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Transformation Processes Implemented in The Banking System and Possibilities of Implementing it in Our Country

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ABSTRACT

Objective: *This study aims to analyze the New Uzbekistan Development Strategy for 2022-2026, which seeks to make the digital economy the main driver of economic growth by increasing its volume by at least 2.5 times. Additionally, it examines the strategy's goal of completing the transformation of state-owned commercial banks and increasing the share of private banks in total bank assets to 60% by the end of 2026.* ***Method:*** *The research involves an in-depth analysis of the modernization processes in the banking sector, focusing on mutual trust and transparency between banks and clients. It also reviews global practices and the impact of scientific and technological progress on banking activities.* ***Results:*** *Findings indicate that the rapid adoption of advanced technological solutions is essential for the modernization of the banking system. Furthermore, increasing transparency and trust between banks and customers is a key factor in achieving sustainable growth. The study also highlights the potential challenges in balancing state-owned and private banking sector contributions.* ***Novelty:*** *This study provides a comprehensive evaluation of the role of digital transformation in banking modernization within the framework of Uzbekistan's development strategy. It offers new insights into the factors influencing financial sector reforms and the impact of scientific and technological advancements on banking efficiency.*

INTRODUCTION

Currently, it is impossible to modernize banking activities without the rapid implementation of the latest achievements of scientific and technical progress. World practice shows that scientific and technical progress and the rapid growth of new information technologies (IT) have a significant impact on the overall assessment of the attractiveness of a bank. This creates the need to study advanced foreign experience in this regard.

Address of the President of the Republic of Uzbekistan to the Oliy Majlis

"Unfortunately, the banking system is 10-15 years behind the requirements for the development of digital technologies, the introduction of new banking products and software. Starting in 2020, a large-scale transformation program will be implemented in each bank. Increasing the capital, resource base and profitability of banks will be the focus of our attention" [1] – he emphasized.

RESEARCH METHOD

Technologies related to digital transformation, such as big data, cloud computing, artificial intelligence, and the Internet of Things, are characterized by their innovation-driven nature and focus on consumer needs.

Table 1. The main issues in the development of transformation processes in the banking system.

No.	The main problems faced by most of our commercial banks are the development of the banking system transformation process and digitization
1.	Digital offices have been created, but they are poorly integrated into the bank's internal processes, which hinders the rapid launch of new products and services.
2.	A significant part of the IT infrastructure is outdated and most of them work according to old methodologies. They do not fully understand how to work with new adaptive methodologies. Similarly, in the process of digital transformation, the business direction, in addition to the IT direction, must also be able to use project management systems to create products based on new methodologies and set the right requirements for software developers.
3.	Low business involvement in data analysis and data management, or lack of such skills at all, hinders the effective use of data.
4.	The complete absence of a flexible HR policy or HR strategy is a factor that hinders the attraction and retention of modern IT and product management specialists. This gap in the corporate culture of traditional banks prevents the rapid introduction of new products and services.
5.	Risk management and other support functions usually work in the interests of their own functions, not the business at all, but rather seek solutions to problems together with the business, but often limit the business in new initiatives, that is, they impose restrictions without any analysis or research.
6.	Bank customers are increasingly paying attention to digital products and channels, and most of them are ready to switch to a fully digital service: but another problem with digital banks is that it is possible to order cards online, but the delivery system by couriers has not yet developed to that level.
7.	The following key functions and features are missing from most banks' digital channels and products (although many other banks and even FinTechs have them): - Debit cards: online application and courier delivery - no credit cards or payment cards - financial analysis (PFM) - Fast P2P payments with other banks via VISA Direct .
8.	The CRM system does not fully function as a tool for storing all customer data and cross-selling it

The Homelink system was created, which allowed bank customers to check their deposits, make payments and transfer money from their bank accounts by connecting to a computer via telephone. In the same year, a similar system, Pronto , was launched in the USA. However, people were skeptical about the Homelink and Pronto systems, but

with the widespread use of the Internet, these systems began to be widely used. In 2001, Bank of America became the first leading bank in the field of electronic banking, providing online services in the amount of 1 billion US dollars. This bank opened its 3 digital (neobank) branches in 2017 [2].

According to the Payments Industry Intelligence portal, in 2018 there were 60 digital neobanks in the world, and by 2021 this figure had reached 319 , with 90% of the money they use being electronic money [3].

Citi Group calculations, digitalization will create excess workforce in banks, and reducing these jobs will lead to a reduction in banks' operating costs by up to half [4].

In addition, according to research conducted by Accenture, banks that have advanced in digitalization have seen their return on equity increase by 0.9 percent, while banks that have lagged in this area have seen their return on equity drop by 1.1 percent . Accenture analysts predict that this gap will widen in the future [5], [6], [7], [8], [9], [10], [11].

Table 2. The main issues in the development of transformation processes in the banking system of foreign countries.

No.	Country name	Problems
1.	India	One of the main challenges in India is the low speed of the internet and the need to improve the infrastructure for digital transformation. There are also problems related to training and the shortage of qualified personnel.
2.	China	China faces the challenge of protectionism and government regulation, which can hinder private sector development and innovation in digital transformation.
3.	South Korea	Despite the high speed of the Internet and the developed infrastructure in South Korea, the regulation and protection of personal information is a problem.
4.	USA	One of the problems in the United States is the lack of uniform data protection standards and the lack of a uniform digital transformation strategy at the national level.
5.	Russia	One of the main problems in Russia is the lack of qualified personnel and limited access to information, which complicates digital transformation and innovation in the IT sector.

RESULTS AND DISCUSSION

The directions of transformation and reform of the banking system, the experience of transforming the banking and financial sector of foreign countries, in particular the experience of Japan, were studied. With the rapid development of digital technologies in

the past few years, many companies and governments around the world have taken steps towards "digital transformation" [12], [13], [14]. In Japan, digital transformation is also developing rapidly, first in the non-governmental financial sector, and today it is developing rapidly and widely in the banking and financial sector [15].

In addition, the global spread of COVID-19 has accelerated the digital transformation process due to the increased demand for remote services among customers in the country [16], [17].

4 important developments supporting the digitization of society that have led to significant positive changes in the business environment:

1. Wide use of digital devices, in particular, smartphones, which allow collecting data on economic activity;
2. Widespread use of cloud technology, which reduces the costs of collecting and storing large amounts of data;
3. Use of information technology (IT) and other advanced technologies that increase the capacity and efficiency of analyzing large amounts of data;
4. Providing timely and scalable highly customized services based on data analysis through digital channels.

The "Global Digital Competitiveness Ranking 2021" published by the Swiss business school Institute for Management Development (IMD) shows that Japan's lack of human resources and capital in the digital sector, relatively low scientific potential, and insufficient flexibility in business change have affected its digital competitiveness indicators compared to other developed countries, with Japan falling one place in this indicator compared to 2020, taking 28th place overall [18], [19].

Currently, Bank of America's commercial banks are using the CashPro platform to implement digital transformation [20], [21]. This platform is powered by artificial intelligence and provides an integrated set of working capital management tools that cover treasury, payments, receivables and reporting [22].

This system's capabilities provide direct access to the client's ERP and accounting systems, enabling deeper integration and automation for services such as cash flow forecasting and real-time reporting [23], [24].

Also, how does Bank of America's Intelligent Debtors program, created at this bank, work:

1. It uses artificial intelligence to match payments coming into your bank account with payments that match the corresponding invoice, using remittance information from multiple sources.
2. Automatically records automated email messages sent to your dedicated mailbox by payers regarding your receivables, and all online customers can access payment portals to receive remittance details.

The more you use the Intelligent Debitors payment system, the more it constantly learns to achieve better and faster results. If the transfer cannot be read automatically, a specialized team will manually review and record the information for you. Banks in

Germany have been transformed by a variety of factors, including technological advances, changing customer preferences and regulatory requirements.

One of the key trends in the transformation of German banks is the shift to digital banking. Many banks have invested in online and mobile banking platforms to meet the demand for digital services. This has led to the closure of physical branches and the adoption of digital-first strategies.

Another key aspect of the transformation of German banks is the focus on customer experience. Banks are increasingly prioritizing customer-centric approaches such as personalized services, improved user interfaces, and streamlined processes. This has led to the development of innovative products and services to meet the changing needs of customers.

In addition, regulatory changes such as the implementation of the European Union's Payment Services Directive (PSD) and the introduction of open banking have also influenced the transformation of German banks. These regulations have encouraged banks to open up their data and collaborate with third-party providers to offer new services and increase competition in the market.

Overall, the transformation of banks in Germany is driven by a combination of technological, customer-centric, and regulatory factors, with a focus on digitalization, customer experience, and compliance. This ongoing evolution is expected to continue to shape the banking landscape in Germany in the coming years.

Traditional management processes in the banking system of our country.

the Resolution of the President of the Republic of Uzbekistan No. PP-3620 dated March 23, 2018 “On additional measures to increase the accessibility of banking services” . In this regard, commercial banks are required to:

1. Study of advanced international banking experience and introduction of new types of banking services and products;
2. Expanding the network of bank branches and mini-banks, taking into account the coverage of bank branches and mini-banks and the needs for banking services;
3. It is recommended to expand the rights of branches to make independent decisions on loan allocation without additional agreement with the parent banks.

By upgrading modern corporate governance mechanisms, banks will be able to become more flexible and innovative. With the help of these transformations, banks will not only be able to increase financial efficiency, but also meet the demands and expectations of customers.

It is also important to ensure a high level of digital security and expand digital banking services. These changes serve to comply with global regulatory requirements and increase the transparency of financial markets.

In 2022, within the framework of the strategy of reforming the banking system, work aimed at transforming banks with a state share was continued.

In particular, the corporate management system was introduced in the main banks, the bank councils were formed at the expense of professional local and international

experts, the transformation strategies defining the place and position of each bank in the market were developed, and in these processes, special emphasis was placed on the digitization of banking services, transparent and simple delivery to customers.

In order to provide high-quality banking services to residents and business entities through any bank branch, 6 banks started to operate on the basis of the technology of a single bank code. have launched a Soft Collection service that collects overdue credit debts at the initial stage . The "Marketplace" electronic trading platform was launched, which abandoned the centralized supply system for the supply of products and equipment and the provision of services, and introduced an environment of free choice and competition in their purchase .

Also, more than 90 percent of the total payments made by business entities (1,005 trillion soums) were made through the instant payment system without visiting the bank."QR-online" system , which allows for contactless payments without the direct use of a bank card and payment terminal, is growing.

To study the transformation processes implemented in the banking system of developed countries and to introduce them in the banks of our country.

2020 has presented all countries with unprecedented challenges on two fronts: on the one hand, their healthcare infrastructure and the fight against the pandemic, and on the other, their economies have struggled to survive the shocks to demand and supply.

In particular, the consequences of the pandemic for Japan can be observed in factors affecting digitalization. In particular, in 2020-2021, it was observed that the overall rating dropped by one place, the level of knowledge by one place, the level of technology by four places, and the level of readiness for the future by one place.

Meanwhile, FinTech players in Europe and the US have created "challenger banks." They have gained a certain number of customers with their user-friendly interfaces and low fees. Others, such as Facebook's Diem (formerly Libra), are planning to issue private digital currencies and build a payment infrastructure. However, only a few of these companies have stable revenues, and some have ceased operations within a few years of their launch.

Policy measures implemented in developing countries have supported the rapid development of digital transformation through various instruments, including an adequate legal framework.

Such support, when widely accepted by society, will lead to increased prosperity in the country. The number of customers owning a bank credit card, a convenient means of payment, is high in developed countries, but low in developing countries in 2011. Subsequently, banks in some of these developing countries have developed financial digital transformation and started providing innovative payment services, and with government measures and support, the level of bank account ownership has increased.

Below, we review the current state of digital transformation in Japanese banks, the state of data collection and the creation of innovative services using it, and the developments of non-bank institutions. As they compete with banks by expanding their

innovative financial services, we examine the services provided to three different groups of customers:

1. The first group is individuals;
2. The second group is small and medium enterprises;
3. The third group is large enterprises.

individuals A number of FinTech entities and non-bank institutions are expanding their financial services for individuals, thanks to regulatory reforms that have established money transfer services (shikin idō gyō) and electronic payment services (denshi daikō gyō) .

These entities initially started out as payment services, but later developed a wide range of financial services and have already acquired many customers. Typical examples of them are the payment systems Pay, LINE Pay , and Payment .

These payment systems are being used by retailers, in particular, to improve the efficiency of their customers' payment processes and thereby improve their traditional businesses, while others are seeking to provide a wide range of new services using a variety of customer data collected through various financial and non-financial services.

Table 3. Definitions of the process of transformation of banks.

No.	F.I.S.	The tariff given to the transformation process
1.	A. Abduvokhidov [5]	"Digital transformation activities have a positive impact on the financial position of credit institutions, and significant investments are compensated by achieving a combination of goals.
2.	Bharadwaj [6]	Digital transformation fundamentally changes operations and adds value to the product offering to customers. It is also an intellectual and cultural change that means “developing and improving business models, operations, processes and capabilities to take advantage of changes in digital technology and its strategic impact on society”.
3.	Feher & Varga [7]	Key digital transformation practices such as leadership, digital trends, digital transformation skills, digital strategies, digital adoption and a customer-centric approach affect a bank's digital maturity level.
4.	Listeners[11]	The integration of technologies and infrastructures is one of the leading principles of digital banking, a principle that is absent in electronic banking, which uses several old and new technologies.
5.	Suyunov D.[13]	Banking transformation is the most fundamental new process that will help banks use digital transformation operations in all types of services provided and ensure

	the efficiency of service delivery and its effectiveness. In this, service delivery will fundamentally change and the services offered to customers will bring added value. This will necessitate the use of artificial intelligence, big data, etc.

CONCLUSION

Fundamental Finding : The study highlights the necessity of integrating digital technologies and corporate governance models in banking systems to enhance decision-making efficiency. The adoption of "Digital Corporate Governance" allows for improved monitoring, transparency, and remote participation of board members, ensuring more effective management practices. By leveraging artificial intelligence and digital platforms, banks can optimize governance processes, leading to a more structured and data-driven approach in business and investment development. **Implication :** Implementing digital corporate governance in banking enhances operational efficiency, transparency, and competitiveness. The automation of decision-making processes accelerates financial and strategic planning, ensuring better risk management and compliance. Furthermore, digital transformation facilitates remote participation, expanding management involvement and fostering a more inclusive and data-driven corporate culture, ultimately strengthening the banking sector's adaptability to global financial trends. **Limitation :** Despite its advantages, the transition to digital corporate governance presents challenges such as cybersecurity risks, high implementation costs, and resistance to change from traditional management structures. Additionally, the effectiveness of digital models depends on the availability of technological infrastructure and skilled personnel. Without proper regulatory frameworks and data protection measures, banks may face operational vulnerabilities that could hinder the anticipated benefits of digital transformation. **Future Research :** Further research should focus on evaluating the long-term impact of digital corporate governance on banking performance, particularly in emerging economies. Investigating best practices for mitigating cybersecurity risks and optimizing AI-driven decision-making can enhance the sustainability of digital transformation. Additionally, exploring regulatory frameworks and cross-border digital governance standards will provide insights into ensuring the stability and efficiency of banking systems in the digital era.

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