

Transformation of Commercial Banks in the Conditions of Digital Technology Development

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Abstract: The article examines the main issues of transformation of commercial banks in the context of the development of digital technologies in the Republic of Uzbekistan at the present stage. Existing problems associated with the development of remote banking services and mobile technologies have also been identified. Based on the research, practical proposals and scientific recommendations have been developed to improve the transformation of commercial banks in the Republic of Uzbekistan.

Key words: transformation, financial technology, digital transformation, bank, client, banking services, mobility, remote banking.



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Introduction. In recent years, the banking and financial sector in the country has been gradually reformed, a number of measures have been taken, and as a result, the necessary legal conditions have been created for conducting advanced banking business and strengthening the competitive environment. In particular, the Law "On the Central Bank of the Republic of Uzbekistan," "On Banks and Banking Activities," "On Currency Regulation," and "On Payments and Payment Systems" were adopted, which meet international standards and create an attractive legal environment for foreign investment in the financial sector.

The Head of State, President Shavkat Mirziyoyev, believes that "Commercial banks are lagging behind in the processes of transformation in accordance with modern requirements, in the introduction of modern management methods and information technology services, in the management of assets and liabilities, in communication with clients"[2].

At the same time, the analysis of the current situation in the banking sector shows the presence of a number of systemic problems hindering the development of the banking sector in accordance with economic transformations and the needs of society, such as the high share of the state in the banking sector, the insufficient quality of management and risk management in state-owned banks, and the low level of financial intermediation in the economy. The Decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025" was an important step towards solving

these issues.

Therefore, there is a need for further scientific research related to improving the organizational mechanisms of transformation in commercial banks.

Analysis of literature on the topic.

The problems of bank sector transformation and the large-scale use of electronic platforms in improving IT infrastructure have been addressed in the research of foreign scholars such as A. Kankankhalli, N. Fenwick, R. Kleinhans, and others [3; 4].

Issues related to the organization of digital innovation activities in commercial banks have been studied in scientific and practical research by B. King, M.A. Galper, L.V. Koch, L.R. Magomayeva, O.A. Popova, and other scientists [5;7]

According to the Russian scientist D.A. Alekseev, the transformation of the banking sector implies that banks use digital technologies to improve existing business models, as well as to increase the efficiency of banks' activities. [8]

Scientific research on issues related to the development of transformation of commercial banks in the context of the development of digital technologies has been conducted by domestic scientists such as I.R. Taimukhamedov, A.O. Alikoriev, Z.T. Mamadiyarov, M. Azlarova, A.A. and others in their research.

Research methodology. As a theoretical and methodological basis of this article, general economic literature and scientific articles, scientific works of economists, economic views of scientists and representatives of the sphere on improving the development of bank services digitalization, analysis of their opinions, expert assessments, monitoring of processes, a systematic approach to economic phenomena and processes were used. By conducting a comparative analysis of their experience, the author developed conclusions and proposals, recommendations for improving mobile banking.

Analysis and results.

Currently, one of the main factors of successful banking activity is the policy of constant innovation.

Digital transformation is the transformation of bank structures based on the application of digital technologies, changing the targeted direction of activity, ensuring the creation of new services and obtaining new market opportunities. [10].

In the future, the development of innovative banking service technologies can become the main priority for choosing banking organizations and a stimulus for improving the quality of banking products and services, even considering international standards.

Given the large number of competing business priorities, cost control efforts, current technological initiatives, and numerous service delivery options, financial directors should invest in transformation, artificial intelligence, and autonomous digital projects. This will make the financial institution more economical and ensure accelerated growth. To achieve transformation, it is necessary to identify the right priorities and engage specialists in the necessary fields [11].

Psychological transformation is one of the most important and complex issues, the main problem is changing the mentality of employees so that they welcome these new systems, make them proud of their bank and what they are doing.

The digitalization of Uzbekistan began about 10 years ago. In 2012, the republic's government approved the "Comprehensive Program for the Development of the National Information and Communication System." The implementation of the document was calculated for the period 2013-2020.

In the "Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025," priority tasks were defined, such as creating the necessary conditions for the widespread introduction of modern information and communication technologies, automating the business processes of commercial banks, and expanding remote banking services.

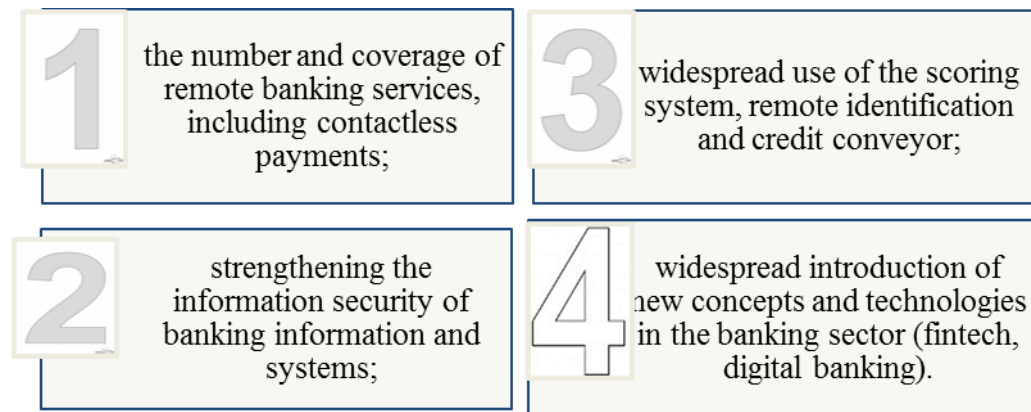


Figure 1. Measures being implemented in the process of corporate transformation of commercial banks in Uzbekistan for 2020-2025¹.

As a result of the work carried out to reform the banking sector in the Republic of Uzbekistan over the past three years, the capital of banks has increased by 1.8 times, and the annual lending volume has doubled. Four banks issued Eurobonds for the first time and attracted \$1 billion in the international capital market. A strategic foreign investor has been attracted to "Ipoteka-bank." 13 new private banks were opened, leading banks of Hungary, Kazakhstan, and Georgia began their activities in the country. The volume of online banking services has increased 2.7 times.

At the same time, competition in the banking sector, as well as the demand for its services, is growing every day. This requires accelerating transformation processes and defining priority tasks for the future. [2]

Today, 22 million people use remote banking services in Uzbekistan - this is more than half of the country's population.

Table 1. Number of users of remote banking services

Date	Total	Legal entities and individual entrepreneurs	Individuals
1	2	3	4
01.01.2020 y.	10 153 458	691 008	9 462 450
01.02.2022 y.	20 890 599	982 858	19 907 741
01.04.2022 y.	22 054 391	1 034 137	21 020 254
01.01.2023 y.	30 000 914	1 157 045	28 843 869
01.01.2024 y.	44 099 600	1 339 609	42 759 991

Recognition of bank cards by the population as a convenient means of payment, as well as the expansion of the coverage of remote banking services, contribute to an increase in demand for bank cards. (see Table 2)

In particular, the number of bank cards issued into circulation in 2023 reached 46.2 million, a 2.2-fold increase compared to 2020.

¹ The figure was compiled by the author based on the Decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025."

Table 2. Number of bank plastic cards issued for circulation, installed payment terminals, ATMs and info kiosks, as well as the amount of payments made through payment terminals

Date	Number of bank plastic cards issued into circulation	Number of installed payment terminals	Number of installed ATMs and info kiosks	Number of payments made through payment terminals (since the beginning of the year), billion soums
1	2	3	4	5
01.01.2020 y.	20 547 366	392 361	9 203	71 020,2
01.01.2021 y.	25 775 662	438 410	11 800	81 000,0
01.03.2022 y.	27 839 307	433 986	13 156	20 541,9
01.01.2023 y.	34 195 648	434 018	20 379	177 671,0
01.01.2024 y.	46 205 950	429 334	26 655	254 719,1

In 2023, the volume of payments received through 429 thousand compared to 2020, it increased by 1.6 times and amounted to 254.7 trillion soums.

In 2023, the number of ATMs and info kiosks installed in banking infrastructure, tourist and other facilities increased by 2.9 times compared to 2020 and as of January 1, 2024, amounted to more than 26.6 thousand.

With the adoption of the Law of the Republic of Uzbekistan "On Payments and Payment Systems," the service infrastructure of payment system operators operating in the country has sharply increased. In addition, 28 payment organizations specializing in the provision of digital financial services have been registered. In order to develop contactless payments, the HUMO retail payment system has been created, which fully complies with international standards, which, in turn, has formed a competitive environment in the field of bank cards.

Conclusion.

Digital technologies are the main key to the consistent development of any state, allowing for a qualitative breakthrough in many aspects of society. And the comprehensive digital reforms being carried out in Uzbekistan today are aimed at achieving the main goal - to become one of the leading states with a prosperous economy and a strong civil society.

The development of information technology has a great impact on the economy, people's behavior, and society as a whole. Humanity produces an enormous amount of information daily. This is greatly facilitated by the availability of mobile internet, the constantly growing technical capabilities of smartphones, people's involvement in social networks, and the increasing speed of the internet.

Today, information is a powerful centrifugal force for change, and based on the analysis and processing of this data, we can observe fundamental changes in society, governance, the economy, business, trade, and banking.

The improvement of internal processes as a result of the use of digital technologies is also a necessary condition for the functioning of any bank. At the same time, the lack of digital economy skills among personnel can become an obstacle to digital transformation. Therefore, the most important task for banks in these conditions is the work on training personnel in new methods and ways of organizing and conducting banking activities.

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