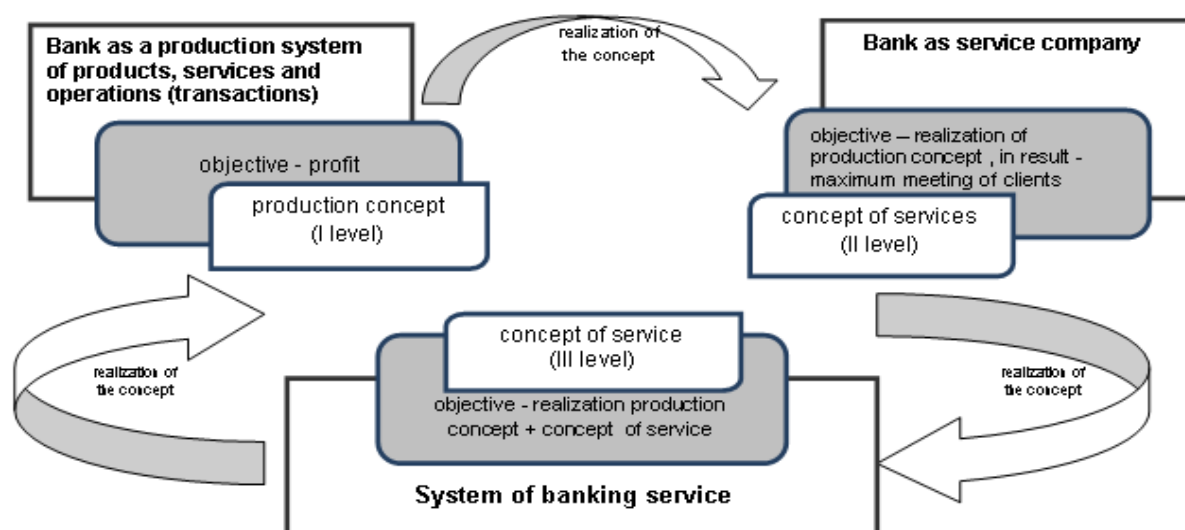


Fig. 2. Conceptual approach about the importance of bank for households in modern to the information-network economy (author’s view)

If to compare such approach (see Fig. 2) to two basic interpretations of macroeconomic theory in relation to the main banks function, banks concept review as “production” systems is a strict adherence to emission function, i.e. creation of payment means (money, financial instrumentation).

If we consider, second position - the banks as “service company” - we see a clear correspondence theory of intermediation or redistribution. In this sense, the banks are the intermediary to process of “saving-investment”. Appropriate will be the use of Corrigan’s E.G. institutional approach about existence of banks,

as the special institution, which basic activity is as follows (Kwan, 2001):

1. They provide their service agreements and manage a payment system.
2. They provide reserve accumulation to support liquidity in the economy.
3. They establish the monetary policy.

However, even before the first half of the last century, the function of banks was to conduct intermediation of the financial system on the whole by accepting deposits and credit, for today, due to the rapid development of the financial system, banks are beginning to lose its monopoly on banking services for households (money orders, consumer credits, deposits, and others like that).

According to Russian scientists Vasiliev A.V., Gerasimova E.B. and Tishina L.S. in the XXI century, thanks to the Internet, the banks will lose the their dominant role in client service because clients directly, without mediators will personally implement financial transactions on major stock exchanges, which is currently one of the types of banking activities (Vasiliev, Gerasimova, & Tishina, Monitoring kachestva bankovskih uslug: monografiya, 2004, p. 32).

Exactly, from the theoretical point of view, theorem of Modigliani-Miller's, show that a financial structure in which a leading role is assigned to banks, loses its meaning for households, as they can both create and change their deposit and loan portfolios independently in any niche that is already occupied by an mediator, and thus, the institution of intermediation has not already been able to create wealth.

Except for it in the traditional Arrow-Debreu model allocation of money, both firms and households cooperates directly through markets, then financial intermediation in this cooperation do not play any role. A condition at this situation must be unique - perfect market at which money distribution is according to Pareto efficiency, and thus, the receipt of income for mediators becomes simply not possible (Franklin & Santomero, 1997, p. 2).

For this, Llewellyn T.D. in his "theory of the banking firm" actually focuses on market imperfections, isolating this factor with eight others, that explain banks rationally- economic activities. Only in the case where depositors and

investors will have the following information, which will give possibility without certain risks and costs to make agreement one with other, indicating a perfect market, intermediary will lose their role (123helpme, 2012).

In addition, it is appropriate that the traditional theories of intermediation in a certain degree are based on practice of the so-called transaction costs and the effect of asymmetric information. The role of transaction costs, according to Franklin and Santomero (1997, p. 14), has the right to exist because, for – first, the costs from the property evaluation for mediators, as opposed to how they would be spent by households, are not concrete, but have general character; for – second, trade costs by mediators can be diversified far easier than ordinary client would do it.

During it, financial innovations have extended the spectrum of possibilities of capital market, especially it became perceptibly due to introduction of technological and informative know-how, which have resulted in scale effect for products, operations and services. It is in the context of minimizing transaction costs it is a appropriate to use Kasuy's M. approach about multi-profile theory of production to banking, the argument of which is that diversification and introduction of new high-quality banking services, will give in the future the scale effect and will increase profitability. This concept is based on the Panzar's J.C. and Willing's R.D. theory of economies of scope, who used this concept as early as 1975 (Kasuya, 1986, p. 59). According to conception of Kasuya M., savings on transaction costs arise up, when production factor as to its production (for product) is used in the production of other product without extra costs. In case if technological and informative know-how are present, that banks give for domestic demand, these products can be used by other market participants for a certain pay, that to some extent reduces the cost of production and banks become functionally unique in their business.

Such approach allows separating another factor of banks comparative advantage as to banking services - innovation magnitude. On the other hand, minimization of asymmetric information action information, on the Diamond's D.W. conception, gives banks financial intermediation. Proof of this is that banks act as delegated

monitoring between the borrower and creditor (Franklin & Santomero, 1997, p. 3). Because of the asymmetric information, moral hazard of borrower takes place then, when there was an agreement. So, creditor will not be aware of the real motive of the borrower. Thus, bank, as a financial intermediary, for minimization of such risk uses a certain policy of monitoring and diversification credit portfolio. As a result, risks may be either absent or removed, or actively managed at the level of the bank. Except this, asymmetric information has no place to be in crediting, when credits are securitized, i.e. risks are transferred to other participants in this process, giving us dominance factor of banking service - an effective risk management.

In opinion of Kanaev A.V., "the most important difference of banks from other intermediary is combined activity on creation of credit and money in the process of transformation of savings into investment" (Kanaev, 2008, p. 14). Consequently, how to deposit, which are used for crediting, "...are accompanied emission of credit money, that is the most natural way for banks" (Kanaev, 2008, p. 15), and, transformation of credits through securitization in securities accompanied by emission as a result mechanism of repayment. So, monetary character of bank's intermediation functions is taking place and banks appear to be as unique money-and-credit intermediary. Thus, both money and intermediary bank functions pertain in modern banking service.

4 CONCLUSIONS

Retail banking - is bank activity that provides a high level of supply of banking services,

operations, products for meeting the needs by households in saving, consumption and money transfer, resulting in common profitability.

"Banking services" - an activity that provides:

- reduce the length of service;
- efficiency in decision-making;
- continuity of operations (transactions);
- forms of convenience products;
- the quality of the product line;
- no hidden information and compliance with financial security.

Thus, the "banking services", which includes specific activities to support the product line developed in the context of direct provision of specific services, the sale of a particular product, the implementation of the specific transaction concept is narrower than "banking service", which provides all system activities, providing service in the bank for all kinds of services, banking products, transaction and results from previously executed process, or their combination.

In the final case, the money banks and intermediation functions inherent in modern banking service, which appears in the form of the integration of all service functions and features create the means of payment, the result of which performance in terms of information-network economy is an innovative approach to creation a system of relationships between the client and bank, where the bank's value for the customer is presented in three main complementary perspectives: as a production system, as a service company, as a system of banking service.

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