
Benefits of Developing Digital Financial Services

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Abstract: The article describes the significance of innovative banking services in the development of financial services. Increasing the quality and speed of banking services is considered a key priority, with the advantages of utilizing banking services based on digital technologies expressed through specific indicators. The study also presents analytical conclusions regarding research on the transformation of banking activities using technology, the achievements in this area in Uzbekistan, and the tasks yet to be addressed in the future.

Key words: financial services, banking, digital technology, banking transformation, remote banking, digital banking, blockchain.

Introduction

The 21st century can be referred to as the century of digital technology development, as the world is currently progressing along this path. In the literature, the development of the economy based on digital technologies is referred to as Industry 4.0 [2]. Similarly, digital technologies are being utilized to enhance the quality of financial services. In particular, increasing the quality and speed of banking services is identified as a key priority [1]. According to research conducted by international organizations, the adoption of financial technologies has been found to improve the profitability of financial institutions by 20%. For instance, studies conducted by Insider Monkey revealed that during 2021, amid the pandemic, software products (applications and systems) were the most profitable sector, achieving a return on capital of 32.07% during this period [10].

It is well-known that all financial relationships are primarily facilitated through banking institutions. Thus, in the scope of universal service delivery, banks play a direct role as intermediaries. They are required not only to manage financial transactions but also to offer a wide range of services needed by clients. In Uzbekistan, transforming financial services comprehensively through bank modernization has become a pressing issue. This transformation is being guided by international standards, focusing on enhancing competitiveness and establishing a strong presence in the global arena.

This article presents an analytical exploration of the outcomes of introducing digital technology-based products in the banking system and discusses prospects for further development.

Literature Review

Financial services are primarily carried out through banking institutions. Over the last decade, to create greater convenience in financial services worldwide, the banking sector has implemented reforms based on digital technologies. This transformation has undoubtedly become a key driver of banking advancements. In recent years, Uzbekistan has also undergone several changes in the direction of digital banking transformation.

Numerous contemporary scholars have explored banking transformation in their research articles. For example: S.V. Krivoshapova highlighted that "speed in settlements, payments, and cash services is one of the critical issues for credit institutions" [4].

T.A. Vasileva pointed out that banks are no longer the sole owners of unique financial information. With the development of financial tools, transactions are increasingly being conducted without direct bank involvement. She cited “complete contracts” offered by non-bank financial intermediaries as an example [5].

In Uzbekistan, several authors have addressed various aspects of banking transformation: B. Berdiyarov analyzed the profitability of commercial banks' active operations [7], F. Mirzayev studied the conceptual foundations of fostering banking competition [8], A. Erdonayev examined the advantages of commercial banks' transformation [9].

In general, digital transformation involves the adoption of innovative methods in management systems, organizational structures, development strategies, corporate culture, and business processes. It also includes reformatting existing models to adapt to modern requirements. The concepts of Bank 3.0 and Bank 4.0 in developed countries, along with practices such as Bank-Client, Internet Banking, and SMS Banking in Uzbekistan, are examples of this evolution.

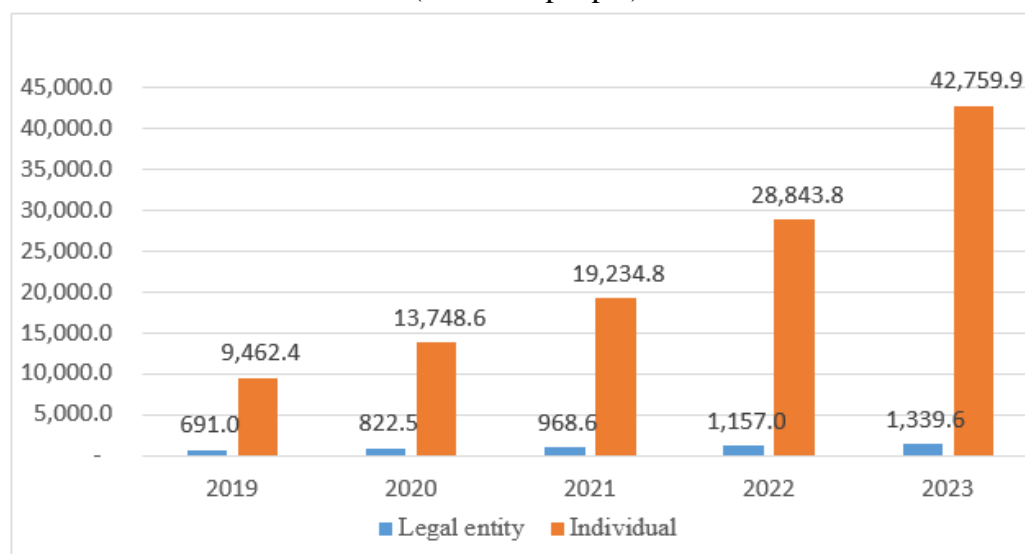
These studies contribute to the development of digital banking operations. However, as digital technology-based banking activities are still in their formative stages, they have yet to reach their full potential. Looking ahead, the success and competitiveness of financial institutions, particularly banks, are increasingly dependent on digitalization. This highlights the relevance of the topic.

Analysis and Results

Leading financial and credit institutions worldwide, including commercial banks, are actively implementing measures to adapt to newly established standards. In this regard, the banking structures in Uzbekistan have also shown several positive developments in financial services through the application of new standards. For instance, remote banking services (RBS) play a central role in the digitalization of banking activities. Through internet-connected mobile devices, customers can access banking services regardless of their geographic location. To ensure the speed and security of these remote services, advanced technologies such as biometric authentication, artificial intelligence, blockchain, and other digital tools are used.

Digital technology-based remote banking services offer customers (both legal entities and individuals) the opportunity to access a maximum range of banking services without spending time or incurring financial costs. The chart below demonstrates the number of individuals and legal entities in Uzbekistan connected to bank applications over recent years:

Diagram 1. Remote Banking Service Users*
(thousand people)

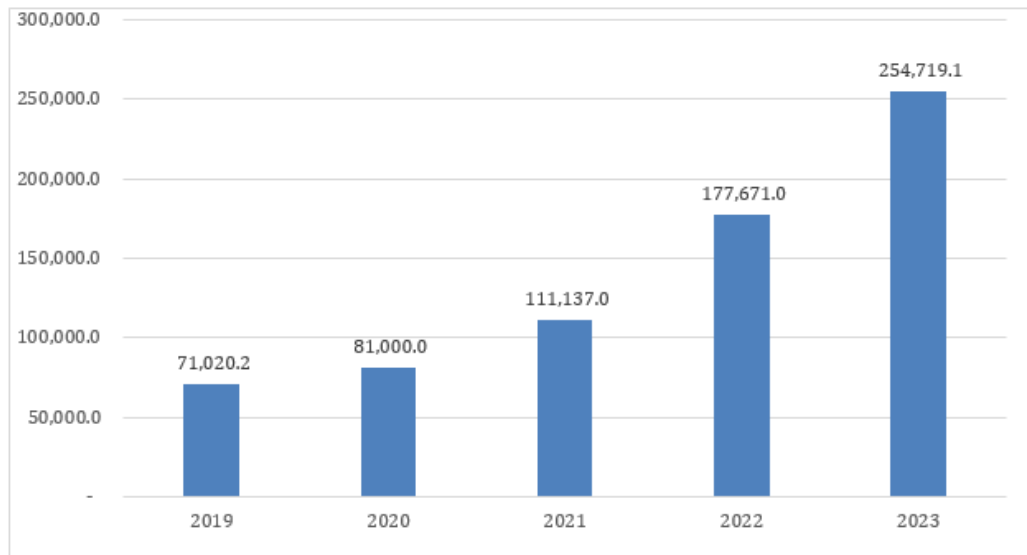


* Compiled by the author after studying the official data of the Central Bank of the Republic of Uzbekistan. – <https://cbu.uz/ru>.

The table shows a steady increase in RBS users from 2020 to 2024. Specifically, the number of individual users grew sharply by 33,297.5 thousand from 2019 to 2023 (42,759.9 – 9,462.4), representing a 451% increase. This demonstrates the convenience remote banking services bring to the population.

Moreover, bank cards have facilitated payments for goods and services, with transactions conducted through banks simplifying financial operations for the public (Diagram 2).

Diagram 2. Payments Made via POS Terminals*



* Compiled by the author after studying the official data of the Central Bank of the Republic of Uzbekistan. – <https://cbu.uz/ru>.

The data indicates that payments through POS terminals increased significantly between 2019 and 2023. For instance, payment volumes grew by 183,699.1 billion UZS during this period (254,719.1 – 71,020.0), reflecting a 358.6% increase or a 3.5-fold rise.

Additionally, in 2020, the Central Bank of Uzbekistan introduced a QR-online payment system, enabling buyers to make payments for goods and services without the need for bank cards or POS terminals. This system requires merchants to request a QR code from their bank, which buyers can scan using their mobile applications to complete payments instantly. Such innovations have undoubtedly improved the efficiency and convenience of transactions.

Despite these successes, certain challenges remain in improving financial services for the population. These include:

- Low digital literacy among the population;
- Ensuring data security;
- Improving internet speed, particularly in remote regions.

To address these issues, several measures must be implemented.

Conclusion and Recommendations

Despite notable successes, there are several challenges in enhancing financial services for the population. Addressing these issues requires the implementation of specific measures, including:

1. Improving Digital Literacy

- Enhance public knowledge through educational programs and demonstrations via television and online platforms.

2. Advancing Digital Banking Services

- Increase the variety of digital banking applications and enrich them with new features to create convenience for customers.
- Develop banking models that align with existing economic relationships.

3. Investing in Infrastructure

- Focus on improving internet speed, particularly in remote areas, to enhance the quality of remote banking services.

4. Strengthening Security Measures

- Ensure the confidentiality of customers' personal information and the security of money transfer transactions.
- Expand the use of biometric authentication, digital identification, blockchain, and other advanced technologies.

5. Developing Human Resources

- Provide continuous training for bank employees to increase their proficiency in using modern digital technologies.

6. Leveraging International Best Practices

- Collaborate with fintech companies from developed countries to utilize their effective strategies and enhance the local banking system.

7. Establishing Legal Norms

- Accelerate the development of regulatory frameworks to support the application and promotion of digital banking technologies.

By addressing these challenges, the digitization of banking activities will improve the quality of financial services, create greater convenience for the public, enhance the competitiveness of banks, and contribute to the country's economic development in line with modern demands.

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