

## TRANSFORMATION OF THE REGULATION OF COMMERCIAL BANKS IN THE CONDITIONS OF THE DEVELOPMENT OF THE DIGITAL ECONOMY OF UZBEKISTAN

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### ABSTRACT

*This article identifies common problems substantiating the feasibility of using and developing a unified system of innovative banking services based on the analysis and systematization of various systems of remote banking services and methods for assessing its effectiveness. On the example of large commercial banks of Uzbekistan, innovative banking, the use of which will solve the identified problems. Implementation of the specified unified system of innovative banking services designed to provide banking service systems based on the systematization of various distance systems as a whole, with a focus on achieving criterial values of key performance indicators.*

**KEYWORDS:** *Performance Criteria, Innovative Banking System, Systematization Of Various Remote Service Systems, Internet Technology, Remote Banking, Communication Technology.*

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### INTRODUCTION

The rapid spread of digital technologies, often referred to in the scientific community as the “digital revolution”, is fundamentally changing the economic structure, creating new conditions for the functioning of markets and affecting the change in the traditional business landscape. According to expert surveys, 67% of executives from 86 countries believe that new technologies will radically change their business in the next 5 years. In Uzbekistan, 69% of managers share the same point of view.

New phenomena in the economy, its information support and the use of digital technologies have a great impact on the banking sector. The importance of a strategic choice and the search for new priority models for the development of banking business in the context of digitalization is growing. Using better technologies, banks are able to reduce costs and increase revenues, and customers, in turn, often get better conditions from their use than before.

At the same time, there is a significant demand for remote banking services. More than half of Uzbeks 53% use mobile banking, choosing smartphones as their preferred method for receiving banking services and conducting banking transactions. Under these conditions, the nature and scale of risks to which banking institutions are exposed in the context of the development of the digital economy are undergoing significant changes. All this implies not only the transformation

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of banking business models, but also the emergence of new tasks for regulators. The complex combination of technological and competitive changes can only be adequately managed if the specifics of the new financial activity are properly taken into account.

The cardinal pace of digitalization leads to the fact that the actions of regulators, as a rule, are late and do not fully take into account the conditions of the new reality. In this regard, the problem of transforming banking regulation in the context of digitalization and the search for effective mechanisms for its implementation seems to be very relevant. These circumstances predetermined the topic of the study.

The works of scientists and practitioners are devoted to the consideration of issues of economic content, essence, goals, objectives and role of banking regulation: M.A. Abramova, M. Bordeaux, P. Gauthier, G. James and others. At the same time, the study of the works of local and foreign authors on the topic of the study revealed that, to date, the issues of transforming banking regulation in the context of the development of the digital economy remain insufficiently studied, namely, both legislative and practical measures necessary to ensure conditions for the development of innovations have not been determined in the banking sector. These circumstances determined the choice of the research topic, the formulation of its goals and objectives.

The aim of the study is to develop theoretical and methodological provisions and practical recommendations for the transformation of banking regulation in the context of the development of the digital economy.

General scientific methods (analysis and synthesis, induction and deduction, abstraction and aggregation, classification, systematic approach, grouping and comparison methods), as well as special methods of cognition (statistical method) are used as a methodological basis.

The analysis made it possible to develop a classification of the stages of transformation of banking regulation, which differs from the known ones by adding its new criterion, defined as the response of the state to the constant modernization of banking under the influence of historical circumstances caused by the development of the national economy. The study found that the transformation of banking regulation throughout the historical period occurred simultaneously with the development of banking. These circumstances predetermined the choice of the above criterion as a classifying feature, according to which the following stages of the transformation of banking regulation were identified.

The first stage (until the end of the 14th century) was characterized by the introduction of government measures to force “quasi-banking” institutions to account for the money accepted for storage, as well as to limit interest rates on loans. At the second stage (from the 15th century to the first half of the 17th century), the regulation of banking activities expanded: measures were introduced to force banks to account for the money given to them for storage, to limit interest rates on loans issued, and circulation of bills was limited. At the third stage (from the end of the 17th century to the 30s of the 20th century), a full-fledged regulatory regime for the activities of banks was introduced - from the moment of creation to the regulation of the main types of banking operations and their liquidation. At the fourth stage (from the 30s to the 80s of the XX century), regulation was reduced to the expansion of measures of influence and strengthening of sanctions, and there were also requirements for an independent audit. Supranational organizations were created to act as global regulators.

At the fifth stage (from the 80s of the 20th century to the present), the active introduction of computer technologies, modern telecommunications and, subsequently, digital technologies leads to significant shifts in the way banking operations and the provision of banking services, which had a significant impact on the transformation of banking regulation. Thus, the requirements and standards recommended by supranational banking organizations at this stage have a key impact on the modernization of national legislation.

The proposed classification made it possible to substantiate the need to transform the regulation of banking activities at the present stage in the direction of institutional changes. The structuring of the cycle of the process of digital transformation of banking activity and the corresponding transformation of banking regulation has been completed. The analysis made it possible to single out three successive stages in the process of banking digitalization: the first stage, during which new interaction channels, products and services are developed; the second stage, during which the adaptation of the technological infrastructure takes place; the third stage implies long-term changes in the bank, which allow achieving a strategic positioning in the digital environment.

At the first stage, the response of banks to changes in supply and demand for financial services consisted in the development of new digital channels of interaction with clients, as well as in the creation of financial products with which the bank could position itself in a new competitive environment. In recent years, along with the modernization of online banking platforms, significant efforts of banks have been focused on the development of new channels of interaction with customers through mobile devices.

The development of new products and digital communication channels at this stage involves making significant changes to the existing technological infrastructure, which must be integrated with previous developments.

The second stage in the banking digitalization process involves the transformation of the technological platform, that is, its transformation into a modular and flexible infrastructure that allows integrating new technologies, as well as accelerating the development of new products.

Technological solutions such as the introduction of biometric identification, the transition to electronic document management, increasing the level of transaction security, simplifying use and expanding the range of remote banking products and services are actively used. Another characteristic feature of digitalization in the second stage is the desire of banks to automate processes: the focus is not only on work in the back office, but also on the introduction of automated processes in the front office. For example, banks use sophisticated AI-based analytics to improve customer credit scores, tailor banking product offerings to customers, or provide personalized advisory services.

In the third stage of digital transformation, banks are facing far-reaching organizational changes that aim to simplify their structural and operating models, designed to speed up decision-making and make strategy customer-centric. Corresponding changes affect the entire organization - from the branch network to the back office, and in many cases they become the object of internal resistance, since the introduction of such innovations involves a radical change in the organizational culture of the credit institution. Banks set statistical metrics that quantify the impact of digital investments in terms of attracting new customers, selling products and services, and increasing the loyalty of old customers. Another notable change at this stage is the adoption of agile software development approaches, as opposed to the long cycles in previous stages,

when the time elapsed between needs analysis and commercial release of software was so long that the result often no longer met the needs of the banking business at the moment. For each stage of the digital transformation of banking activities, the main problems of banking regulation are highlighted.

The main directions of development of banking business are systematized models and justified the most applicable of them for the digital transformation of banks in Uzbekistan. The following areas of transformation of banking business models have been identified:

a) the focus on exclusively banking areas ignores the opportunities that the bank has, relying on its many clients. By expanding the range of services provided, banks can move towards the development and implementation of ecosystems that, based on their existing customer base and operational capabilities, will increase interaction and access even more data to better understand the needs of their customers.

b) a key feature of this banking business model is providing customers with access to a wide range of financial services and products within a single interaction channel. The creation of a marketplace allows banks to focus on the development of more marginal products. In order to increase profitability and increase sales during the development of marketplaces, banks use recommendation services that, based on the analysis of data about customers and their operations, form personalized offers.

c) a significant proportion of banking business models, as a rule, is focused on traditional sales of banking products and services. For example, to provide mortgages to customers when the main goal is to buy real estate. At the same time, interaction with clients at other stages of the decision-making process can be a promising tool for increasing bank profits: banks can provide advisory services to determine the best mortgage products, orienting the client to more favorable mortgage rates and repayment periods.

d) This direction of development of banking business models can increase profits in several ways. First, banks can improve the efficiency of using their own data by investing in analytical capabilities. Secondly, banks can sell both raw data and analytical reports to other interested companies. These opportunities are due to the fact that most banks have a large amount of exclusive data about their customers, and their use for commercial purposes, subject to legal restrictions and regulations on the confidentiality of personal data, can be useful for companies in areas not related to the financial sector. For example, in the telecommunications industry, retail (retail), industry and others.

e) Large banks can generate revenue growth by using internal assets to create and provide products or services for smaller banks. This direction of development of the business model is due to the fact that many small financial institutions lack the infrastructure, assets or capabilities of existing banking licenses. Large banking institutions can meet this need by developing a portfolio of products to sell directly to or through third parties, providing their infrastructure, effectively renting it out. A traditional example of such services are those banks that allow third parties to process their bank cards.

f) The use of digital channels and innovative business models can enable incumbent banks to expand their operations into new regions or market segments. This becomes possible due to the fact that previously, using traditional banking approaches, new lines of business were prohibitively expensive for them. According to the results of the study, the most applicable

business models for the digital transformation of banks in Uzbekistan are recognized as: the transformation of a bank into a digital ecosystem, the creation of a financial supermarket (marketplace), the development of non-banking activities, monetization of data, the expansion of ways to use the banking infrastructure, the use of digitalization opportunities to expand the geographical presence, the use of which, unlike the well-known ones, will allow more efficient use of digital technologies in banks in order to increase competitiveness.

The necessity of institutional transformation of banking regulation through the introduction of new institutions, which, unlike traditional ones, would take over the functions of regulating innovative banking products and services, and contribute to improving the efficiency of banking regulation, is proved. According to the results of the study, it was recognized that the most effective measures of institutional transformation are the creation of regulatory "sandboxes", the internal reorganization of the banking regulator, the creation of a center for the use of supervisory technologies, the creation of innovative hubs and incubators:

- Regulatory sandboxes. Such an approach to banking regulation as the creation of regulatory "sandboxes" can represent a solution to the problem when legislative norms are an obstacle to the development and implementation of innovative banking products and services. This regulatory regime is applied both to operating banks and to other entities. The Sandbox is a regulatory mechanism that allows the development and testing of innovative banking products and services in a regulated environment during a trial period, without the usual licensing requirements and in accordance with minimum legal requirements. The sandbox allows banks to develop and test their products and services in real-life conditions and interact with regulators to better comply with and adapt to existing regulatory requirements.
- internal reorganization of the banking regulatory body. Changing traditional banking business models, their structure and range of operations requires regulators to reallocate their resources to ensure effective regulation of the banking system. In particular, some banking regulators (Singapore, Hong Kong, Canada) have created separate divisions in response to the problems associated with the development of financial technologies. The powers of these divisions are varied and include such functions as the development of a legislative framework, analytical research, licensing, use of surveillance technologies, and so on.
- Creation of a center for the use of surveillance technologies. Surveillance technology improves the relevance and quality of data available to regulators, improves digitalization and process automation, deepens analytical capabilities, strengthens control and oversight of the development of new banking products and services, and more effectively regulates new, non-traditional business models.
- Creation of innovation hubs and incubators. The essence of this method of banking regulation as an analogue of the regulatory sandbox lies in the simultaneous involvement of industry experts, representatives of the regulator and other participants in a joint examination.

These institutions can provide legal advice and help regulators gather more information about new banking developments, assist banks in accessing funding, provide access to necessary data, technology or software that banks do not have access to.



Practical recommendations have been developed on the use of supervisory technologies and on the further development of the regulatory "sandbox", as well as proposals for amending the regulatory framework in order to transform banking regulation in the context of the development of digital technologies in Uzbekistan.

At present, there is virtually no legal and regulatory framework covering remote banking and the use of underlying technologies. At the same time, those single provisions that exist are contained in regulatory documents of various levels (as a rule, by-laws), and for this reason they are fragmented. In addition, the current legislation does not contain the very concept of "remote banking".

With regard to the further development of the regulatory sandbox, it seems appropriate to expand the circle of participants in testing innovative banking products and services at the expense of banks that have technological developments, but are unable to fully finance the introduction of innovations. For such cases, it is possible to provide assistance from the regulator, which consists either in attracting funding from third-party organizations interested in the development of certain technologies, or in providing preferential lending terms.

The study found that the speed of technological change is requiring regulators to be more flexible. The active participation of the state in the development of digital technologies in financial markets seems to be one of the key factors for successful digitalization.

At the same time, all the problems associated with the development of digital technologies in the banking sector are not fully covered by the traditional approach to regulation, which is mainly focused on establishing capital or liquidity requirements. In this regard, it seems important for regulators to develop optimal, balancing regulatory methods that would not hinder the transformation of the banking sector.

In order to provide conditions for the development of innovations in the banking sector in various countries, new mechanisms and tools for regulating innovative financial technologies, products and services are being created. At the same time, not all of them can be implemented in Russian reality.

The development of relevant proposals required an in-depth analysis of the methods used by the Central Bank of the Republic of Uzbekistan to transform the regulation of banking activities in the context of digitalization. The study identified and substantiated the main problems associated with the regulatory innovations of the Central Bank, as well as possible ways to solve them.

Taking into account the analysis carried out, specific proposals were developed to change the current regulatory framework for banking regulation in Uzbekistan, aimed at ensuring the conditions for the development of banking innovations, as well as practical recommendations were given to improve approaches to the use of supervisory technologies and further develop the regulatory "sandbox".

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