Significant Aspects of Bank Transformation

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Abstract: *The article discusses the necessity, objectives, directions, and future prospects of transforming commercial banks. It also examines the research of local and foreign scholars, analyzes relevant legal documents, and studies the current state of transformation processes in the Republic of Uzbekistan. Conclusions and recommendations have been developed based on these findings.*

Keywords*: bank, transformation, digital, commercial bank, technology, finance, cybersecurity, crime, service, management*

Introduction

Transforming the operations of commercial banks is one of the most pressing issues of today. This process facilitates the stability of financial systems, the development of the digital economy, and the provision of high-quality financial services to customers. Due to the intensification of global competition, rapid technological advancements, and evolving customer expectations regarding banking services, banks must reevaluate their traditional operational models.

The transformation of banking operations primarily involves technological and operational changes. Beyond traditional services, commercial banks are reshaping their operations by introducing new digital services, artificial intelligence, and blockchain technologies.

The transformation of commercial banks is the process of reshaping their service delivery methods, organizational structures, and internal processes through the adoption of modern technologies and digitalization tools. This transformation is primarily driven by the development of the digital economy and the evolving demands of customers.

While digital transformation offers numerous advantages, it also presents challenges such as the need for significant investments in technology and the threats posed by cybersecurity risks. Specifically, the necessity for banks to combat financial crimes, enhance cybersecurity, and protect data confidentiality underscores the relevance and importance of this research topic.

Literature review

Issues related to the transformation of commercial banking operations and their evaluation based on various models have been explored in the works of L.Weill ,, Jacob A. Bikker and Loura Spierdijk .

In Uzbekistan, topics such as enhancing the competitiveness of commercial banks, accelerating digitalization processes within the system, and assessing competition in the banking market have been studied in the scientific works of F.I.Mirzayev ,, O.Sattorov , O.A.Ortiqov and others.

Methods

This study employs a mixed-methods approach to analyze the transformation processes in commercial banks. Qualitative methods were used to review academic literature, policy documents, and industry reports to understand the key trends and challenges in digital transformation. Quantitative analysis focused on evaluating the growth and adoption of remote banking services by individuals and businesses. Comparative analysis was applied to assess the integration of digital technologies and their impact on operational efficiency and risk management. Expert opinions and case studies of successful implementations provided practical insights, while strategic analysis identified the main drivers and barriers to transformation. This comprehensive approach ensures a detailed understanding of the transformation processes and their implications for the banking sector.

Results and Discussion

The transformation of commercial banking operations has a centuries-long history, with each phase bringing significant changes to banks' strategies in customer service, financial intermediation, and economic stability. This transformation process is closely tied to factors such as the industrial revolution, technological advancements, the transition to a digital economy, and the development of financial technologies.

In the 21st century, the advancement of digital technologies has fundamentally reshaped the banking sector. Technologies such as artificial intelligence, big data, blockchain, and cloud computing have been widely adopted to automate banking operations and enhance efficiency. For instance, digital banking services, remote banking operations, and mobile applications now provide customers with 24/7 access to services.

The competition between financial companies and banks has compelled traditional banks to modify their operations. This dynamic has accelerated the adoption of innovations and simplified customer service processes, driving the modernization of the banking sector.

In the Republic of Uzbekistan, the term “transformation” is mentioned 43 times in the decree “On the strategy for reforming the banking system of the republic of Uzbekistan for 2020-2025”. All instances pertain to the transformation of commercial banks, with specific guidelines provided for the transformation of banking operations.

For instance, in the section titled “Reducing state participation in the banking sector” the decree outlines the processes and directions for transforming banks with state ownership (Table 1).

Table 1

Corporate transformation process

№	Priority areas	Implementation areas
1	Improving corporate governance	- Renewing the composition of bank supervisory boards by including independent members with international banking experience and clearly defining the roles and responsibilities among the governance bodies of commercial banks; - establishing specialized committees under supervisory boards to ensure effective oversight;

		- revisiting the organizational structure of bank management based on modern international practices and introducing the practice of setting "Key performance indicators" (KPIs) to evaluate the quality of executive bodies' performance; - transitioning to international financial reporting standards and ensuring sufficient disclosure of information to minority shareholders, customers, and other stakeholders.
2	Improving the quality and expanding the scope of banking services	- optimizing business processes and implementing international standards of management quality; - simplifying the credit allocation process by improving the risk management system; - offering a wide range of services to clients, including financial consulting, investment banking, factoring, project financing, leasing, and more.
3	Introduction of modern information technologies	- expanding the scope and availability of remote banking services, including contactless payments; - broadly utilizing automated scoring systems, digital identification, and credit conveyor technologies; - strengthening the information security of bank data and systems; - introducing new concepts and technologies in the banking sector, such as fintech, marketplaces, and digital banking.
4	Capacity building	- enhancing the corporate strategy for human resource management; - implementing a continuous training system for bank employees; - transitioning to modern compensation systems based on the evaluation of each employee's performance (KPI, bonuses).

The corporate transformation process enhances the efficiency of banks, strengthens their competitiveness, and supports their adaptation to modern economic conditions. Corporate transformation often focuses on improving strategic management, transforming business processes, modernizing organizational structures, developing corporate culture, and ensuring cybersecurity.

In the Republic of Uzbekistan, the number of commercial banks utilizing remote biometric identification systems (Face ID) increased from 26 to 30 in 2023. This is one of the positive developments in the digital transformation process.

One of the key directions in the transformation processes of commercial banks is the development of remote banking services. According to the analysis, the number of individual users of remote banking services in Uzbekistan increased by 48.2%, while the number of legal entities and individual entrepreneurs using these services grew by 15.7% in 2023 compared to 2022. This indicates that significant reforms have been implemented in this area.

Globally, the transformation of commercial banks has become a central focus due to rapid technological advancements, the growth of digital economies, and increasing customer expectations. In many developed countries, banks are transitioning from traditional operational models to technology-driven frameworks that prioritize innovation and customer-centric approaches.

Digital transformation in banking emphasizes the integration of technologies such as artificial intelligence, blockchain, cloud computing, and advanced data analytics. These innovations have reshaped the way banks operate, enabling them to enhance service efficiency, reduce operational costs, and mitigate risks. In some countries, the adoption of fintech solutions has allowed for the development of entirely digital banking systems, providing customers with seamless and secure financial services.

Risk management remains a critical aspect of transformation. Many banks globally are focusing on strengthening cybersecurity measures to protect customer data and ensure system reliability. Regulatory frameworks have also evolved to support the adoption of new technologies while maintaining compliance with international standards.

Additionally, the concept of open banking has gained traction in international markets, allowing banks to collaborate with third-party service providers to deliver personalized financial solutions. This approach fosters competition and innovation while improving customer experiences.

Overall, international experiences demonstrate that successful bank transformation requires a strategic focus on technology, customer needs, and robust risk management practices, supported by effective regulatory and institutional frameworks. These insights can provide valuable lessons for countries aiming to modernize their banking sectors.

Conclusion

The digital transformation of commercial banks involves the adoption of new technologies to improve service delivery and operational efficiency. This transformation significantly influences risk-related behavior and, under certain conditions, can reduce risks. Addressing these challenges effectively requires strategic analysis.

The transformation process contributes to the efficient management of financial resources, risk reduction, and the enhancement of service quality. However, it also introduces unique complexities into the system. Banks need to invest heavily in creating infrastructure to integrate digital technologies and financial companies. In this regard, strengthening cybersecurity is essential, as digital security is a critical factor in ensuring the reliability and stability of banks. By properly managing the transformation process, banks can not only improve operational efficiency but also strengthen customer trust, which is vital for their long-term success.

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