

**TRENDS IN THE DIGITAL TRANSFORMATION OF FINANCIAL
SERVICES IN FOREIGN COUNTRIES**

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Abstract; *The article examines the key drivers and directions of digital transformation in the global financial-services market. It provides a comparative analysis of the leading practices of digital banks in China, Brazil, Russia, India, Ukraine and other countries, and assesses the emerging challenges for traditional banks and financial regulators. The study shows that a successful digital model connects outstanding customer experience, scalable technologies and an ecosystem-oriented approach to value creation.*

Keywords: *digital transformation; fintech; ecosystem banking; digital bank; financial services*

Digital transformation is a must for banks. Changing customer demands, coupled with the pressure to reduce costs and improve efficiency, leave banks no choice but to embrace modern technologies. We will explain the most relevant technological developments in the banking sector and what benefits they bring to banks and their customers.

The coronavirus (COVID-19) pandemic has had a significant impact on digital transformation, creating a direct need for banks to connect with their customers through digital channels such as platforms and apps, while maintaining social distancing has become the norm. The number of digital users has increased significantly since the pandemic began, but these technological developments cannot be seen as something new. Bank customers have been moving from traditional branch-based banking services to online and mobile alternatives for decades. Customers have become more familiar with using products online. This has opened the market to new entrants such as “FinTex” firms and large technology platforms that are able to develop attractive and user-friendly customer interfaces for their

services. As a result, services are offered to customers in an efficient manner, which allows for the unification of financial services and offers customers a wider range of choices that allow them to be more involved in the process. The efficiency gains from providing online-only services can be seen in the case of China's WeBank. Launched in 2014, WeBank now serves more than 200 million individual customers and 1.2 million small and medium-sized enterprises, yet it has no branches and employs only 2,000 people. As a result, its fixed costs are lower, its revenue from customers is one-thirtieth of the average bank's, and it can achieve a return on equity of more than 30%. Another example is Brazil's Nubank, which provides credit cards and personal loans to 50 million customers. Most of these customers have no credit history and have been unable to get loans from traditional banks. But Nubank uses data on customer behavior and its own algorithms to make its assessments. Big tech firms like Amazon and Google have also begun offering financial services. They have focused on specific financial services that are bundled with their other services, using their networks, customer data, and existing technology. Traditionally, banks have been the gatekeepers of relevant customer information, particularly information needed to assess a customer's creditworthiness. But with big tech firms increasingly able to perform similar assessments using their own customer data, banks' traditional gatekeeper role seems to be under attack. Customers value the ability to access all of their financial services online or via mobile devices. The simpler the service, the better. Customers can also choose from more personalized options that meet their specific needs, including non-financial services. These options are based on the extensive data that providers collect about their customers' daily behaviors.

Nubank example shows, the use of customer data and analytics allows providers to offer services to customers who do not have a strong credit history, leading to greater financial inclusion. Other initiatives such as Apple Pay are also helping to increase the availability of financial services. The impact of this could be significant, especially in emerging markets. Another factor contributing to user convenience is the new layer of interaction that banks are seeing between them and their customers³⁷. For example, some platforms allow customers to compare offers from multiple banks and then choose the best option. Banks are forced to allow themselves to use these platforms because they attract more customers, while opting out could mean losing customers to the banks. But it is not the bank but the platform that collects customer data, so this development could lead to banks becoming "factories" of

³⁷Onyshchenko Y. The problem of digital bank business model identification / Onyshchenko Yuliya // Business Risk in Changing Dynamics of Global Village 2 : Monograph. — Nysa: Publishing House of University of Applied Sciences in Nysa, 2019. — P. 194–202.

services and products that are sold to customers via platforms or apps. It should be noted that offering technology-based, user-friendly services does not guarantee that the provider will immediately make a profit ³⁸.

The digitalization of banks in the Russian Federation has reached a high level in recent years. There are almost no banks in Russia that do not invest in the development of digital technologies. The largest banks in Russia that are engaged in the development of digitalization in the banking sector are: Sberbank, Alfa Bank, VTB, Raiffeisen Bank, etc. Investments of the above-mentioned banks in the development of digital technologies amount to 45 billion rubles per year. But Sberbank is currently paying the greatest attention to the digitalization of the banking sector. Over the past 3 years, this bank has allocated more than 500 billion rubles. The most popular and effective digital technology in the Russian banking sector has become the use of Internet banking. An officially developed program of the bank aimed at providing banking services through this type of technology. Through this service, bank customers can manage their accounts, obtain loans, open current accounts, and make internal and external money transfers. More than 87% of the population uses banking services. The number of Internet banking users in Russia is increasing every year. Thus, over the past 5 years, the number of Internet banking users has increased from 20% to 70%. In addition, a service that is in high demand in the banking sector is remote service. Remote services are used by about 70% of legal entities in Russia. In 2021, more than 30% of remote service institutions were used by corporate clients in Russia. Bank employees can receive information about client potential remotely. Effective document flow between clients and bank employees is organized. Biometrics is one of the newest trends in the banking sector. Biometrics have reduced fraudulent attempts on customers' bank cards. ³⁹

Technological innovation is transforming the banking landscape around the world. However, in many markets, the banking sector is highly concentrated, with a small number of banks holding a large share of the market. For example, some of the countries discussed in this study are highly concentrated, with the five largest banks accounting for 94% of total assets in Australia, 83% in Brazil, 84% in Germany and Korea, 94% in Singapore, and 90% in South Africa. 98%. Limited competition in many markets and the oligopolistic structure of the banking sector slow down incumbents' ability to innovate. This risks losing customers lower prices and more

³⁸<https://www.bankingsupervision.europa.eu/press/speeches/date/2022/html/ssm.sp220113~8101be7500.en.html>

³⁹ Miroshnichenko M.A., Trelevskaya K.A. Issledovanie protsessov "Sifrovizatsii" bankovskogo sektor v ramkakh ekosistemisty sifrovoy ekonomiki Rossii / M. A. Miroshnichenko, K. A. Trelevskaya // *Ekonomika i pravo*. – 2020. – No. 2. – S. 11-25.

choice, and providing poor service to customers who are not meeting their needs. Regulators around the world are recognizing the need to increase competition and accelerate modernization in their markets , which will lead to better outcomes for customers.

The increase in the number of digital banks is creating competition and pricing their current offerings at lower prices.

Digitalization in the banking sector has been observed in India since the introduction of ATMs. Subsequent developments such as Telebanking, Electronic Compensation Service, Electronic Funds Transfer System, “MICR” (Magnetic Ink Character), “RTGS” (Real Time Gross Settlement), Point of Sale Terminal, etc. are common in the banking sector. E-banking has led to a drastic reduction in costs and has helped in generating revenue through various channels. Various steps and initiatives have been taken by the “Reserve Bank of India” and the National Payments Corporation of India to strengthen the payment and settlement systems in banks, like the “United Payments Interface” (UPI) and “Bharat Interface for Money”, due to such initiatives and platforms, customers no longer need to keep or carry cash with them, they can now transact anytime, anywhere ⁴⁰.

New Zealand's ANZ bank has gone through a complete transformation from a traditional bank to a digital, ecosystem-based bank. It targets startups using a monthly subscription fee as its revenue model. ANZ is an ecosystem that partners with other banks, technology companies and universities in Australia and Asia.

Another example of a bank as an ecosystem is the American bank JPMorgan Chase & Co. It is a decentralized virtual crypto-banking ecosystem that provides instant payments using blockchain technology and contactless payments. It is designed to handle multi-currency transactions, has a built-in exchange system for crypto and fiat currencies and instant contactless payments worldwide.

In conclusion, it should be noted that the world is witnessing an active transformation of banks into ecosystems. This can be either creating partnerships with FinTex companies to integrate technological solutions into banking products, or acquiring stakes in the businesses of FinTex companies (as Hong Kong & Shanghai Banking Corporation and the Danish company TradeShif have done), or individual banks are transforming their businesses into platform or aggregator formats and developing them in the field of non-financial services (for example, the largest FCG Santander Tradehub in Spain). There are examples of industry participants combining

⁴⁰<https://theguardian.com/impact-of-digitalisation-on-the-indian-banking-sector/>

their efforts to develop solutions and new products: from trade finance solutions for small and medium-sized businesses in Europe to SWIFT.

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