



The Importance of Bank Transformation and Digitization

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ABSTRACT

In this article, the global trends in the transformation and digitalization of banks and the work being done in this regard in the banking system of Uzbekistan are widely covered. In particular, the emergence of digital banks, foreign experience and their importance were analyzed based on statistical data. As a result of this research, it is necessary to develop conclusions and scientific proposals regarding the transformation and digitization of banks.

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Introduction. Transforming banks today requires, firstly, the creation of digital banks, and secondly, the transformation of existing banking departments and the reduction of banking costs. In digital banks, banking services are maximally automated and bank customers self-management systems are created for After all, it is the demand of today and the digital economy As a result of development , banks demand to serve a large number of customers not by increasing the number of branches, but by developing remote banking services .

The rapid movement of information flows in the banking practice of Uzbekistan creates the need to improve the digitization and remote provision of banking services. "Expanding the scope and quality of banking services due to the involvement of advanced international experience and technologies, wide introduction of modern information and communication technologies, creating the necessary conditions for automating the business processes of commercial banks and expanding the types of remote banking services, with the help of which the number of contactless payments and expanding the coverage, automated scoring system, wide use of digital identification and credit conveyor, introduction of new concepts and technologies in the banking sector (fintex, marketplace, digital bank), strengthening the information security of bank data and systems [1]. In order to implement these tasks, it is necessary to expand the network of compact "banking service offices" in all regions, which provide a set of traditional banking services in the regions and do not require a large number of management personnel, to introduce new business models of banks, including those based on the principles of "digital banking", to provide banking services. the tasks set for the application of international quality standards require the improvement of the theoretical, methodological and legal foundations of this field.

Analysis and results. Many studies in the field of digital banking have mainly examined customer attitudes toward digital banking channels and the variables that are important to customers in using digital banking channels or the factors that influence customers' willingness to use modern banking channels [2]. Surprisingly, however, research in Uzbekistan has rarely focused on examining the impact of in-branch banking initiatives to encourage customers to adopt modern banking channels.

The most important thing is that the problem in Uzbekistan is not only the transfer of customers from traditional banking channels to digital channels, but also the issue of digital financing of the population is one of the main plans of the banking system today. One of the differences between a country with a developing economy and a developed country is the consumer acceptance and use of digital banking channels. That is, the financial literacy of the population is also sufficient, in particular, in high-income countries, 91% of adults use digital payment methods, while in developing countries, only 44% of adults use digital payment methods [3].

"Digital bank [4] - a bank or its structural division that provides remote banking services using innovative banking technologies (without providing cash desk service). Remote provision of banking services by digital banks is carried out based on the internal procedures of the bank, taking into account the requirements of legal documents [5].

By automating banking services, the cost will be greater than the benefit for a short period of time, and it will pay off later. Digital banking aims to make life easier for bank customers and has the following advantages:

- digital banking allows consumers to perform banking functions from the comfort of their homes without waiting in line and visiting the bank;
- digital banking allows the user to carry out banking activities day and night, having the opportunity to use banking functions 24/7;
- if paper is given too much importance in traditional banks, digital banking services are mostly paperless;
- digital banking allows the user to set up auto payments for regular payments such as utility bills, telephone and loans. The customer no longer has to make a conscious effort to remember payment dates;

- digital banking services can be maximally used in remote areas through smartphones and in remote areas via the Internet;
- digital banking reduces the risk of counterfeit currency transfers;
- digital banking curbs circulation of black money.

If the individual has a stable internet connection and is connected to the internet

Direct banking¹ developed in the early 1990s with the advent of online banking technology, which then led to the emergence of a number of Direct banks. The English bank First Direct (1989) was the first to offer the possibility of providing First Bank services only by telephone. It should be noted that for the first time in the history of banking, a bank providing service only by phone appeared, because this bank did not have a single branch. First Direct Bank is one of the first banks that provide services to its customers through electronic channels and is still operating very efficiently [6]. In addition, direct banks, for example, ING Direct, PC Financial (Canada), First Direct (Great Britain), HSBS Direct, Internet Bank of America and E-Trade Bank (USA) offer their services mainly online. began to present. One of the first in Europe, "Direct Bank" is a subsidiary of Dresden Bank Group in Germany, which started its operations under the name "Advance Bank" in 1996.

Digital-only banks and financial technologies offering simplified banking solutions are proliferating in the banking landscape. As of June 2021, the neobank of the Brazilian state "Nubank" had 25 million customers.² In the UK, too, neobanks are emerging as major competitors to traditional banks. UK neobank Chime has grown to 8 million customers in 2021, bringing its total customer base to 12 million. Few of the UK's other banks (or neobanks) have seen rapid growth in customer numbers. "Revolut" neobank has 15 million personal users, "Monzo" neobank has more than 5.6 million personal users, "Starling Bank" neobank has more than 2 million customers.

Although most banks still offer online services, only digital banks have developed banking services entirely electronically. Digital banks (virtual banks, neobank) operate through digital platforms without relying on physical and territorial location.

Neobanks are faster and more transparent than traditional banks. Neobanks take full advantage of digital power to offer a seamless banking experience with little or no fees. This creates serious competition for traditional banks, because having traditional banking components is no longer enough. Traditional banks need to continue their digital transformation and adapt their services to be easy, efficient and online. Banks should strive to provide a personalized banking experience, call center strategies to meet the complex needs of customers, and attract experienced experts to digitize banks, including digitalization and automation of processes. In order to remain competitive in a changing banking environment, banks need to continuously innovate and improve. In addition, they are required to provide user-friendly platforms, increase the offer of digital products, transparent and fast service [7].

While 73 percent of people around the world use digital banking at least once a month, meeting the more complex needs of customers through digital banking alone is a complex process. The benefits of

¹ **Direct bank** (digital bank sometimes called branchless bank, virtual bank , neobank, or internet bank) is a bank that provides remote banking services through online banking and telephone banking, sometimes through ATMs (often through interbank network transactions), mail, and mobile phones. sum of services.

² Neobank is a new FinTech trend in the world, the popularity of which has increased dramatically due to the COVID-19 pandemic. To ensure their safety, people are looking for ways to buy things and pay for services remotely. This has led to the growing popularity of neobanks - financial institutions that provide online services only. Digital banks do not use branches and branches to serve customers, they provide their services only through gadgets (mobile phones, computers) .

having a personal relationship with a customer's bank are often overlooked, as difficult banking processes can be made easier by bringing in experienced banking professionals. Having a personal banking relationship helps customers compare their options and find solutions tailored to their needs, which is not easily achieved through self-service.

An effective solution helps customers find the right solutions for their overall banking needs. A mix of digital banking and traditional banking services should also be used for day-to-day transaction needs and personal relationships with bank employees. Banks should improve the financial literacy of their customers and also ensure that digital banking services are simplified and understandable. Banks require marketing services to make customers as aware as possible of digital and traditional banking services.

In the provision of remote banking services in the Russian Federation The activity of " Tinkoff Credit Systems Bank " (TCS Bank) is of special importance as a "bank without an office". Tinkoff Credit Systems Bank is a commercial bank founded in 2006 by Oleg Tinkov in Moscow. In particular, there are nearly half a million bank clients has increased, all banking services for bank clients are done remotely via electronic or telephone communication: issues such as opening and servicing bank cards, opening a deposit, borrowing or paying. The fact that there is no queue at the office of "TCS Bank" is a big advantage compared to people who queue at banks that provide services through branches.

Russian researcher Vostrukhina Tatyana Yurevna "The creation of such banks is aimed at working in large cities with a large population, which will not lead to the active development of banking services throughout the country, but will allow to achieve high results in improving the quality of banking services to a wide range of bank clients [8]."

One of the latest trends is the rise of digital or FinTech banks. They are banks that provide all their banking services online without having a physical branch or office. Customers in this reduce visits, saves a lot of documents, time and costs. At the same time, customers only need a PC or smartphone to manage their finances.

Mobile banking applications are not new to the services market today. However, to be able to maintain sufficient competition in the market, only innovative digital approaches, new generation financial startups are needed it is necessary to carry out research on implementation. Ally, Revolut, Monzo, Monese and many other digital banking platforms are making waves in the financial world.

Digital banks have the advantages of flexibility, and they offer innovative services at much lower prices than conventional services. In fact, it has been reported that consumer visits to banks will decrease by 36% from 2017 to 2022, and mobile transactions will increase by 121 % during this period. It's no exaggeration to say that digital banks pose a real threat to traditional banks as they attract younger, internet -savvy customers who can use simple ways to manage their money.

Some want chat-like platforms for most of the things they have to deal with on a daily basis. Voice assistants already exist to provide this kind of experience. AI-powered voice technology is not just about telling the weather or singing a song, it's also providing customer service in the banking industry.

First, voice assistants can serve as automated help desk agents by providing basic information about a user's account or card balance, answering common customer questions, setting up recurring payments, categorizing calls, and directing customers to the right places. Second, the customer's voice can be used as biometric data to authorize payments, also known as voice payments. Consumers are more and more comfortable with banking. At the same time, the demand for voice recognition and providers ng without

losing the user's security it is necessary to control that it works well.

A result of the introduction of new digital technologies to the bank's financial services, for example, an aggregator to the savings activity, advisory robots to the investment activity, mobile payment and P2P payment to the payment system, crowdfunding and crowdlending to the financing direction, and effective use of other digital technologies, new automated platforms will be created. This will lead to future optimization of staffing, cost savings, increased service speed and transparency, and the creation of many opportunities.

The establishment of this single platform is carried out in 3 stages. First, appropriate digital technology is purchased for the transformation of banks, secondly, digital banking products are developed based on digital technologies, thirdly, tests are conducted by experts from fintech companies or large technology companies, and all organizational aspects are taught to bank managers. As a result, bank employees will increase their skills in new technologies and services, as well as their financial literacy.

Banks can implement digital transformation in three directions. In the simplest case, it is just the digitization of the front office. The second approach is "encapsulation and digitalization", fixing the front office, gradually replacing the old infrastructure, integrating the front office and the back office. A third approach is to create a fully digital bank at the same time improve financial performance while meeting consumer demand for more simplified and personalized services. The more banks are digitally transformed, the more significantly the costs will decrease and the revenue will increase accordingly.

This does not mean that going fully digital is the right answer for every bank. Whatever path is chosen, the solution must be consistent with the bank's long-term strategy. Because the capabilities of banks are different and not all banks are ready for full digital transformation.

Bank customers are changing the way they use financial services. For banks, digital transformation is not just a way to stay competitive, but the bank needs to make sure that its transformation is aligned with its strategy. Because transformation is really about strategy. While it is important to keep track of competitor banks in this regard, the results of digital transformation must be tailored to the specific needs of the bank.

Many studies have investigated the critical success factors influencing the transformation of the financial sector and the development of new services [9]. Digital banking is the implementation of banking operations through digital means without branches and employees. Digital transformation is creating a new era in banking. Implementation of branchless banking as a result of the establishment of digital banking will also affect the workforce in the banking sector. Despite the large investment in IT infrastructure, there is no clear evidence of increased productivity of bank employees [10].

Due to COVID-19, the threat to traditional banking is increasing as people become more digitally savvy. A recent KPMG survey reported a net improvement of 24% for digital banks and 12% for traditional banks due to COVID-19 [11]. In fact, banks and their customers are experiencing more digital interactions, and are increasingly using contactless payment methods for payments. As a result, 41% of respondents claim that they are ready to become digital banking customers due to COVID-19. If it can no longer provide a digital experience, its customers may switch to competing banks that can provide this component on a regular basis. The COVID-19 crisis is a great opportunity for incumbent banks to improve their customer-facing experience and accelerate their ambitions to remain relevant to their customers in the post-COVID-19 pandemic. For this, banks have to accept the new reality, for example:

- integration of front-office, middle-office and back-office through all channels to provide continuous and fast service to customers;
- investing in employee training to integrate front-office, middle-office and back-office;
- improving processes of working with customers, placing financial services in a broader customer-oriented context, offering personalized services;
- integration of customers' internal and external data sources (historical, but also forecast) into technologies that allow connecting and exchanging data with other devices and systems through artificial intelligence, the Internet or other communication networks, and the use of similar enabling tools;
- focus on rapid processing and employment through data digitization and automation;
- Providing excellent customer service through 24/7 availability and seamless multichannels;
- Banks must implement operational excellence through extreme (customer-centric) digitization. This means that banks have to find the right balance between proximity to their customers and high technology (digital services).

In recent years, banks globally have invested US\$9.7 billion in digital banking capabilities for the front office alone. Online banking for many retail banks as well mobile communication channels are considered more important than branches and ATMs .

Banks around the world are already realizing that investments in digital technology can bring significant benefits to customer engagement and digital technology . For example, today Bank of America attracts deposits through branches rather than is attracting more through its mobile communication channels . Bank of America CEO Brian Moynihan noted that investing in digital banking has helped improve customer satisfaction .

In the first paragraph of the decision No. 22/5 dated June 30, 2018 on amendments and additions to the regulation "On the procedure for registering banks and licensing their activities" of the Central Bank of the Republic of Uzbekistan, the concept of a digital bank was introduced into the legislation of Uzbekistan for the first time [12].

the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025 [13], in order to create the necessary conditions for the wide introduction of modern information and communication technologies, the automation of business processes of commercial banks and the expansion of remote banking services, modern information and communication in the process of corporate transformation of commercial banks the main tasks in the field of technology implementation are defined:

- expanding the number and coverage of remote banking services, including contactless payments;
- automated scoring system, digital identification and widespread use of credit conveyors;
- strengthening the information security of bank data and systems;
- wide introduction of new concepts and technologies in the banking sector (fintech, digital banking). In addition, Article 71 of the Action Strategy focuses on the implementation of digital transformation in all service sectors [14]. The goal of implementing all this is to increase the financial and legal literacy of the population during the development of the digital economy, and to accelerate the integration of our country in the international arena.

At the Decree of the President of the Republic of Uzbekistan dated July 24, 2017 No. PF-5120 "On measures to introduce a project management system in the Republic of Uzbekistan", the National Agency for Prospective Projects of the Republic of Uzbekistan was established and became the regulator of crypto policy, the agency "Uzcryptochain" - bank - was tasked with creating a blockchain platform for the financial market and is currently preparing for mass commercial use [15].

At the same time, according to the list of electronic money operators, by 2022, 43 credit institutions have been registered that have notified the Central Bank of Uzbekistan about the start of money transfer activities in centralized electronic money systems, including Anorbank, TBC Bank and UZUM BANK - nevertheless, electronic money systems have not yet fully created and formed their own digital currency. When we analyzed the current report data on the accounting accounts of credit institutions, it was found that the total balance in the accounts of large state-owned banks such as Milliy Bank, Agrobank and Mikrokreditbank, 22616, 22617, 22618, 22619, 22620, is the total amount of electronic money in Uzbekistan. is a small part of the volume. At this point, they all have a sufficient organizational structure to launch their electronic money systems (as of 05.09.2022). Thus, JSC "ANOR BANK" is the operator, settlement center, payment clearing center and operational center of centralized electronic payment system "ANORBANK"; KAPITALBANK is the operator of the electronic payment system, accounting center, payment clearing center and operational center of "UZUM BANK"; Uzcard also acts as an operator, a settlement center, a payment clearing center, and the operating center of the electronic payment system "MyUzcard" and the settlement center of the payment system "UPay" [16].

Table-1. Electron pool tizimlarining registries [17]

No.	Electron pool tizimlarining nomi	nomi operator	Nomi issuer	Faoliyatini boshlagan sanasi
1.	"OSON"	MCHJ "BRIO GROUP"	JSC "Aloqabank"	October 11, 2022
2.	"E-CARD"	MJJ "INSPIRED"	ATB "Universalbank"	08/21/2020
3.	"CLICK"	MCHJ "CLICK"	ATB "Agrobank"	08/21/2020
4.	WOOPPAY	MJJ "WOOPPAY UZ"	ATB "Kapitalbank"	02.11.2020
5.	"alif.mobi"	MJJ "ALIF TECH"	JSC "Aloqabank"	02.11.2020
6.	Interpay	MJJ "Interpay sys"	AJ "UZUM BANK"	October 11, 2022
7.	"A pay"	MJJ "CENTER FOR DIGITAL TECHNOLOGY AND INNOVATION"	AJ "UZUM BANK"	07/01/2022
8.	"QIWI Uzbekistan"	LLC "Payment Aggregation Systems"	JSC "UZUM BANK"	11.08.2022
9.	"IHLSW"	LLC "Genesis Innovation"	JSC "Alokabank"	17.11.2021
10.	GlobalPay	LLC "Global Solutions"	JSC "Alokabank"	17.11.2021
11.	Payway	Payway LLC	JSC "UZUM BANK"	29.07.2022
12.	"Orange"	JSC "UZUM BANK"	AJ "UZUM BANK"	07/29/2022
13.	"ExMoney"	JSC "Uzbek Republican Commodity and Raw Materials Exchange"	HUB "Trustbank"	08/30/2022
14.	"STORK"	LLC "Ozinterpay"	JSCB "Universal Bank"	08/30/2022
15.	PAYNET WALLET	LLC "INSTANT PAYMENT SOLUTIONS"	AT People's Bank	08/30/2022

That is why the importance of transformation of banks today, moreover "SMART BANK", "UZUM BANK", "ANOR BANK" JSC and "TBC Bank" ATBs started to operate as the first digital banks offered a new competition for other commercial banks. Digital banks with this innovative approach are making banking life easier by making services convenient, affordable and simple.

digitalization of banking operations increase the occurrence of operational risk or transactional risk in banks. This happens in the following cases:

- as a result of incorrect implementation of transfers;
- when the integrity of the data is violated and the confidentiality of the data is revealed;
- as a result of unauthorized access to the bank's electronic system;
- non-fulfillment of contract clauses and other cases.

In addition to technological errors, human factors such as negligence (customers or employees), employee fraud, hackers, etc. are potential sources of electronic banking operational risk [18].

Digital banking services are mainly provided remotely through banking channels. This means that it is not effective for banks to use traditional methods to detect and prevent criminal activities. Although there are certain rules regarding the legalization of crimes, there are inconsistencies in the implementation of digital banking services. Therefore, banks have to take the risk of legalization of the proceeds from criminal activities.

Conclusions

Proposals and recommendations aimed at digitalization of banking services and sustainable development and quality improvement of digital banking services developed by:

1. As a result of automation, digitization and optimization of the bank's service processes through the introduction of the Robotic Process Automation system, the operational efficiency (cost to income ratio, CIR) indicator of the banks should not be increased. That is, the ratio of the bank's operating expenses to the bank's operating income during the reporting period should not exceed 50 percent of the recommended CIR indicator acceptable for banking practice. As a result of the automation of bank service processes with robots, many bank employees will change their duties. They should be replaced by customer service employees and the share of customer service employees should be increased to 60%. This can bring additional income to the bank.
2. In order to reduce costs, banks need to open self - service 24/7 smart offices and ensure continuous operation. As a result, bank customers through these smart offices, it was possible to use various banking services 24/7 without coming to the bank. This will create additional income for banks and convenience for customers during the day.
3. Digitization of modern financial services and non-cash payments on the basis of innovative financial technologies (FinTechs), by implementing a system of automatic formation of bank reports (Data Base), it is necessary to increase the speed and transparency of service. As a result, it is possible to increase the volume of work without dramatically increasing the number of employees participating in the processes of providing banking services. By implementing the system of automatic formation of bank statements (Data Base), it will be possible to increase the speed of service and reduce the time and manpower spent on preparing bank statements.

Wide introduction of digital technologies in the activities of banks, transformation of the banking

system, further improvement of the relationship between the bank and the client based on financial technologies and development of the activities of digital banks, further improvement and popularization of the system of making payments through QR codes, QIWI system NFS, digitalization of traditional banking services of banks it is necessary to gradually integrate front-office and back-office and increase the number of digital banks.

In particular, the FinTech revolution is accelerating in the context of the COVID-19 pandemic. That's why banks too In order not to lag behind the increasingly digitized processes, it is necessary to gain customer trust by studying customer demand, creating transparent and continuous experiences. It is necessary to pay attention to industrial trends and always attract and effectively use investments aimed at introducing the latest technologies. After all, the introduction of modern FinTech products in the banking system creates an opportunity for banks to attract customers, dramatically increase their income and reduce their costs in the future.

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