

Problems in the Implementation of Transformation Processes of Commercial Banks

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Annotation: This document discusses Uzbekistan's digital transformation and privatization in banking. Phased actions, supported by presidential decrees, emphasize their role in shaping the digital economy. Challenges include a skilled workforce shortage, funding constraints, security issues, and resistance to change. Stages of digitization, capitalization impact, and a proposed privatization strategy are explored. The systematic, long-term approach is vital, and keywords encapsulate core themes. Uzbekistan positions itself for sustained growth and global competitiveness amid dynamic shifts in its banking sector.

Keywords: Digital Transformation, Privatization, Banking Sector, Uzbekistan, Presidential Decrees, Challenges, Central Bank, Capitalization, International Collaboration..

The digital transformation process of the banking sector in the Republic of Uzbekistan serves as the foundation for the development of the digital economy. The transformation in financial institutions involves a broad spectrum of phased actions, resulting in the identification of an optimal digital strategy. The development and implementation of this strategy require consideration of the specific characteristics of each organization. It is worth noting that the rapid advancement and improvement in the quality of financial institutions, crucial for the growth of national competitiveness, are driven by structural transformations in the banking and financial sector. These transformations aim to ensure sustainable long-term economic growth.

The significance of digital transformation and privatization in the banking system is outlined in the presidential decree issued by the President of the Republic of Uzbekistan on May 12, 2020, under the reference number PD-5992 titled "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025". Additionally, it is emphasized in the President's resolution dated November 21, 2018, with the number PD-4022, which addresses measures for further modernizing the digital infrastructure to foster the development of the digital economy.

As of today, examples of the phased digital transformation in the Republic of Uzbekistan include the implementation of electronic payment systems, e-money, remote banking services such as online banking products, bank terminals, and automated banking centers. However, these are only a part of the envisioned transformation. This transition not only involves digitizing banking services and products - the interface visible to customers - but also automating internal processes. Digital banking entails automating every step of banking relationships, extending beyond online, offline, mobile, and internet banking platforms.

It is fair to note that the prerequisites for the digital transformation of commercial banks in a neighboring country, for example, in Kazakhstan, were divided into external and internal factors. External factors included:

The growing popularity of mobile applications and digital channels among retail customers due to the development of service-related offerings (food delivery, taxi services, etc.).

The development and modernization of mobile devices contributing to the global growth of digital technologies.

Increasing competition from non-banks and fintech companies.

The COVID-19 pandemic, which reduced the number of customers visiting bank branches and retail stores.

Internal factors driving the digital transformation of commercial banks in Kazakhstan included:

The development of the retail segment of banking services as a sustainable foundation for the digital transformation of banks.

The effective adaptability of the retail sector of banking business to the process of digitization (BI analytics, robotic Soft Collection).

However, the level of digitization in the Russian banking sector is currently quite high, and by its indicators, it practically does not lag behind the most developed economies in the world. According to KPMG data, 86% of Russian banks are already implementing digital transformation programs. The banking sector in the Russian Federation has become a primary target for digitization due to the following reasons:

Effective use of digital technologies is an essential condition for banks seeking to maintain competitiveness across all customer segments.

The proliferation of digital services in the banking sector contributes to a better understanding of customer needs and enables the formulation of individual offerings for users, improving the ways banks interact with potential clients.

These technologies allow bank customers to choose suitable offers regardless of the geographical location of the financial institution.

Information technologies used in the banking sector enable more transparent, faster, and visually open transactions.

Digitization enhances the operational efficiency and manageability of financial operations.

Innovative technologies provide an opportunity to reduce service costs by cutting expenses for all participants in the financial market.

Banks using digital solutions in their operations shape their image and present themselves to clients as modern, technologically advanced organizations.

Hence, the transition from the traditional approach to providing banking services in Uzbekistan and introducing their digital counterparts in the market faces several problems that need to be emphasized:

Lack of qualified specialists: Successful digital transformation of Uzbekistan's banks requires qualified professionals capable of developing and implementing innovative technologies. However, the shortage of experts in the IT and financial technology fields is one of the major challenges.

Insufficient funding: Privatizing banks can attract investments and additional financial resources necessary for digital transformation. However, in the face of stiff competition, banks struggle to attract investors and secure funding for their projects.

Security issues: Digital transformation is associated with information security risks such as system hacking, data theft, and breaches of confidentiality. Therefore, ensuring the security of banks' data and infrastructure is a key task.

Lack of infrastructure: Uzbekistan's banking system needs to modernize its infrastructure, including updating outdated systems and equipment, as well as creating new digital platforms for customer service and transactions.

Resistance to change: Many customers and bank employees may not be ready for the transition to digital technologies, causing resistance to change and slowing down the transformation process.

It is also important to note that analyzing the data from the Central Bank of Uzbekistan, we can identify the main stages of the digitization of the banking sector:

The first stage involves the emergence of digital channels, namely the network of ATMs, mobile banking, chatbots, which contribute to the construction of a new ecosystem with the user at its center. Such a system allows interaction at any convenient time through any communication channel for both the bank and the customer.

The second stage is considered the development of digital products: contactless payments, virtual payments, Big Data. The presence of advanced technologies enables the creation of end-to-end products designed to satisfy consumer financial requests 24/7.

The third stage involves the implementation of a complete cycle of information services. This step not only modernizes traditional products but also contributes to the emergence of a fundamentally new business model that integrates the bank into the global internet space.

The fourth stage is characterized by the creation of a "digital brain" (Digital Brain), aimed at automating data analysis in all economic segments for audit purposes, providing organizations with a more comprehensive understanding of their capabilities in a particular industry.

The final stage highlights the emergence of "digital DNA." This system envisions new vectors of development and, as a result, new strategic decisions during any period of the bank's existence.

Based on the above, it is possible to assess the digital maturity of a bank. This directly impacts its capitalization, and operational efficiency helps in spending less, making a healthy balance sheet the main source of revenue growth.

It is important to note that the concept of bank capitalization in the context of Uzbek credit organizations is still not associated with the market interpretation of this term. Both in the academic environment and the banking community, capitalization is understood only as the accumulation of the bank's equity. Consequently, excessive state presence, insufficient competition, mismatch of corporate governance and banking services quality with modern requirements, as well as a relatively low level of development of specialized technologies applied globally, are the main obstacles hindering a full transition to privatization.

However, the privatization strategy for the banking sector envisions the divestment of a significant portion of state-owned banks with active support from international financial institutions (IFIs) such as the International Finance Corporation, the European Bank for Reconstruction and Development, and the Asian Development Bank. To achieve the maximum positive effect, two stages are outlined:

The transformation of banks with the involvement of international-level consultants, including those from IFIs.

The privatization of the state's share to strategic investors with extensive positive experience in this business, capable of introducing cutting-edge solutions, ensuring its stable operation in accordance with global standards.

In the digital transformation of the banking sector and privatization in Uzbekistan, there is currently a vast array of tasks and goals for change and implementation. It is crucial to dedicate significant time to research and reach a new user audience, learning to understand digital user expectations. It is essential to recognize that this topic is promising and long-term, requiring a

systematic approach at each stage that involves the banking infrastructure and business processes.

In conclusion, Uzbekistan's banking sector is undergoing a profound digital transformation and privatization process, driven by presidential decrees outlining strategies for reform. The phased approach includes digital product development, infrastructure enhancement, and the creation of a "digital brain" for comprehensive data analysis. Despite challenges such as a lack of qualified professionals, funding issues, security concerns, and resistance to change, the envisioned stages offer a roadmap for sustainable growth.

The analysis emphasizes the need for a systematic, long-term approach in aligning the banking infrastructure and business processes with digital expectations. As Uzbekistan navigates these changes, the strategic involvement of international consultants and a phased privatization strategy, backed by global financial institutions, is essential. The successful implementation of these measures will position Uzbekistan's banking sector as a modern, competitive entity in the global financial landscape.

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