

**THE IMPORTANCE OF DIGITAL TRANSFORMATION PROCESSES IN  
COMMERCIAL BANKS OF UZBEKISTAN**

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**Abstract**

The banking system needs to be fundamentally rebuilt in light of the recent rapid growth of the digital economy, shifting consumer demands for banking services, and the need to conform to global financial standards. According to the study, the primary directions of the transformation process include the digitalisation of banking services, the growth of remote services, the modernisation of corporate governance and risk management systems, the introduction of novel financial products, and the development of human capital. Additionally, it highlights the significance of banking system reforms being carried out within the scope of the "Digital Uzbekistan 2030" goal by contrasting Uzbek practice with worldwide experience. This article explores the significance of digital transformation processes in commercial banks in Uzbekistan. It analyzes how digital technologies improve operational efficiency, customer experience, competitiveness, and financial inclusion. The research also discusses challenges and recommendations for successful implementation of digital transformation in the Uzbek banking sector.

**Keywords**

Digital transformation, commercial banks, financial technology (FinTech), digital banking services, customer experience, operational efficiency, cybersecurity, the "Digital Uzbekistan 2030" strategy, business models, customer experience, internal operations, digitalization indicators, payment system, artificial intelligence, blockchain technology.

**INTRODUCTION**

In the modern era, the banking system is gaining increasing importance as one of the most important sectors of the country's economic life. In particular, commercial banks play an incomparable role in strengthening the financial foundations of the economy, supporting the activities of economic entities, developing entrepreneurship, financing new investment projects, and meeting the financial needs of the population. In the process of economic reforms being carried out in our country, a fundamental improvement in the activities of the banking system, its adaptation to modern requirements, integration with international standards, as well as the introduction of new services compatible with the digital economy are becoming one of the priorities of state policy. In the modern global financial landscape, digital transformation has become a strategic priority for banks worldwide. Driven by technological advancements, changing customer expectations, and competitive pressure from financial technology companies, traditional banking models are evolving rapidly. In Uzbekistan, the banking sector is undergoing significant digital transformation aimed at improving service delivery, enhancing customer satisfaction, and strengthening competitiveness.

Taking the example of the banking system of Uzbekistan, significant changes have been achieved over the past five years. First of all, the transformation of banks is closely related to the "Digital Uzbekistan 2030" strategy, in which banks are striving to expand digital services, adapt to international standards and create a convenient financial environment for customers. As an example, the number of users of remote services is increasing year by year, and the sharp increase in the volume of transactions carried out through mobile applications is increasing. This indicates that banks are adapting to the demands of a new generation of customers.

## **LITERATURE REVIEW**

In order to carry out a radical transformation of the banking sector aimed at stimulating the development of the private sector, increasing the investment attractiveness of banks, the availability and quality of banking services, Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. UP-5992 developed a strategy for reforming the banking sector in the Republic of Uzbekistan.[1] The strategy defines the goals, objectives and priorities for the development of the banking system, directions for the transformation and reform of the banking system in the period 2020-2025, ways to find possible solutions based on the experience of transforming the financial sector of foreign countries and taking into account global trends in the financial sector.[2]

Tian, Zhang vs Qu (2022), according to economists, in today's digital era, commercial banks are undergoing comprehensive changes based on digital technologies.[3] The digital era has not only changed the way banks work, but also changed the customer experience. From online banking operations to mobile payments, digital technologies have become an integral part of improving the efficiency of commercial banks.

With the advent of the digital economy, commercial banks are actively or passively implementing digital transformation.

Zhou (2022) pointed out that with the development of digital technologies such as artificial intelligence, big data, and blockchain, countries are gradually entering the era of the digital economy.[4] Su, Su, and Wang (2021) conducted research on the fact that the development of science and technology has stimulated the innovation of traditional industries, and digital transformation is becoming an important trend. Zhu, Jin (2023) stated in their research that digital transformation in the banking system based on digital technologies can significantly improve efficiency. Qian (2023) studies show that digitalization improves operational efficiency, decision-making speed, and external communication in financial management.[5] In particular, economists such as Avira, Setyaningsih, and Utami (2023) have improved economic efficiency in this ecosystem through the introduction of digital payment technologies by commercial banks, which has led to lower entry costs.[6] Economists such as Sarai, Jain, Awasthy, and Dhal (2023) have also conducted research on how digital finance has a positive impact on the total factor capacity of commercial banks, creating a platform for improving efficiency through technological and financial innovation, industry integration, and advantages.

Together, these results highlight the crucial role of digital technologies in reshaping banking practices, highlighting the need for banks to adapt and leverage digital tools to maintain their competitiveness and meet evolving customer demands. According to them, addressing cybersecurity risks and promoting digital practices are essential for ensuring a sustainable and equitable evolution of the banking system.

Also, in the digital transformation era, the interaction between commercial banks and their customers is characterized by innovation, convenience, and changing regulation. In the growth and maturity stages, commercial banks play a more important role in enhancing operational capabilities through digital transformation than banks in recession and phase-out periods (Zhu, & Jin, 2023).[7] At the same time, the digital transformation of commercial banks is an inevitable trend in response to the development of the digital economy, creating opportunities for long-term development (Baoshan, Jiayin, 2022).[8]

Research shows that increasing the proportion of investments made by commercial banks in digital transformation processes contributes to an increase in the net income of these banks. The impact of digital transformation on the profitability of commercial banks varies depending on various factors. In this regard, according to the results of studies conducted by foreign scholars, digital transformation significantly increases the profitability of commercial banks, especially joint-stock banks, while large state-owned banks cannot achieve the same level of efficiency according to Huang (2023).[9]

Digital transformation can increase profitability for some commercial banks. However, the results may vary depending on the size of the bank, its location, and the specific strategies implemented by Taka and Bayarçelik. (2023).[10]

At the same time, digital transformation enables commercial banks to collect, analyze and use large amounts of customer data, using advanced analytical innovative machine learning algorithms, and commercial banks to gain insight into customer behavior, preferences and risks. Using data analytics, banks can identify new revenue opportunities, optimize product offerings and manage financial risks more effectively, which will lead to an increase in overall financial performance.

As a result, listing on stock exchanges increases capital, sources of credit funds, efficiency of scale, reduces costs, strengthens market constraints, and leads to increased efficiency of commercial banks.

## **RESULTS AND DISCUSSION**

The widespread adoption of digital technologies and the privatisation of commercial banks are the reform's top priorities. The complicated transformation of commercial banks with a state share and the decrease in the state's share of the banking system are given special emphasis. There are two types of banks: those that are privatised and those that have a state holding. Commercial banks will be privatised in two stages: first, their operations will be transformed with a state share, and second, state shares would be sold to powerful international investors.

Digital transformation in banking refers to the integration of digital technologies into all areas of bank operations, fundamentally changing how banks operate and deliver value to customers. It involves the adoption of digital platforms, automation of processes, and use of data analytics to enhance decision-making. In commercial banks, digital transformation aims to:

- streamline internal operations,
- enhance customer experience,
- improve risk management,

- create new business models.

Benefits of Digital Transformation:

a) Improved Operational Efficiency. Digital technologies such as automation and cloud-based platforms enable banks to streamline workflows, reduce processing times, and lower operational costs. Routine tasks like loan processing, account opening, and transaction handling can be automated, reducing human error and increasing productivity.

b) Enhanced Customer Experience. Digital channels — including online banking, mobile apps, and digital payment solutions — provide customers with 24/7 access to financial services. These services enhance convenience, reduce waiting times at physical branches, and allow personalized financial management.

c) Increased Financial Inclusion. Digital transformation supports financial inclusion by enabling underserved populations to access banking services online without the need to visit branches. Mobile banking and digital wallets are especially important for rural or remote areas where physical bank branches are limited.

d) Strengthened Competitiveness. By adopting digital solutions, Uzbek banks can compete more effectively with both local FinTech firms and international financial institutions. Digital offerings, such as instant payments and personalized services, attract and retain customers in a competitive market.

Uzbekistan has demonstrated certain achievements in the early stages of institutional reforms and the transformation of state-owned banks. In particular, lending to state-owned enterprises from public funds on concessional terms has declined, expanding the potential for competitive financing of individuals and private businesses.

Banks in Uzbekistan and throughout the world have been going through a digital transformation process in recent years. However, it was evident from the initial bank digitalisation initiatives in Uzbekistan that this process would be difficult and time-consuming, taking more than a year. It can take more than a year to modify and incorporate their advancements into the bank's IT infrastructure because overseas integrators don't have ready-made solutions tailored to Uzbekistan's requirements.

Digital transformation is a transformation of the bank's structures based on the use of digital technologies, a change in the target direction of activities that ensures the creation of new services and new market opportunities.

Leading financial and credit institutions of a global scale are actively taking measures to adapt to new conditions, which forms new standards in the banking business. All over the world, digitalization is replacing existing business models in banks, and the market for mobile and contactless payments, P2P services, digital currencies, etc. is rapidly growing.[11]

Digital banking services are developing in accordance with modern requirements. It is planned to create the necessary regulatory framework for launching a remote identification system (e-ID and e-KYC).

The Republic of Uzbekistan will create a long-term plan to advance the cashless payment system.

The Central Bank will establish the Centre for the Prevention of Information and Cybersecurity in the Banking and Financial-Credit Sector and for Combating Financial Fraud and Verification (FINCERT). Naturally, when it comes to preventing fraud, safeguarding data, and fostering consumer confidence in the financial services industry, information security concerns will be at the forefront.[12]

Providing a wide range of customers with access to digital banking services, especially customers in remote areas of Uzbekistan, has become a key element in the transformation of banks.

The shift to online banking has affected around half of the nation's under-30 population. New business models and digital services have been a logical development. If the nation and much of the world did not shut down in 2020 to stop the spread of COVID-19, it might take years to build trust in digital banking systems. Although the COVID-19 pandemic has been a horrific event, there have been many bright moments as well. Paper is used for documents, signatures, and money in Uzbekistan and many other CIS nations. Suddenly, those regulations fell apart. A development that would have probably taken years has been expedited by the pandemic.

The success of new banking systems always depends on the people who work in these institutions; this is the "human factor" and it begins with every bank employee, even though the government has supported changes in Uzbekistan's financial culture as well as corporate and legislative documents defining regulatory and operational changes.

According to analysis, there have been significant changes made to the Uzbek financial system in recent years.

**Table 1**

**Assessing the effectiveness of commercial bank transformation**

**SWOT analysis results [13]**

<b>Structural aspect</b>	<b>Description</b>
Strengths	State support, availability of strategic programs for modernization of banks
Weaknesses	Financial services for small and medium-sized businesses are underdeveloped, and IT infrastructure is not fully maintained.
Opportunities	Attracting international investors, developing fintech partnerships and artificial intelligence-based services.
Threats	Global economic instability, cybersecurity issues, increased international competition.

One of the key prerequisites for improving financial efficiency and economic stability nowadays is the banking system's reform. Innovative financial products, digital technologies, and

automated management systems are all intimately linked to the growth of the banking industry globally. Additionally, Uzbekistan's banking system is rapidly changing, necessitating that commercial banks boost asset efficiency and enhance the calibre of financial services. With a focus on introducing digital technology, enhancing the risk management system, and making efficient use of capital resources, transformation activities are crucial to boosting the efficiency of bank assets.

To further enhance the operations of banks, a number of key areas are selected. First, it's important to examine consumer behaviour and increase the potential for offering them personalised service by utilising big data and artificial intelligence. Second, as the risk of financial crime is rising along with the volume of electronic transactions, bolstering cybersecurity continues to be one of the most pressing challenges in the current environment. Third, the bank's reputation will be further enhanced by promoting environmental initiatives and boosting social responsibility through the implementation of green finance and sustainable banking practices. Fourth, by establishing an integrated digital ecosystem—that is, linking financial services with industries like commerce, transportation, and education—it is feasible to provide clients all-encompassing solutions.

Overall, the analysis demonstrates that commercial banks' transformation procedures are crucial to boosting Uzbekistan's financial market's competitiveness, guaranteeing the country's economy's sustainable growth, and enhancing the population's access to financial services. The findings demonstrate that bank transformation is not just a contemporary necessity but also a crucial prerequisite for sustainable growth in the future. When examining the actual effects of transformation processes on the economy, statistical indicators are a valuable resource. Uzbekistan's banking and finance industry has experienced rapid growth in both volume and quality in recent years. For instance, by 2024 this figure exceeded 700 trillion soums, commercial banks' assets would have grown from approximately 325 trillion soums in 2020. During this period, the authorized capital of banks also doubled, expanding their opportunities to operate in the international financial market.

Turning to digitalization indicators, in 2020 the number of customers using mobile banking was around 4 million, while in 2024 this figure exceeded 12 million. This indicates that the transformation processes are having a wide-ranging effect among the population. In addition, the need for remote services that arose during the pandemic forced banks to switch to new business models. Therefore, today the share of digital services in the income structure of banks is increasing.

International experience shows that banks that have successfully implemented the transformation are achieving significant progress in ensuring financial stability. For example, banks in Singapore and South Korea, having launched the digital transformation process in collaboration with fintech companies, have created the opportunity to provide customers with 24/7 service. As a result, their financial indicators and international ratings have increased, and the attractiveness of the banking system has increased. These experiences are also of practical importance for banks in Uzbekistan, since the pace of development of the fintech market in the country is high.[14]

In the context of globalization and competition, transformation processes are becoming a strategic necessity for Uzbek commercial banks. By introducing digital technologies, expanding international cooperation, and increasing financial inclusion, banks can provide their services more effectively.

The results of the analysis show that a properly implemented transformation process will not only increase the profitability of commercial banks, but also contribute to the sustainable development of the Uzbek economy.

According to a study by Gartner researchers, IT spending in the financial system in 2019 increased by 5% to 539.121 billion US dollars, but by 2020 it decreased by 4.7% and increased again by 2.8% in 2021. If we analyze statistical data in Uzbekistan. As of January 1, 2023, the total expenses of our country's commercial banks amounted to 64,254 billion soums, of which 24 percent, or 14,877 billion soums, fell on operating expenses. There are many strengths in increasing the participation of commercial banks in poverty reduction, including financial resources, a large customer base, and the ability to use innovative technologies. However, weaknesses such as the rigidity of credit policies, low financial inclusion, and digital gaps can hinder banks from increasing their social responsibility. Opportunities include the development of microcredit and fintech technologies, international cooperation, and progress in strengthening social responsibility. However, economic instability, high interest rates, and interbank competition can pose threats.[15]

Therefore, in order to increase the participation of commercial banks in poverty reduction, it is necessary to further develop existing strengths, eliminate weaknesses, effectively support opportunities and develop clear strategies against threats.

The success of the transformation process is directly related to the innovative development strategies of banks, their level of competitiveness and integration into international financial markets. Also, the popularization of digital banking services creates the need to create new products and services that meet the demands and needs of bank customers.

The following strategic proposals are put forward for the effective implementation of transformation processes in commercial banks of Uzbekistan:

1. Development of banking services tailored to customers through the use of artificial intelligence and big data technologies.
2. Improvement of mobile applications and internet banking services, diversification of payment systems.
3. Increasing transparency of transactions and strengthening cybersecurity through the introduction of blockchain technology.
4. Creation of simplified online lending systems and development of special banking products for small businesses.
5. Introduction of new financial instruments (e.g. crowdfunding and peer-to-peer lending platforms).
6. Expansion of preferential credit programs for small businesses and simplification of financial services to them.
7. Development of clear strategies to improve international credit ratings and attract foreign investors.

Improving the customer service system is also important in the transformation process. Banks should provide services to customers on an individual basis, provide flexible products

based on their needs and financial capabilities. At the same time, regular study of customer opinions, prompt resolution of their suggestions and complaints, and the introduction of a quality "feedback" mechanism should be an important part of the transformation process.

The rational use of financial resources is also an important factor in increasing the efficiency of transformation. Banks need to diversify resources when financing investment projects, effectively manage risks, and form an optimal capital structure. At the same time, expanding cooperation with international financial institutions, attracting foreign investments, and fully utilizing financial market opportunities will increase the efficiency of bank transformation.

## **CONCLUSION**

In conclusion, digital transformation plays a critical role in the development of commercial banks in Uzbekistan. It enhances operational efficiency, improves customer experience, expands financial inclusion, and strengthens competitiveness in a rapidly changing financial environment. Although challenges such as investment limitations, cybersecurity risks, and skills gaps persist, they can be overcome through strategic planning, partnerships, and continuous training. For commercial banks in Uzbekistan, embracing digital transformation is not only beneficial but essential for sustainable growth and long-term success.

The Central Bank's reforms and the Digital Uzbekistan 2030 initiative have increased the flow of investments in digital infrastructure, which has led to an increase in the number of electronic payment systems, remote services, and Internet coverage. These procedures have made it possible for new risk management techniques to be developed in banking operations, which has decreased service costs and improved operational effectiveness. However, new issues are also arising as a result of the digitalisation process, like as cybersecurity threats, regional digital divides, and issues with bank workers' inability to quickly adjust to technological advancements.

The findings demonstrate that Uzbekistan's commercial banks will undergo a change that will increase financial inclusion in addition to improving service quality. rural banking services are becoming more accessible to people who live in rural places. As a result, the economy receives more capital inflows and has more chances for savings and investments.

Uzbek commercial banks will therefore have the chance to have a respectable position in both the regional and international financial markets if the transformation procedures are continuously carried out. Uzbekistan's financial system has been actively undergoing digital transformation in recent years.

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