

Improving Innovative Commercial Banking System in Uzbekistan

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Abstract: The modernization of the commercial banking system in Uzbekistan has become a cornerstone of the country's economic strategy. This article examines the steps taken to enhance innovative banking practices, the drivers of change, and the ongoing challenges faced by the sector. Strategic recommendations for sustaining and advancing innovation in the banking industry are also discussed.

Keywords: Innovative banking, Uzbekistan, financial technology, digital transformation, customer experience, policy reforms, banking efficiency, fintech integration, commercial banking strategies.



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Introduction

The commercial banking system in Uzbekistan is at a pivotal stage of development, underpinned by an increasing focus on technological and operational innovation. The government has prioritized modernization initiatives that align with global banking standards and foster a competitive financial environment. Such initiatives aim to build a banking system capable of supporting economic growth and adapting to the evolving needs of consumers.

Current Innovations in Commercial Banking

The banking system, considered the core of the economy, is continually developing and creating new opportunities to serve customers more effectively. Notably, the quality services provided through bank-issued plastic cards deserve particular attention. Plastic cards have earned users' trust as a convenient means of payment, broadening their access to goods and services. Therefore, accelerating the transition to electronic payment systems and comprehensively studying the experiences of developed countries to implement their successful practices is essential.

It is well-known that card-based payment systems are widely used in developed and developing countries and have gained significant trust among the public. The development of this system contributes not only to the convenience of transactions but also helps maintain the stability of the national currency, which is vital for economic resilience. Additionally, this ensures the balanced progression of the country's monetary and credit systems.

Today, the consistent economic reforms carried out by the government have significantly contributed to the rapid development of the banking sector, which is considered the ‘lifeline’ of the economy, facilitating the creation of new conveniences and opportunities for serving the population. The services provided through bank plastic cards play a significant role in this development. Currently, card-based payment systems have proven to be a reliable, efficient, and trusted means of payment in many developed and developing nations.

Implementing economic reforms based on tried and trusted practices, particularly in the context of plastic card usage, requires a thorough understanding of the experiences of developed countries. For example, Turkey has a history of over 20 years in card-based payment systems and has accumulated substantial expertise. This sector has seen the introduction of numerous innovative ideas and advancements, expanding the population’s ability to purchase goods and services. The growing trust of Turkish citizens in this payment system is evident from the fact that, today, the number of active plastic cards in circulation equates to nearly two per person.

In Turkey, the plastic card system is regulated by the ‘Interbank Card Center - ICC’ (‘BKM - Bankalararası Kart Merkezi’), whose responsibilities include resolving issues related to debit and credit cards and establishing unified standards. The ‘Interbank Card Center,’ founded in 1990 by 13 public and private banks, was established to address card-related problems and implement uniform standards. Currently, the ICC has 25 member banks and 10 partner institutions. Turkey’s payment system, known for its innovative ideas, advanced technology, and high growth rates, holds a prominent position in the global market. Additionally, the ICC has secured its place among the leading payment providers in Europe.

Recent years have witnessed a surge in innovative practices within Uzbekistan’s commercial banking sector. Banks have introduced digital payment platforms, AI-driven customer service chatbots, and mobile applications that allow for remote banking operations. Blockchain technology has also started to be explored for secure transactions and enhanced transparency.

For instance, Uzpromstroybank, one of the leading banks, has invested heavily in digital transformation by launching a comprehensive mobile banking app with multilingual support and integrated financial management tools. Asaka Bank has embraced blockchain solutions to streamline cross-border payments, ensuring secure and transparent transaction processes.

Moreover, the advent of open banking has facilitated greater competition and collaboration between banks and fintech startups. This has enabled the introduction of personalized financial services and expanded banking access for previously underserved populations. Hamkorbank has partnered with fintech companies to develop innovative credit scoring models, allowing faster and more accurate loan processing.

Key Drivers of Innovation

1. **Technological Advancements:** Rapid advancements in technology have been pivotal in reshaping the commercial banking landscape. The adoption of machine learning and big data analytics has enabled banks to develop predictive models for customer behavior and risk management, enhancing the overall banking experience.
2. **Economic Policies:** Government-led reforms aimed at liberalizing the financial sector have spurred investment in digital infrastructure and encouraged banks to adopt innovative business models. Policies supporting partnerships with international tech firms have furthered the adoption of state-of-the-art banking solutions.
3. **Consumer Expectations:** A growing base of tech-savvy customers has heightened demand for seamless and personalized banking services. This has pushed banks to prioritize user-friendly digital interfaces and advanced security features.

Challenges and Barriers

- **Regulatory Compliance:** One significant challenge is balancing innovation with the need for regulatory compliance. The complex regulatory landscape can slow down the adoption of new technologies and create barriers for smaller banks trying to innovate.
- **Infrastructure Gaps:** While urban areas have benefited from technological enhancements, rural regions still face significant infrastructure deficits, limiting the reach of innovative banking services.
- **Cybersecurity Risks:** The increasing reliance on digital platforms brings potential vulnerabilities. Strengthening cybersecurity measures is essential to safeguard customer data and maintain trust.

Strategic Recommendations

1. **Investing in Advanced Digital Infrastructure:** Enhancing internet connectivity and mobile network capabilities in both urban and rural areas is crucial for facilitating equitable access to innovative banking services.
2. **Public and Private Sector Collaboration:** Collaboration between governmental bodies and private technology firms should be encouraged to drive innovation and share technological expertise.
3. **Developing Regulatory Sandboxes:** Establishing regulatory sandboxes would allow banks to test new technologies in a controlled environment, balancing innovation with necessary oversight.
4. **Enhancing Cybersecurity Protocols:** Implementing robust cybersecurity frameworks, including AI-driven threat detection systems, can mitigate risks associated with digital banking.
5. **Educational Programs for Digital Literacy:** Introducing public initiatives focused on enhancing financial and digital literacy can empower consumers to make better use of innovative banking tools.

Conclusion

The future of commercial banking in Uzbekistan lies in sustained innovation and strategic adaptation. By fostering an environment that embraces new technologies, aligns with international best practices, and addresses regulatory and infrastructural challenges, Uzbekistan can continue to build a modern, inclusive, and resilient banking sector. The collaboration between stakeholders, combined with targeted policy reforms, will be essential in propelling the country's banking system into a new era of innovation.

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