



# Digital Transformation of Commercial Banks in the Practice of Uzbekistan

PhD Khudayarova Khurshida  
Abdunazarovna

Senior teacher of "Banking" department of  
Tashkent Financial Institute  
[khurshidabonu\\_x@mail.ru](mailto:khurshidabonu_x@mail.ru)

## ABSTRACT

Digital transformation is now seen as a new paradigm. Changes in the nature of banks during the implementation of their transformations can become an impetus for development for entire industries. Digital modernization gives traditional banks a new chance to improve customer satisfaction and loyalty, fostering long-term relationships. This article is devoted to the study of current trends, problems, and prospects for the digital transformation of the Uzbek banking sector. The main performance indicators of second-tier banks of the Republic of Uzbekistan are analyzed, an overview is given of the specifics of the functioning of the banking sector in the digital economy and the main problems that arise during their activities.

## Keywords:

innovation, transformation, banking services, banking products, banking innovations, financial innovations, market financial services

**Introduction.** Today, deepening the reform of the banking system and increasing its stability, further strengthening the trust of the population and foreign investors in the banking system, expanding the type of banking services provided and the scope of the service market, with the wide use of information and communication technologies, is one of the urgent issues of today. As a result of the rapid development of the world banking and financial system, there is an even greater need to use new modern technologies in the activities of banks, which are the most important branch of the economy. This need was felt even more during the pandemic. In the developed countries of the world, the number of banks that use modern technologies such as Internet banking, mobile banking, telephone banking, and POS-terminals, which provide service 24 hours a day, 7 days a week, is increasing rapidly.

In this regard, among developed countries, large-scale reforms are being carried out in

Uzbekistan, including legal norms. In the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025, one of the main directions of reforming the banking system is "the wide introduction of remote services, the development of a network of low-cost service points, as well as the formation and development of non-bank credit organizations as a complementary part of the unified financial system of the republic and increasing the popularity and quality of financial services by creating favorable conditions".

When we talk about digital transformation, we should first talk about its advantages. Digital transformation creates a number of opportunities not only for bank customers, but also for commercial banks themselves. Digital transformation gives banks the following opportunities:

- Optimization of banking business management,
- Ability to implement effective marketing,

- Reduces bank costs,
- The ability to meet the demand for bank resources increases,
- The way to new fields of activity will be opened,
- It enables digitalization of relations with bank customers.

**Research methodology** In this study, dialectical logic, scientific knowledge, induction and deduction, comparison, grouping, economic-statistical and generalization, expert evaluation methods, as well as research works of foreign and local scientists on the subject were widely used.

**Review of literature on the subject.** Currently, the main issues of research by foreign and domestic authors, the subject of which are digital financial services, is related to the definition of the concept of digital financial services, identifying the advantages of digitalization for the financial industry, justifying the inferiority of financial literacy without digital competencies, as well as identifying the challenges and risks of digital transformation of financial services both for individual subjects of the financial market and for the economy as a whole.

Particularly, S. Carbo-Valverde, K. Kahn, analyzing the effectiveness of American and European payment systems, emphasize the role of online banking products and do not see a threat to them from cryptocurrency [8]. A. Omarini, considering the digital transformation of banking services, substantiates the place of new technological platforms in the Mediterranean countries [11]. T. Ahisar, K. Tunay emphasize the growing efficiency of electronic banking services [6]. A study conducted by F. Libana-Cabanillas in Spain shows the growing interest of business and people in this segment [10]. Electronic banking is actively developing in Asia [9], Africa and the Middle East [7]. Interest in digitalization in Uzbekistan is also steadily growing. Therefore, scientists and economists of our country conducted research in this direction and expressed their opinions. These include Sh. Abdullaeva[2], A.L. Gulyamova [4], M.

Tangishov [3], O. Melikov, A. We can cite Khojimamatov [5] and several other scientists as examples.

However, despite this, ensuring the effective operation and development of banking system institutions is still relevant in further improving banking innovations, studying the obstacles to their introduction and identifying ways to solve them.

**Analysis and results.** Analysis of remote banking services shows the trend of digital technologies being introduced into banking services today. In remote banking services, the bank is a convenient banking service that provides quick and constant access to customers. The convenience of a commercial bank's services does not depend on its branch or branch location, but on the quality of its internet applications and the implementation of digital technologies in the customer office. Thus, remote banking services are a promising direction for providing services to individuals and legal entities. Digital transformation enables commercial banks to enter the global banking market after gaining advantageous competitive positions.

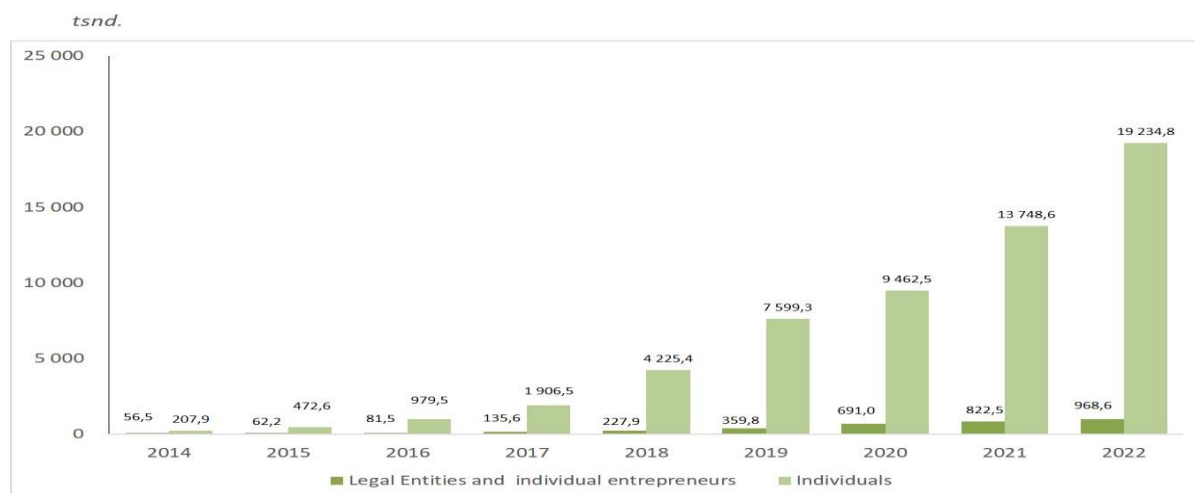
Today, through the mobile application programs of residential commercial banks in Uzbekistan, it is possible to perform real-time card-to-card (P2P) transactions, make tax, budget, utility and other payments, take microloans and repay loans, issue online deposits, deposits and loans (loans). open accounts remotely, make payments from an international bank card account, perform online conversion operations and widely use other remote banking services.

In turn, for enterprises and organizations, through remote management systems of bank accounts, real-time management of funds in bank accounts and making payments, sending an order for the purchase (conversion) of foreign currency funds to the service bank in electronic form, transferring monthly wages and equivalent payments opportunities were created for transferring an electronic account to the bank and using other services. As a result, in January 2023, the number of users of remote services in our country was 30 million, of which 28.8 million are individuals. [12]

**Number of users of remote banking services  
January 1,**



**Number of users of remote banking services by types of customers  
January 1,**



However, commercial banks have some problems in glorifying the process of digital transformation. We can enumerate those mentioned under them.

**Improving financial and technical literacy.** In this, the main issues are the formation of the appropriate level of knowledge for the customers to perform banking operations correctly and to teach them the responsibility for errors in making payments, as well as the need to have technical tools that can perform the appropriate banking services or the problems of ensuring internet speed.

Analyzing the practical data, it was noted that there has been an increase in cases of theft of

bank plastic cards and money from bank accounts in Uzbekistan. In particular, in 2020, internal affairs bodies received 965 appeals, and in 2021, 1601 appeals . [13] It appears that our country has some deficiencies in proper implementation of banking operations and financial literacy.

High-speed internet is very important in effective and fast delivery of today's new services of banks to people in the city or in remote mountainous areas .

**Ranking of countries by internet speed in 2023 [14]**

Rating	Country	2018 Mbit/s	2022 Mbit/s	2023 year Mbit/s	Change %
1	Singapore	161.53	194.07	237.15	22.2
2	China	68.33	155.87	226.77	45.5
4	Chile	36.95	197.59	224.44	13.6
6	Thailand	41.35	182.96	203.28	11.1
7	Denmark	81.98	164.14	200.62	22.2
8	Hong Kong	129.64	163.37	198.53	21.5
9	USA	84.66	146.17	198.17	35.6
10	Spain	68.42	135.73	180.30	32.8
91	Uzbekist o n _	6.39	37.91	45.20	19.2

It can be seen from the above table that the Internet speed is a little lower in our country, and it took 91st place out of 180 countries in the rating. In the table below, we can see the

availability of bank accounts in Uzbekistan according to the age of the population. It can be seen from the table that the majority of the bank's customers are young people. [12]

**Bank account ownership among adult population**  
(as of 01.01.2023)

*in thousands*

Age groups	Total adult population*	Adults with a bank account		Adult women	Adult women with a bank account		Adult men	Adult men with a bank account	
		number	share		number	share		number	share
Total	23 153	17 288	75%	11 681	8 820	76%	11 471	8 468	74%
18-29 years	6 818	4 653	68%	3 330	2 224	67%	3 488	2 428	70%
30-39 years	5 878	4 663	79%	2 916	2 416	83%	2 962	2 247	76%
40-49 years	4 154	2 940	71%	2 083	1 523	73%	2 071	1 416	68%
50-54 years	1 671	1 144	68%	860	581	67%	811	563	69%
55-59 years	1 528	1 135	74%	802	621	77%	725	514	71%
60-69 years	2 119	1 894	89%	1 124	991	88%	995	904	91%
70 years old and over	985	860	87%	565	465	82%	419	396	94%

\*Source: The number of adult population is based on the data of Statistics Agency under the President of the Republic of Uzbekistan

**High costs to implement new technologies and ensure relevance.** Banks may be unable to meet the established norms for other banks when their costs increase due to the introduction of new technology and software.

According to research by Gartner researchers, IT spending in the financial system increased by 5% in 2019 and amounted to 539.121 billion US dollars, by 2020 it will decrease by 4.7% and by 2021 it will increase again by 2.8%.

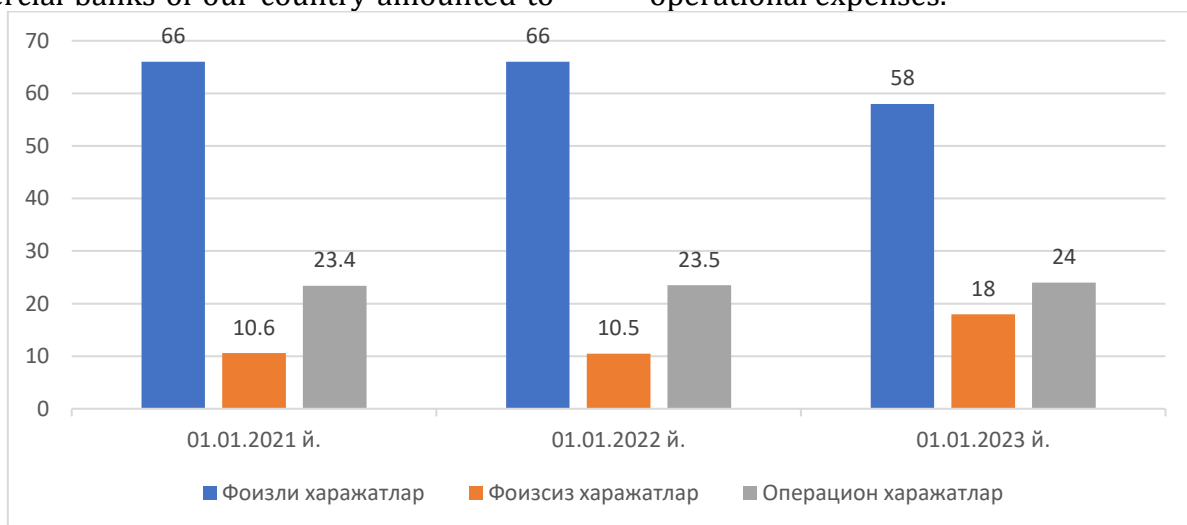
**IT spending in the financial sector, \$ billion in 2019-2020**

	Costs 2019, \$bn	in Cost growth 2019, %	in Costs 2020, \$bn	Cost growth in 2020, %
Internal IT Services	92,043	2.1	87,871	-4.5
Enterprise software	100,822	11.8	100.58	-0.2
IT Services	204,536	5	195,576	-4.4
Devices	33,216	5.9	29,199	-12.1
Communication Services	77,285	1.3	72,946	-5.6
Data centers	31,218	1	27,757	-11.1
Total	539,121	4.9	513,928	-4.7

Source: Gartner, 2020

If we analyze statistical data in Uzbekistan, as of January 1, 2023, the total expenses of commercial banks of our country amounted to

64,254 billion soums, of which 24 percent, i.e., 14,877 billion soums, corresponded to operational expenses.



**Expenses of commercial banks of the Republic of Uzbekistan (in percent) [12]**

**Lack of development of commercial banking services market of Uzbekistan.** Banks try to implement the world's best practices in digital banking, but may face legal restrictions or consumer reluctance to launch products tested abroad.

**Banks' organizational structures, management and staff qualifications.** Effectiveness of internal management of this process is important for digital transformation of banks. Often, the functional capabilities of

bank departments are limited only to some issues of its activity. Digital transformation requires the bank to introduce new organizational structures and new management units. Due to the shortage of qualified employees, most banks are forced to attract foreign labor markets at high wages. 80% of financial companies believe that the lack of employee skills seriously reduces their ability to innovate. The lack of IT skills, in turn, means that banks are dependent on IT professionals.

**Conclusions and suggestions**

The beginning of the digital transformation in our country coincided with the banking system, which is considered the central link of the economy. Digitization of banking activities is an important step in the development of the modern economy. Credit institutions are achieving success and competitiveness by implementing digital technologies in their operations.

The introduction of digital technologies into banking activities allows banks to save time and excess costs. Therefore, accelerating the process of digital transformation in the activities of commercial banks of our country, ensuring the popularity of free banking services remains one of the main tasks today.

The following are the main directions for further accelerating the process of digital transformation in the activity of banks:

- to ensure the speed of the Internet, which ensures the introduction of banking innovations,
- introducing incentives to reduce the cost of purchasing high-tech equipment, software,
- continuous training of bank employees, exchange of experience by attracting specialists from successful organizations,
- introduction of additional measures to increase financial literacy of the population.

Increasing the effectiveness of implementation of the above-mentioned directions in the activity of banks will create an opportunity for the competitiveness of banks and the banking system to become more developed and join the ranks of developed countries.

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