



Digitalization and the Competitive Advantages of Commercial Banks

**Fattakhova Munisa
Abdukhamitovna**

Senior lecturer, "Banking" Department TFI

ABSTRACT

The article shows the importance of digital banking in the development of interbank competition. With the support of the latest technologies, in order to increase competitiveness, banks are working to identify new business niches, develop customized services, implement innovative strategies, capture new market opportunities and increase profits. An analysis is given of the views of scientists in the field of digital banking, the impact of digital banking on the competitiveness of commercial banks, as well as the main advantages and disadvantages of digitalization.

Keywords:

digital banking, interbanking competition, big data, block chain, competitive advantages

Introduction

Today it is impossible to imagine the banking industry without data digitalization. The digitalization of the banking sector is a complex process. But its ultimate goal is clear and simple - to save resources (time and money) of both customers and the banks themselves. The path to digitalization of the banking sector of Uzbekistan began several years ago. A new generation of customers has grown up - demanding, technologically savvy users who cannot imagine life without the benefits of digitalization. High demands are placed on banks, which can only be achieved by transforming their approach to doing business and technology. In this regard, there is a need for greater integration of digitalization into the activities of banks in order to increase the competitiveness of banks, and attract customers and increase profits.

Separately, it should be noted that the supportive policy of the state plays a special role in the development of the digital economy. To make progress, it is necessary and imperative that we master digital knowledge and modern information technologies. This gives us the

opportunity to follow the shortest path of ascent. After all, information technologies penetrate deeply into all spheres of the modern world.

To this end, by decree of the President of the Republic of Uzbekistan dated October 5, 2020 No. 6079 "On approval of the Digital Uzbekistan-2030 strategy and measures for its effective implementation", the Digital Uzbekistan-2030 strategy was approved.

By Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. 5992, the "Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025" was approved. The strategy also defines a comprehensive transformation of commercial banks with a state share as one of the priority areas for reforming the banking system, the introduction of modern banking standards, information technology and software products, the sale of a block of state shares in banks based on competitive sales to investors with the necessary experience and knowledge.

Many economists have studied the adaptation of classical banking to the digital

economy. For example, Yu. S. Tverdokhleba and G. S. Panova consider the prerequisites for the transformation of classical banks into digital banks. They believe that the transition of banks to the digital space contributes to the creation of a closer and more trusting environment between customers and banks, since not only the reliability of the bank is important for customers, but also the convenience of the services it provides.¹

Currently, there is no single and generally recognized approach to the definition of the concept of "digital transformation of the banking sector". A number of researchers and scientists agree that digital transformation is aimed at the development of existing business processes, is aimed at obtaining competitive advantages and increasing the level of economic security of an economic entity. Zaichenko I. M., Gorshechnikova P. D. and Dubgorn A. S. note that digital transformation is, first of all, "the transformation of individual business processes of an enterprise or the entire business as a whole, as well as the activities of individual institutional units of the state level", while digital transformation is subject to a business model and appropriate resources to create or transform a digital business.

The study analyzed the literature on consumer experience, satisfaction, loyalty and financial results of such authors as Keisidou, 2013², Klaus & Maklan, 2013³, Yee, Yeung & Cheng, 2010⁴. Scholars are examining bank and employee financial statements from a customer perspective to understand the links between digital banking services, improved customer experience, and banks' financial performance. Teo, Anderson, Fenwick and Ying, (2014)⁵ say that enterprises are constantly using digital

technologies to create new sources of value, to improve customer service. Therefore, every business must transform into a digital business in order to survive. This suggests that banks should focus on digital technology as banking aims to improve the customer experience as customer needs change.

The beginning of digital transformation in our country fell on the central component of the economy - the banking sector. First of all, this is due to the fact that the banking system is the most receptive and adaptive to external factors of influence, which allows, through the analysis of existing innovative experience in this area, to improve the process of providing banking services, to develop and implement fundamentally new digital products. The digitalization of banking has become an important step in the development of the modern economy. Credit institutions are introducing digital technologies into their activities, allowing them to be more successful and competitive.

So, digital banking means the complete digitization of banks and all their activities, programs and functions. This concerns not only the digitization of banking services and products - the interface that customers see, but also the automation of internal processes. Digital banking is the automation of every step of the banking relationship, which goes far beyond the online, offline, mobile and internet banking platform. Digital banking is a complete transformation into a digital environment, interface, backend and everything in between, for both customers and employees. Hoffman Thomas 1999 says that digital banking relies on big data, analytics and uses new technologies to improve the quality of customer service⁶. A

¹ Tverdokhleba, Yu. S. Prerequisites for the transformation of traditional financial institutions into digital banks: applied foreign studies / Yu. S. Tverdokhleba, S. G. Ter-Petrosyan // Banking services. - 2021. - No. 5. - P. 33 - 39.

² 10. Keisidou, E., Sarigiannidis, L., Maditinos, D. I. & Thalassinou, E. I. (2013). Customer Satisfaction, Loyalty and Financial Performance. *International Journal of Bank Marketing*, 31(4), 259-288

³ Klaus, P. & Maklan, S. (2013). Towards a Better Measure of Customer Experience. *International Journal of Market Research*, 55(2), 227-246

⁴ Yee, R. W. Y., Yeung, A. C. L. & Cheng, T. C. E. (2010). An Empirical Study of Employee Loyalty, Service Quality and Firm Performance in the Service Industry. *International Journal of Production Economics*, 124(1), 109-120.

⁵ Teo, C., Anderson, D., Fenwick, N. & Ying, Z. N. (2014). The State Of Digital Business in Asia Pacific in 2014.

<http://www.forrester.com/The+State+Of+Digital+Business+In+Asia+Pacific+In+2014/fulltext/-/E-RES117084>

⁶ Yee, R. W. Y., Yeung, A. C. L. & Cheng, T. C. E. (2010). An Empirical Study of Employee Loyalty, Service Quality and Firm Performance in the Service Industry. *International Journal of Production Economics*, 124(1), 109-120.

bank can only be considered digital if all of its functions, from product development to customer service, are digitized.

In the banking sector, during digital transformation, the primary task should be the implementation of economic and information security, as various electronic platforms become an environment for cyber-attacks. It is on these processes and the quality provision of services to its customers through digital channels and new services that the efficiency and competitiveness of banking activities depend. Describing the mechanism of digitalization of banks, it can be noted that this process includes the following elements (Fig. 1.). At the same time, such segments of the bank's digital strategy as the creation of a digital product, the implementation of end-to-end interaction with

the client, the development of a financial ecosystem of partners, remote interaction with the regulator and the use of business incubators are highlighted.

The digitalization of the financial sector is an integral feature of the development of the modern world economy. In order for the subjects of the financial market to be successful and competitive, it is necessary to follow global trends and be "digital" in the implementation of advanced technologies. The accomplishment of this task leads to the transformation of traditional global business models in such a way that they meet the challenges of the modern world. Credit institutions, insurance companies and other institutional investors are making significant changes to improve their operations under the influence of digital technologies.

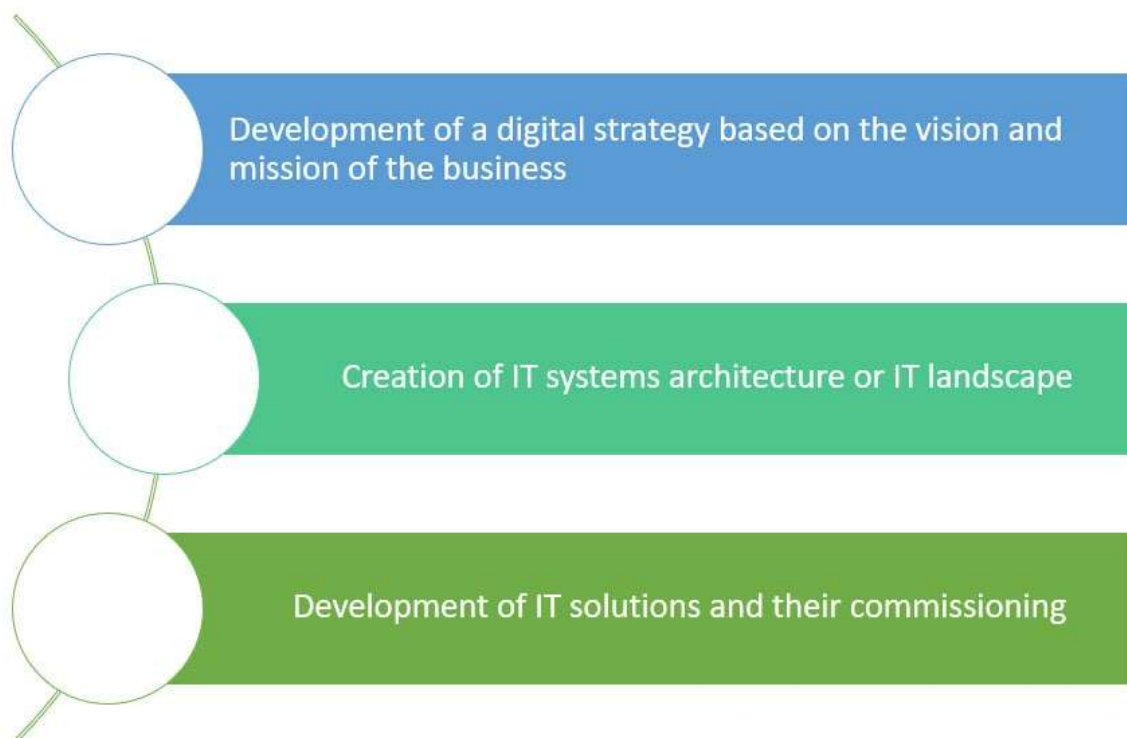


Fig.1 Elements of the mechanism of digitalization of banking activities [5]⁷.

It should be noted that in the current conditions, not every commercial bank can withstand competition or reach a new higher level of

service and implementation of banking products and services. The introduction of digital technologies in the banking sector is

⁷ Bukhonova, S. M. Study of the digital transformation of the Russian banking sector in the context of its investment attractiveness / S. M. Bukhonova, A. E. Yablonskaya //

Issues of innovative economics. - 2020. - No. 2. - C. 951 - 960

directly changing the role of banks, which are rapidly moving towards personalization and mobility. The modern banking system is characterized by the expansion of the boundaries of the provision of digital services, which directly leads to the formation of new approaches to managing banking business processes.

For consumers of banking services, such qualities as simplicity, speed and low cost are relevant. The use of information technologies in banking expands the client base, and also relieves the work of bank office employees as a result of round-the-clock availability of almost all banking services at any time.

The digitalization of the banking sector will allow the largest commercial banks to create their own ecosystem, within which a new format of banking products and services will be offered, and there will also be an opportunity to expand their areas of operation. For medium and small banks, the use of digital technologies is a great opportunity to operate outside the ecosystems of the largest banks, focusing on their category of clients. The development of digital technologies in the banking sector will expand and simplify the use of banking services. Further promotion of digitalization allows non-banking organizations to carry out activities to provide a separate range of services, which, as a rule, are provided by banks. This suggests that such non-banking organizations will become quite acceptable competitors to commercial banks. In this regard, we can say that the development of digital technologies for the banking sector is one of the most important competitive advantages in the market, which necessitates their continuous development for each individual credit institution.

The main advantages of digital banking:

1. Cost reduction. Banks are forced to cut their costs in order to remain competitive. If a bank does not move to digitization, it must, for example, continue to invest in expensive legacy hardware and software to keep these systems up to date;
2. Potential to increase returns: Traditional banks do not have a complete overview of their clients. They lack intelligent systems for collecting information about customers and

systems for targeting customers. The study of customer preferences through social networks, messengers leads to the creation of a banking product in accordance with the interests of customers. The greater the bank's market share, the higher the probability of increasing its profits;

3. Attracting and retaining customers and getting ahead of the competition: Fintechs and other newcomers have rocked the banking community. As a result, the demand for improved customer service and personalized services is growing, and the products and services of well-known banks are becoming more expensive. Digital banking improves customer experience and reduces costs, which is necessary to anticipate and anticipate customer demand;

4. The consumer will be able to use banking services at any time and through any channels: bank office, center, video communication, ATM, mobile and Internet banking, chat bots, social networks and instant messengers. Also, the client does not need to come to the bank office, he can remotely receive any service: opening a card, issuing a loan, opening a deposit, etc. to home delivery

Customer expectations are changing, new regulation is being introduced and competition from technology companies is growing. These changes should encourage banks to create their own digital space.

The main disadvantages of digital banking:

1. Security system. Digital banks are subject to the same laws and regulations as traditional banks. Sophisticated encryption software is designed to protect your account information, but no system is perfect. Stafford Barbara, 2001 [12]. says that accounts may be subject to phishing, hacker attacks, malware and other unauthorized activities;
2. Types of services. Some digital banks may not offer all of the comprehensive financial services, such as insurance and brokerage accounts, that traditional banks offer.
3. Relationship with the client. Often, a bank, knowing its client, his credit history, the specifics of his business, can make decisions

that are favorable for the client. The digital banking system excludes such possibilities.

4. The complexity or significance of the transaction. Often, to complete a major transaction or make a serious decision, a direct meeting with the client is required. A traditional bank may hold meetings and call in experts to resolve a particular issue. Complex international transactions, issues of international financing, syndicates may not be possible in digital banks.

Banks in Uzbekistan are moving towards digitalization in different ways. Someone in 2022 started changing the ABS (automated banking system - a software and hardware complex aimed at automating processes), someone builds BPM and CRM platforms and automates sales processes on them, someone launches remote sales channels, someone sometimes it builds its own card processing and develops card products, someone builds corporate storage and BI analytics.

Private banks are the most efficient. They do everything faster, and the end consumer feels it. Banks in the retail market are striving for installments, for scoring without relying on the official income of citizens. Financial institutions are also striving to build a credit pipeline for business and build scoring systems for it.

In 2023, the first attempt at digital onboarding of business entities will be made. Starting from May 1, commercial banks will be allowed to remotely open accounts for legal entities and individual entrepreneurs whose founders are residents, subject to the necessary conditions for remote identification.

Uzbekistan adopted Presidential Decree No. 3832 dated July 03, 2018 "On measures to develop the digital economy in the Republic of Uzbekistan", which defines the most important task for the further development of the digital economy: the introduction and development of activities in the field of circulation of crypto-assets, including mining (activities to maintain the distribution platform and create new blocks with the ability to receive remuneration in the form of new units and commission fees in various cryptocurrencies), smart contracts (an agreement in electronic form, the execution of rights and obligations under which is carried

out by automatically making digital transactions), consulting, emission, exchange, storage, distribution, management, insurance, crowd-funding (collective financing), as well as block chain technologies for diversifying various forms of investment and entrepreneurial activity.

In accordance with the Decree of the President of the Republic of Uzbekistan dated October 05, 2020 No. 5296 "On approval of the strategy "DIGITAL UZBEKISTAN-2030" and measures for its effective implementation" provides for the implementation of over 220 priority projects that provide for the improvement of the e-government system, further development of the domestic market of software products and information technologies. As part of the digital transformation of regions and industries in 2020-2022, it is planned to increase the level of connection of settlements to the Internet from 78 to 95 percent, as well as to complete the digital transformation of commercial banks by January 1, 2022 by providing them with a wide range of online services, including selling credit products, opening deposits and current accounts remotely.

The study demonstrates how banks can use digital banking to improve customer experience, customer acquisition, retention, experience and satisfaction of different customer needs, and improve financial performance by improving profitability, cost savings, return on assets, cost-to-revenue ratio, revenue and sales growth.

The study informs consumer attitudes towards digital banks, which need to consider ways to increase profits. This highlights the upward trend in investment in innovative technologies. This shows how innovations in digitalization enable banks to introduce value-added services, differentiate products, increase sales, increase banks' competitiveness, and enable them to respond to growing customer needs with digital devices.

The study highlights the operational and security risks of digital banking, which affect the brand and reputation of banks, customer trust, and quality of service. In our opinion, it is necessary to expand research in the field of

digitalization. Uzbekistan is a densely populated country with a population of about 35 million at the beginning of 2022. There are regions remote from the financial infrastructure. In order to cover these regions, it is necessary first of all to have an uninterrupted Internet, which will allow banks to develop digital services and train customers to use them. Also, in our opinion, it is necessary to improve the financial literacy of the population so that consumers of digital banking products do not become victims of financial or cyber-crimes. The digitalization of the economy of Uzbekistan will improve not only the quality, but also the volume of any transactions, both in the banking and financial system and in any other. The result of digitalization will allow investors to see information fairly transparently, and will make the country even more open and accessible for further globalization.

The government of our country provides comprehensive support for the development of digitalization in all areas of the economy. By Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. 5992, the "Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025" was approved. The strategy also defines a comprehensive transformation of commercial banks with a state share as one of the priority areas for reforming the banking system, the introduction of modern banking standards, information technology and software products, the sale of a block of state shares in banks based on competitive sales to investors with the necessary experience and knowledge.

List of used literature

1. Decree of the President of the Republic of Uzbekistan dated October 5, 2020 No. 6079 "On approval of the strategy" Digital Uzbekistan-2030".
2. Decree of the President of the Republic of Uzbekistan dated July 03, 2018 No. 3832 "On measures to develop the digital economy in the Republic of Uzbekistan".
3. Decree of the President of the Republic of Uzbekistan of November 21, 2018 N PP-4022 "On measures to further modernize

- the digital infrastructure in order to develop the digital economy"
4. Tverdokhle, Yu. S. Prerequisites for the transformation of traditional financial institutions into digital banks: applied foreign studies / Yu. S. Tverdokhle, S. G. Ter-Petrosyan // Banking services. - 2021. - No. 5. - P. 33 - 39.
5. Bukhonova, S. M. Study of the digital transformation of the Russian banking sector in the context of its investment attractiveness / S. M. Bukhonova, A. E. Yablonskaya // Issues of innovative economics. - 2020. - No. 2. - C. 951 - 960
6. Abdullaev Sh.Z. Bank risklari sharoitida tijorat banklari loan portfolio and diversificationlash. i.f.d. ilmiy darazhasini olish uchun yozilgan diss. abstract. - T., 2000. - 36 b.3
7. Avis, O. U. A look at the interaction of traditional and digital banking services / O. U. Avis, V. E. Kosarev // Bulletin of the Astrakhan State Technical University. - 2021, - No. 1. - P. 101 - 107.
8. Barykin, S. A. New opportunities and challenges for the financial sector regulation system as a result of the development of the global financial technology market / S. A. Barykin // Ars Administrandi / The Art of Management. - 2020. - T. 12, No. 1. - S. 79 - 92.
9. Belova, S. S. Modern transformations of the Russian banking sector in the context of digitalization / S. S. Belova // Innovations. The science. Education. - 2021. - No. 30. - S. 1240 - 1244.
10. Keisidou, E., Sarigiannidis, L., Maditinos, D. I. & Thalassinou, E. I. (2013). Customer Satisfaction, Loyalty and Financial Performance. International Journal of Bank Marketing, 31(4), 259-288
11. Klaus, P. & Maklan, S. (2013). Towards a Better Measure of Customer Experience. International Journal of Market Research, 55(2), 227-246
1. 12 Stafford, Barbara. "Risk Management and Internet Banking: What Every Banker Needs to Know," Community Banker (10:2), 2001, p. 48-49.

12. Yee, R. W. Y., Yeung, A. C. L. & Cheng, T. C. E. (2010). An Empirical Study of Employee Loyalty, Service Quality and Firm Performance in the Service Industry. *International Journal of Production Economics*, 124(1), 109-120.
13. Teo, C., Anderson, D., Fenwick, N. & Ying, Z. N. (2014). The State Of Digital Business in Asia Pacific in 2014. <http://www.forrester.com/The+State+Of+Digital+Business+In+Asia+Pacific+In+2014/fulltext/-/E-RES117084>
14. www.cbu.uz
15. <https://www.spot.uz/ru/2020/06/19/digital-bank/>
16. <https://plusworld.ru/journal/2021/plus-5-2021/banki-i-ritejl-tsifrovaya-transformatsiya-i-vzaimodejstvie-klyuchevye-itogi-pervogo-plas-foruma-v-stolitse-uzbekistana/>