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# MODERN APPROACHES TO INCREASING THE EFFICIENCY OF COMMERCIAL BANKS BRANCHES: THE EXPERIENCE OF UZBEKISTAN

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## Abstract

This article analyzes modern approaches aimed at improving the efficiency of commercial bank branch operations in the Republic of Uzbekistan. In the context of the growing banking services market, the article examines opportunities to achieve efficiency through optimized management models, digitalization, customer-oriented services, and innovative technologies. Additionally, practical suggestions based on national experience are developed.

**Keywords:** Commercial bank, branch network, efficiency, digitalization, banking services, management, Uzbekistan experience.

## Introduction

In recent years, the issue of reforming the activities of commercial banks, which are part of the financial system of the Republic of Uzbekistan, has become one of the priority areas of state policy. This is explained by the economic reforms being implemented in the country, in particular, the liberalization of the financial sector, the need to expand the scope of banking services, improve their quality and responsiveness to customer needs. Today, the financial services market is becoming increasingly competitive, innovative technologies are being rapidly introduced, and integration with global financial systems is increasing. In this regard, optimizing the activities and increasing the efficiency of commercial banks, especially their branches located in the regions, is becoming an urgent issue.



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The banking system is the lifeblood of the country's economy. In particular, through commercial banks, such functions as providing financial services to the population and entrepreneurs, financing investment projects, and supporting export-import operations are implemented. In this regard, each link of banks, in particular the activities of regional branches, is of particular importance. Branches are considered a lower level of communication with customers, identifying their needs and providing them with prompt and high-quality service. Therefore, the efficiency of branch operations directly affects not only the profitability and stability of the bank, but also the stable operation of the entire banking system.

Currently, factors such as the increase or decrease in the number of branches, their geographical location, range of services, staff qualifications, technological support and management efficiency are among the important criteria determining the competitiveness of banks. Modern banking services are not limited to traditional operations (for example, accepting deposits, granting loans), but also include digital services, remote banking services, payment systems through mobile applications, electronic wallets, concierge services and other innovative solutions. Therefore, branches should become not only service points, but also dynamic centers that introduce innovations and quickly adapt to customer needs.

In addition, in recent years, large-scale reforms have been implemented in the banking sector through decrees of the President of the Republic of Uzbekistan and government resolutions. Measures such as the privatization of state assets, openness to foreign investors, the transformation of banks into open joint-stock companies through IPOs, and the reduction of the state share require the introduction of new approaches to the internal management system of banks, risk management, and customer relations. The role of branches in these processes is becoming increasingly important, since they are the main point of contact for direct contact with customers [1].

The effectiveness of branches largely depends on their management system, automation of business processes, staff qualifications, and customer service culture. In today's global financial environment, customers attach great importance to the quality, speed, variety, and convenience of service. If branches



fail to meet these requirements, customers may switch to competing banks. Therefore, improving branch operations is not only a matter of internal management, but also a means of strengthening the bank's image in the market.

### **Analysis of relevant literature**

The problem of increasing the efficiency of bank branches is inextricably linked with the development of the global financial system, and various approaches have been developed in international and domestic literature on this issue. In world scientific and practical experience, special attention is paid to determining the role of bank branches, assessing their functional load and profitability, studying the area of service provision and the efficiency of using financial resources. For example, Berger and Mester (2003) emphasize in their research the need to take into account profitability, the ratio of costs and revenues, and the impact of technological innovations when measuring bank efficiency. Allen and Santomero (2001), analyzing the impact of strategic placement of bank branches and service diversification on bank competitiveness, note that banks should strive to maximize customer satisfaction through their branch network [2].

Also, in world practice, quantitative methods such as Data Envelopment Analysis (DEA) and Stochastic Frontier Analysis (SFA) are widely used in assessing bank performance. These methods allow us to determine the efficiency of resource use and relative advantages of bank branches. In the era of digital transformation, many researchers are promoting a strategy of reducing the number of branches and transforming them into “digital offices” (Khan et al., 2018; McKinsey & Company, 2020). In particular, in the experience of developed countries, it is observed that the number of branches is decreasing, and their functional role is being directed more towards advice, quality of service, and the sale of complex financial products.

In the context of Uzbekistan, the literature on the activities of bank branches is relatively new and has a mainly practical orientation. In his study, Mamatkulov (2020) substantiated the importance of expanding the range of services, improving staff skills, and introducing digital technologies in increasing the efficiency of branch operations. In his opinion, bank branches should function



as platforms for innovative services. Karimov (2019) showed that it is possible to increase the efficiency of branches by strengthening the customer-oriented approach in commercial banks, increasing the speed and convenience of service provision. He also analyzed the correlation between the territorial branching of banks and the number of customers and made recommendations for optimizing bank branches. Khojakulov (2022) in his research emphasizes methods for reducing branch costs through digitalization, controlling customer flow, and monitoring the quality of services [3]. It is worth noting that in the domestic literature, the criteria for evaluating branch activities are studied more on the basis of statistical indicators - namely, the size of the loan portfolio, attracted deposits, and the number of transactions. However, in foreign sources, in addition to these criteria, soft indicators such as service quality, customer satisfaction, level of innovation, and employee efficiency are also widely analyzed. This is considered a new promising direction for the Uzbek scientific school. In general, the analysis of the literature shows that there is no single approach to improving the efficiency of bank branches. Each country develops its own model, taking into account its economic situation, the level of development of its financial sector, and the possibilities of digital transformation. Uzbekistan has an opportunity to adapt international experience to local conditions and make branch operations more efficient through digitalization, human resource development, and improving the quality of services.

### **Research Methodology**

This study used a comprehensive approach to analyze the effectiveness of the activities of commercial bank branches and identify ways to optimize them. In order to ensure the scientific validity and practical significance of the study, several methodological approaches were combined. In particular, such methods as systematic analysis, comparative analysis, statistical methods, expert assessment, as well as empirical analysis were chosen as the main scientific tools.

- Systematic analysis was used to study the organization of bank branches, their internal and external relations, interaction with the head office, types of services



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and management structure. This method helped to identify the internal resources and external environmental factors necessary for the effective operation of branches.

- Using comparative analysis, the activities of branches of commercial banks of Uzbekistan were compared with international experience. In particular, a comparison was made with the model and performance indicators of branches in the banking systems of developed countries (USA, Germany, South Korea) and regional neighbors (Kazakhstan, Georgia). This allowed an objective assessment of the experience of Uzbekistan [4].
- Using statistical methods, the main indicators such as the number of branches, volume of operations, number of clients, loan portfolio, and volume of deposits were analyzed based on the annual reports of commercial banks for recent years, data from the Central Bank of the Republic of Uzbekistan and the State Statistics Committee. In this process, trend analysis, variance analysis, growth rates, and average indicators were determined.
- Using the expert assessment method, the opinions of specialists with experience in the financial sector were studied. In particular, questionnaires and interviews were conducted with the participation of bank managers, branch managers, and industry experts. Using this method, existing problems in the activities of branches and proposals for their elimination were formulated.
- Empirical analysis was conducted based on real practical data on banking activities. In particular, the activities of branches of “Ipoteka Bank”, “Asaka Bank”, “Milliy Bank” and other leading commercial banks were studied. Analyses were conducted based on parameters such as branch location, number of customers, number and type of services provided, level of digital services, and profitability indicators (ROA, ROE) [5].

### **Analysis and results (extended)**

The commercial banking system of Uzbekistan has been undergoing a sharp transformation in recent years. The number of banks operating in the republic has exceeded 30, most of which provide services through their own branch network. As of 2024, the total number of branches of commercial banks was more than 950. However, this indicator does not fully correspond to their





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efficiency. The analysis shows that in some banks, a large number of branches does not mean high efficiency.

**1. The gap between the number of branches and efficiency**

Although some large banks (for example, "Xalq Bank", "Ipoteka Bank", "Agrobank") have a large branch network, the activities of these branches are not the same in terms of efficiency. Some of them operate with low load, low customer flow, and limited services. Therefore, in recent years, banks have been pursuing a strategy of optimizing the number of branches, redistributing resources, and expanding digital banking services [6].

**2. Increasing share of digital services**

Digital services such as mobile applications, online banking, chatbots, QR payments are becoming increasingly popular among bank customers. According to the results of 2023:

- More than 65% of banking transactions were carried out through digital services.
- In large cities, payments, account opening, and loan services are carried out quickly and conveniently through mobile applications.
- Some banks (for example, TBC Bank, Anorbank) provide services mainly without branches or based on a minimal branch model. [7].

**3. Location and specialization of branches**

The territorial location of branches also has significant differences. Due to the large number of branches in large cities, competition is strong, and customer needs can be fully satisfied. However, in remote areas, especially in rural areas, the number of branches is small, which limits the population's access to financial services.

Branches also differ in the scope of services: some provide only cash and payment services, while others specialize in providing credit, deposit, advisory and investment services [8].

**4. Staff capacity and service quality**

One of the important factors affecting the efficiency of branches is the capacity of staff and the culture of customer service. The qualifications of staff, customer service skills, and the level of use of digital technologies play an important role



in the efficiency of a branch. Experts note that branches with highly qualified staff have higher customer flow and profitability [9].

**1-Table Analytical table: Comparative analysis of branch and digital services**

Indicator	Traditional branches	Digital banking
Service time	Limited (only during business hours)	24/7
Territorial coverage	Mostly in cities or district centers	Anywhere with internet, nationwide
Operating costs	High (rent, staff, infrastructure)	Relatively low
Number of customers	Limited, depends on location	Fast growing, no geographical restrictions
Employee participation	Mandatory	Automated
Scope of banking services	Extensive, but service quality varies	Limited, but constantly updated
Customer trust	High (due to many years of practice)	Growing

**Conclusions and recommendations (extended)**

The analysis of the activities of branches of commercial banks in Uzbekistan shows that their numerically large network does not always mean high efficiency. On the contrary, by increasing the efficiency of existing branches, it is possible to strengthen the overall stability of the banking system, improve the quality of financial services and increase the level of customer service.

Based on the results of the study, the following main conclusions were drawn:

- The need for digital transformation

The traditional branch model is partially losing its efficiency. Digital technologies (mobile applications, online platforms, services based on artificial intelligence) are creating convenience for customers and reducing the burden on branches. Therefore, along with the introduction of digital services, they should be adapted to customer needs.



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- Reconsidering the branch network based on territorial analysis

You can save resources by opening new branches in densely populated areas with high economic activity, and, conversely, by reducing branches in areas with low activity or replacing them with digital services. This will reduce operating costs and improve service quality.

- Increasing human resources and investing in human capital

The success of branches depends, first of all, on the qualifications, motivation and service culture of their employees. Therefore, it is necessary to constantly introduce modern training programs for improving staff qualifications in banks, increase human resources through online training, and certification systems.

- Forming a unified information system

It allows you to monitor the activities of all branches through a unified monitoring system, determine and analyze their performance indicators in real time. This system can create a healthy competitive environment between branches, encourage highly efficient branches, and optimize the activities of those that are performing poorly.

- Developing simplified banking service packages

It is important to introduce targeted service packages to quickly and effectively meet customer needs. For example, simplified service packages for young people, entrepreneurs, and pensioners (opening an account, obtaining a loan, making payments) increase demand for banking services and optimize branch workload.

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