



The necessity of digital transformation in commercial banks

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ABSTRACT

This article provides information on the concept of the necessity of digital transformation in commercial banks and the current need for implementing the digital transformation process. It also provides an understanding of the main external factors of the emergence of systems for transforming banking system services, which play a significant role in the need to implement the digital transformation process, and highlights the need for the transition to digital transformation in commercial banks in Uzbekistan. In addition, conclusions and proposals are given on the development of the digital transformation process in commercial banks.

Keywords:

transformation, digital banking, banking services, online banking, HR & corporate culture, mobile technology, digital Office, mobile banking

Introduction. The development of information technologies at the beginning of the 21st century and the development of digital technologies based on economic globalization processes have led to the development of information and data in society and business processes. Data and information in society and business processes have become the main source of the system. It turns into knowledge in the hands of people and increasingly networks have appeared in socio-economic relations. The main factor of the transformation process and digital transformation in the activities of the banking and financial system is the development of digital culture.

Main part. Digital transformation of the bank is a broad concept, which not only includes the transition from traditional practices and operations to digital operational processes, but

also a technological process that allows offering continuous and secure services to customers, quickly responding to market changes, and by transitioning to a modern system, it covers all processes from banking services in the bank, personnel policy, payroll system, creation of new products and reaching customers.

Decrees of the President of the Republic of Uzbekistan No. PF-4947 dated February 7, 2017 "On the Strategy of Actions for the Further Development of the Republic of Uzbekistan", No. PF-5544 dated September 21, 2018 "On Approval of the Strategy for Innovative Development of the Republic of Uzbekistan for 2019-2021", No. PF-5614 dated January 8, 2019 "On Additional Measures for Further Development of the Economy and Increasing the Efficiency of Economic Policy", Resolution No. PQ-4022 dated November 21, 2018 "On

Measures for Further Modernization of Digital Infrastructure in Order to Develop the Digital Economy", Concept for the Development of the Higher Education System of the Republic of Uzbekistan until 2030 (October 8, 2019, This dissertation work serves to a certain extent in implementing the tasks set out in the Decree of the President of the Republic of Uzbekistan No. PF-5847) "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025" dated May 12, 2020, "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025", which aims to develop the banking system in accordance with modern requirements, improve the quality of services provided to customers, ensure their accessibility, that is, in short, the strategy for digital transformation and radical reform of the banking system, as well as other regulatory legal acts related to the digital transformation process of commercial banks.

Studies show that at the current stage, the institutional structure of a transformational society requires the formation of a digital economy, which has its own characteristics and is currently an urgent task. The need for banking transformation in this difficult period is being recognized not only through separate laws, resolutions, strategies and various measures, but also at meetings and events where the implementation of the strategy and the transformation process in the banking sector are discussed.

The essence of this article is the need to clarify the concepts of banking digital transformation and transformation, and to determine the current state of transformation processes in the system in the Republic of Uzbekistan and other countries from the point of view of the development of institutions that allow the development of the digital economy in the country.

Currently, digital technologies, artificial intelligence are turning the banking sector and other sectors of the economy into mobile and flexible systems. If earlier we could only use the services of these systems by visiting service outlets, now we are creating opportunities to

use all these services from home or from any point in the world through digital banking services. The transformation of banking services to remote platforms has led to a fundamental change in all systems of the financial and economic sphere, as well as the banking system model, that is, to the stage of digital transformation, and has created the need for transformation.

Previously, banks served customers based on almost the same standards and types of services, but now, on the contrary, they offer a range of services tailored to the needs and requirements of customers and their financial situation, that is, it would not be an exaggeration to say that banking services and products are being built around the customer.

Also, IT companies (hereinafter referred to as FinTech) that offer traditional banking services and products of banks in a new, modern way have entered the financial market. The entry of FinTech companies into the financial market and the provision of certain types of retail banking services to customers in very convenient ways and conditions has forced banks around the world to think about their future and destiny, and this has led to the need to fundamentally change the model of the banking system and transform them.

In order to maintain their place and position in the financial market, banks will have to abandon traditional service delivery methods and invest a large amount of money and energy in the economy and innovation in order to transform their services and work methods. All this requires banks not only to change the methods of service delivery, but also to form a digital culture in their relationship with customers, their operational processes, approaches and management culture, that is, to form a digital culture in their structure. If a digital culture is not formed in the team, it is impossible to imagine the transformation process with this team, and it would be wrong to start this process. Even if the process begins, a lot of resources will be spent on it, and the result will not be as expected. Because a person does not want to switch from the traditional system that he is used to, has been working for many years,

to a new one that he initially thinks may bring various difficulties for him. Therefore, before embarking on the process of digital transformation, whether it is a bank or another organization, the most effective step is to develop skills in the team and instill in the team a single goal and a single idea of "transformation" and start working in agreement with all members of the team.

Therefore, in this article, we will focus on the digital transformation of the banking system and the components of the bank management system based on digital technologies that are

being introduced and required in banks: the customer service segment, operational processes and the bank's business model. We will also touch on the main financial technologies that allow banks to change their activities in line with the requirements of the digital economy, as well as the history, stages of development and needs of banking services.

Table 1 below shows the three main external factors that led to the emergence of systems for transforming banking system services, which played a significant role in the need to implement the digital transformation process:

1-Table

There are 3 main external factors that drive the need for a digital transformation system:		
1	2	3
Digital technologies that emerged with the advent of the Internet (smartphones, cloud technology, online payment systems, cryptocurrency).	With the development of digital technologies, there is intense competition in e-commerce. The revenue of companies based on digital technologies such as Facebook, Apple, Amazon, Netflix, and Google has increased dramatically.	Changing preferences of bank customers, namely the demands of a new younger generation for online and digital banking services.

These have changed in line with the digital transformation of financial institutions. Today, customers have access to more information through digital technologies and social networks, and the choice has expanded. If financial institutions and banks cannot respond to customer demands in a timely manner, they will lose their customers.

It should be noted that CHEKI "Hamkorbank" JSCB strives to improve itself in all areas,

attracts consultants and experts, and trains employees. "Hamkorbank" JSCB pays special attention to constantly being a leader in further expanding digital services and providing customers with fast and high-quality banking services, and the transformation process is included in the bank's strategy, and the focus on the following areas in digitalization is set out in Table 2:

2-table

Transformation	Digitization
<ul style="list-style-type: none"> • Formatting of points of sale; • Improving the efficiency of banking networks; • Transition to a single MFO. 	<ul style="list-style-type: none"> • New digital products; • Artificial intelligence; • Ecosystem, etc.

CHECKOUT Effective work has been carried out in the above areas within the framework of the development strategy of JSCB "Hamkorbank" for 2021-2024. The transformation process is of great importance in the bank's development strategy.

Table 3. Key indicators of the digitalization strategy of JSCB "Hamkorbank" for 2020-2023 (billion soums)

3-table

Indicators	In practice			Strategy-2023		
	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.01.2023	01.01.2024
Assets, billion soums	56525	66605	86608	108370	129143	145813
Liabilities, billion soums	50803	53464	72167	92239	110819	124629
Capital, billion soums	5722	13141	14441	16131	18328	21184
Loan portfolio, billion soums	46574	54989	71523	88807	104991	118659
Net profit, billion soums	507	1044	1300	1690	2197	2856
ROA	1.0%	1.8%	1.7%	1.7%	1.8%	2.1%
ROE	9.6%	11.6%	9.4%	11.1%	12.8%	14.5%
SIR	46%	36.0%	35.0%	35.0%	35.0%	35.0%

Source: <https://hamkorbank.uz/upload/iblock/a83/pdf#viewer.action=download> **Biznes reja-va-rivojlanish-strategiyasi.**

Table 3 assumes inflation (13 percent in 2020, 10 percent in 2021, 5 percent in 2023), GDP growth rate (5.5 percent in 2020, 5.8 percent in 2021, 6.2 percent in 2022), lending growth rate in 2020 at the level of 20-25 percent (excluding exchange rate fluctuations), and the renewal of IT infrastructure and communication channels in 2020. If we evaluate the strategic processes, we can see the bank's growth forecast for the coming years. In particular, the increase in the bank's net profit indicator by 129 percent by 2023 is positive. Similarly, the bank's profitability level was set to reach 14.5 percent according to the 2023 strategy, and the desired result was successfully achieved. In 2023-2024, the bank's digital transformation coordination office at JSCB Hamkorbank worked on 95 projects as part of the transformation process, and 48 projects were successfully completed.

Within the framework of these projects:

- 27 business processes were automated or centralized;

- 1,150 hours of employee time were optimized;
- An average of 1,656 million soums in bank expenses were saved per month.

Successful projects:

- Project to develop the bank's collection service (7 billion soums of traffic saved per year)
- Single MFO project (a wide range of opportunities for optimization was created)
- Project to collect overdue debts through the auto-payment program (700 million soums of bank expenses paid to the center were saved)
- Project to insure collateral (the process was automated, saving staff time)
- Within the framework of the Product Owners School project, 12 employees were appointed Product Owners and started working in the retail sector.

Also, the development of mobile technologies, which is one of the main external factors for the emergence of the above-mentioned digital transformation systems, in itself means that there is a great need for the digital transformation process in the system. Many

factors contribute to the acceleration of digitalization processes in the service of customers by commercial banks in Uzbekistan. Including an increase in the level of Internet coverage. In particular, favorable conditions are being created for the digital transformation of the banking sector in Uzbekistan. As a result, the number of customers using remote service channels is increasing from year to year. The number of users of mobile and internet banking

services in our country as of January 1, 2020 was 10,153.4 thousand, while as of January 1, 2023 this figure increased by almost 3 times and amounted to 30,001 thousand. (Figure 1) In September 2024, the number of users of such service channels was 48.4 million people, which is 23.1% more than last year and 4.7 times more than 5 years ago. It is noted that almost all users are individuals.

Масофавий банк хизматларидан фойдаланувчилар сони

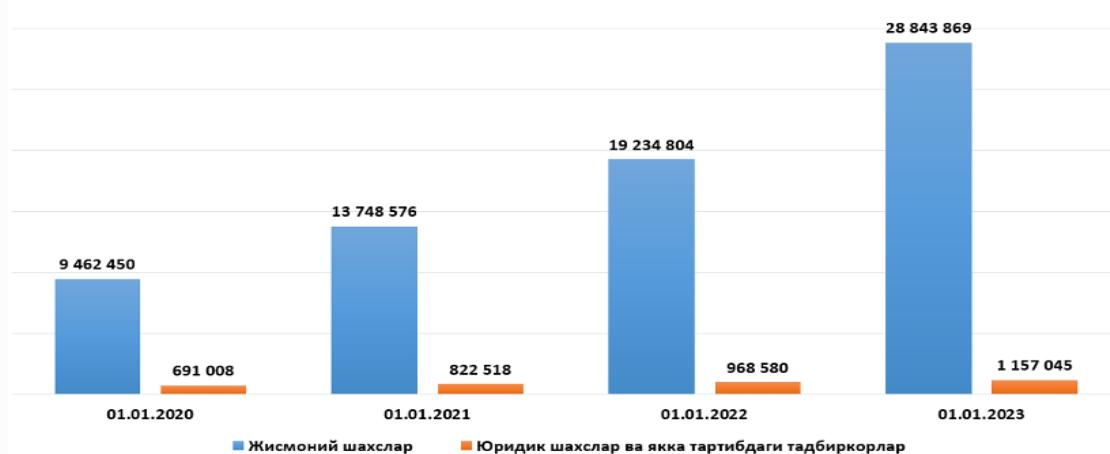


Figure 1. Number of users of remote banking services

Modern, convenient mobile and online applications with wide functionality are widespread in our country today. The provision of mobile applications by banks of our republic to customers allows them to carry out banking operations on a par with banks in developed countries of the world. Depending on the direction of service provision, the majority of customers, 50%, use remote banking services (of which 20% are Internet banking, 15% are mobile banking, and 45% are both platforms). Today, in the conditions of digitalization of the economy, the provision of banking services using new technologies is already a basic requirement of the era. Changes in banks in the process of transformation, the results of digitalization in the banking system, the intensification of the competitive environment and the further development of private banks indicate the need to search for innovative

financial products and services. I should also add that the pandemic observed in 2020-2023 is also the main reason for the rapid transformation of the banking system and the development of systems. The project costs for the introduction of Internet banking and the formation of a team to implement it were usually not covered by commission income from servicing customers in a new format. Because customers were initially wary of the amenities offered, and the number of active customers increased slowly. However, after a few years, the situation changed, and it became clear that customers were paying more attention to high-quality Internet services. Paragraph 71 of the Action Strategy pays special attention to implementing digital transformation in all service areas. The "roadmap" for the transformation of state-owned banks is set to be implemented from June 1, 2020, including

measures to improve the quality of banking services provided to the population and business entities, and to increase the types of modern retail banking services. Accordingly, the implementation of the tasks set for the current year on the broad transformation of the banking system and the introduction of modern models of banking business requires the use of practical, effective forms of cooperation between the Central Bank (CB) and commercial banks.

Conclusions and proposals. An analysis of the current situation in the banking sector of our republic shows that there are a number of systemic problems that hinder the development of the banking sector in line with economic renewal and the needs of society, such as state intervention in the banking system, insufficient quality of management and risk management in banks with state participation, and a low level of financial intermediation in the economy. As is known, in order to ensure the implementation of the Presidential Decree "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025", the main directions of medium-term reforms in the banking sector have been identified. Also, the goal of the strategy for reforming the banking system of the Republic of Uzbekistan is to ensure the implementation of the following tasks by 2025:

- increase the share of assets of banks without state share in the total assets of the banking system from the current 15 percent to 60 percent by 2025;
- increase the share of liabilities to the private sector in the total liabilities of banks from the current 28 percent to 70 percent by the end of 2025;
- attract at least three strategic foreign investors with the necessary experience, knowledge and authority to the capital of at least three banks with a state share by 2025;
- increase the share of non-bank credit organizations in the total lending volume from the current 0.35 percent to 4 percent by 2025.

I believe that improving the process of digital transformation of banking services in the following ways is an important factor determining the prospects for the development of the digital banking system today:

1. *Mobile technologies*
2. *Digital banks*
3. *Artificial intelligence*
4. *Automation of reporting*
5. *Data protection.*

In the process of digital transformation of banks, customer demands are inevitably increasing, and the lack of quality provision of advanced innovative banking services in this regard may lead to a decrease in bank customers' trust in their bank. As a result, bank customers tend to change banks or use other banking services. Therefore, banks need to transform their activities according to the requirements of their customers, that is, create new banking services using modern information and communication technologies in banking products and services. From this point of view, when reviewing the organizational structure of commercial banks, improving it in line with international standards and simplifying lending conditions are important aspects. At the same time, developing measures to revitalize business-oriented corporate governance and supervisory boards, and introducing modern banking services are important in strengthening the impact of the transformation process on the stability of banks.

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