



## **DEVELOPMENT OF TRANSFORMATION PROCESSES IN THE BANKING SYSTEM**

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| <b>Received:</b> 11 <sup>th</sup> November 2023<br><b>Accepted:</b> 10 <sup>th</sup> December 2023<br><b>Published:</b> 20 <sup>th</sup> January 2024 | This research was conducted to see how digital transformation is in the banking industry, in terms of the challenges and opportunities of this digital transformation. Based on the literature research from several previous studies, it can be concluded that almost on average the results of previous research conducted by several studies state that digital transformation has a significant influence on banking development. Apart from that, with digital transformation providing new opportunities for banking, banking development has also increased due to this digital transformation. |

**Keywords:** Digital Transformation, Challenges, Opportunities

### **INTRODUCTION**

The banking industry has undergone a significant transformation with advances in digital technology. This shift includes the use of technology such as online banking, mobile banking, and digital payments. At the same time, customers are also increasingly choosing banking services that are easy to access, fast and safe. Therefore, banks must be ready to face challenges and take advantage of opportunities that arise from this transition. Banking is a very important element for a country's economy, because without banking economic activity will be paralyzed. If the banking world progresses, it will have an impact on national and global economic growth. Banking is also a center for economic transactions, including retail banking which is determined by the absorption of third party funds and the expansion of the banking business is determined by financing. The demand for banking digitization is also reinforced by the shift in society to the digitalization era, which is currently dominated by the millennial generation, who prefer the convenience of online transactions through digital platforms. The number of internet users in Indonesia, reaches 54.68% of the total population of 262 million people, of which 87% are active users of chat applications and 74.84% are active users of social media applications. This data illustrates the transformation of digitalization in people who are starting to follow the development of the digital era, which promises banks to change marketing strategies from conventional to digital, thus encouraging increased literacy in digital banking services. The banking sector remains an industry in flux. The days of leverage-inflated, 20 percent returns on equity are a thing of the past. Management is now

judged by its shareholders as performing well if it is able to deliver certain benchmarks in performance related to return on capital, equity, cost as well as net income and profit that would be considered paltry by previous standards. The concern though for banks is that even as the benchmark for their performance has been lowered, this is still often proving difficult to achieve due to increased local and global regulatory costs, sluggish economic growth and, perhaps most importantly, market competition and emerging disruptors to the banking ecosystem. Whereas previously most banks would have relied upon reducing headcount, offshoring work or raising fresh equity to navigate a profitable path, this will no longer suffice. Balancing these competing priorities requires a transformational approach to practically all aspects of the banking sector. The urgency of the banking transformation process was also driven by the emergence of new competitors, namely non-banking financial service providers, or commonly known as fintech. The fintech business is starting to erode banking services because of the various conveniences it offers without complicated bureaucracy. Data from Capgemini, illustrates that globally more than 63% of banking customers also use the services of fintech companies. In Indonesia, the fintech business has boomed in 2018 until now with the convenience of cross-platform digital payments. Even some start-up companies are starting to look at this business because of the growing prospects and market share. The widespread use of payment applications and digital money has resulted in a decrease in the demand for paper money and a decrease in the growth of credit card users. illustrates that globally



more than 63% of banking customers also use the services of fintech companies. In Indonesia, the fintech business has boomed in 2018 until now with the convenience of cross-platform digital payments. Even some start-up companies are starting to look at this business because of the growing prospects and market share. The widespread use of payment applications and digital money has resulted in a decrease in the demand for paper money and a decrease in the growth of credit card users. illustrates that globally more than 63% of banking customers also use the services of fintech companies. In Indonesia, the fintech business has boomed in 2018 until now with the convenience of cross-platform digital payments. Even some start-up companies are starting to look at this business because of the growing prospects and market share. The widespread use of payment applications and digital money has resulted in a decrease in the demand for paper money and a decrease in the growth of credit card users. started to look at this business because of the prospects and market share that continues to grow. The widespread use of payment applications and digital money has resulted in a decrease in the demand for paper money and a decrease in the growth of credit card users. So based on these changes, it encourages banks to develop information technology and bring about major changes, namely shifting from traditional systems to digitalization systems, because current business success is more influenced by how quickly companies can respond to changes that occur. The transformation that is urgent for banking today is the digitization of banking services, not just digitization by simply moving manual transactions into automatic transactions. However, banking digitization has a broader meaning, especially to meet banking business needs, namely by providing the latest services with the aim of strengthening customer transactional behavior. Based on this, the authors want to conduct literature research on banking digital transformation. What are the challenges and opportunities that banks have if they carry out transformations into the banking digitalization era, will there be opportunities to get positive responses from the public or are there

challenges from the banking management system or other challenges.

## LITERATURE REVIEW

Digital transformation is a process of utilizing digital technology such as cloud computing, mobile computing, and virtualization technology where all system components within the organization are integrated with each other. In addition, digital transformation can also be interpreted as a result of a combination of a business and digital innovation that has an impact in the form of changes in structure, values, processes, positions, and ecosystems inside and outside an organization's environment. Digital transformation is needed to develop business in the digitalization era where organizations and people are very dependent on data and technology, so that digital transformation is expected to increase efficiency in operations and provide added value to customers (Ernita, 2012). In the Big Indonesian Dictionary (KBBI), transformation means change. These changes can be in the form of changes in form, changes in nature, changes in function and so on. Transformation is a process of changing something for the better. The transformation has several characteristics including: a. There is a change or difference in form, nature and so on. b. There are differences in the concept of characteristics or identity. c. There are different conditions and times. According to Roberto Akyuwen as OJK Senior Executive Analyst on the newsetup kontan website (2022), there are 9 challenges that must be faced by actors in banking digital transformation, namely:

1. Data Leakage Risk Data leaks are prone to occur in the digital era, and the banking system is no exception. So a system is needed that regulates protection, prevention and ways to deal with leakage of personal data.

2. IT Investment Strategic Risk It is important to pay attention to the selection of third-party hardware and software providers. Errors in choosing a vendor can have a negative impact on the data migration that is carried out. Such as data leaks, phishing, and so on.

3. Cyber Attack Cyber attacks are very likely to occur if there are no deterrents or barricades installed to contain them. Forming a cyber security team as the vanguard in tackling cyber crime is an important thing that must be prepared.

4. Human Resources Organizational readiness in welcoming change, especially human resources that



must be prepared through direction, counseling, and training. As well as relevant skills in the digital era.

5. **Communication Network Infrastructure** Communication networks need to be carefully designed so that they can support the acceleration of digital transformation. This communication network will facilitate the process of internet-based communication.

6. **Regulatory Framework** Regulatory framework is the rule of law that regulates how the transformation is carried out and the Government's support in this regard.

**Digital Transformation Opportunities** In the Financial Services Authority website (2022) The demand for banking digitalization is strengthened by various factors driving the development of digital banks in Indonesia, considering that Indonesia is an economy with great potential to absorb digitalization flows. These driving factors are reflected in 3 (three) main aspects, namely digital opportunities, digital behavior, and digital transactions. Digital opportunities include demographic potential, digital economic and financial potential, potential for penetration of internet use, and potential for increased consumers. Digital behavior includes ownership of devices and use of mobile applications (mobile apps). Digital transactions include online trading transactions (e-commerce), digital banking transactions, and electronic money transactions.

## **METHODS**

In this study, we use a qualitative descriptive analysis approach to identify opportunities and challenges for digital transition in the banking industry. We collect data through literature reviews and case studies from banks that have successfully implemented digital strategies. We also analyze industry trends and regulatory policies related to the digital transition in the banking industry. In this research the type of research used is library research or literature study where researchers rely on various literature to obtain research data and use a qualitative approach because the data produced is in the form of narratives or descriptions.

## **RESULTS AND DISCUSSION**

Kurniawan, et al. (2022). The research they conducted aims to find out how much influence digital transformation has on bank performance. Digital transformation is a trend and a necessity to survive in the current pandemic era. The banking industry as one

of the industries that is required to be very responsive and fundamental in nature also needs to carry out digital transformation. This study examines the effect of digital transformation and innovation on the performance of Bank BJB. Respondents in this study were leaders from 65 branch offices of Bank BJB in Indonesia. This study uses PLS-SEM and proves that there is a positive and significant effect of digital transformation and innovation on company performance. 2. Ngamal, Y., & Perajaka, MA (2022). Their research discusses trends in the use of digital technology in the banking industry that are happening in the world, specifically in Indonesia. This study found that the use of digital technology (digitalization) has made the global financial ecosystem change rapidly. This is happening because the public's demand for digital services will continue to increase. This opens up opportunities for the banking industry to increase the number of customers and increase profits. However, on the other hand there are a number of channels where banking institutions have the potential to experience potential losses due to cybercrime which will continue to increase. 3. Maulidya, GP, & Afifah, N. (2021). In his research stated that, Digital transformation is not just moving from traditional banking to the digital world, but an important change in the way banks and other financial institutions learn about interacting and satisfying customers. Digital transformation begins with an understanding of digital customer behavior, preferences, likes and dislikes and changes that lead to major changes in organizations, and from product centric to customer centric. Banking demands in this digital era are anytime and anywhere. This makes banks need innovation, toughness, safety, optimization and ready to meet the expectations of technology-savvy customers. If banks do not meet customer needs, then customers are willing to leave a bank for another bank that meets their needs. 4. Hartono, B., & Atmaja, HE (2021). In their research, the main reason why digital transformation in HR is because digital technology has the potential and ability to transform HR as we know it today to become more efficient. The purpose of this research is to explore how the practice of Human Resource Management (HRM/HRM) can be the key to the success of the banking industry in responding to increasingly complex competition. digital. HRM plays a role in creating changes in digital habits within the company, preparing digital HR in the company, and developing digital capabilities. 5. Abubakar, L., & Handayani, T. (2022). In his research stated, The digital era



encourages national banking to transform into a Digital Bank. This transformation gave birth to banks that are more efficient, innovative and able to create financial inclusion. The challenges include large investments; rapid product and service innovation; the presence of alternative non-bank financial services (Fintech); and the potential for misuse and security of customer data. Therefore, it is necessary to strengthen regulations in several aspects so that banking digital transformation can achieve its goal, namely to create a banking that is resilient, competitive and contributive. In addition to the implementation of prudential banking principles, regulations that need to be strengthened are information technology governance and risk management in digital banks, which have different characteristics from traditional banks

#### **CONCLUSION**

Based on the literature research from several previous studies, it can be concluded that almost on average the results of previous research conducted by several studies state that digital transformation has a significant influence on banking development. Apart from that, with digital transformation providing new opportunities for banking, banking development has also increased due to this digital transformation. As for the challenges, namely the changes felt by employees who carry out systems that are usually traditional and now changes in digitalization, require employees to be given training that increases the ability of employees to use digital systems. Apart from that, another challenge is in the form of maintaining the system which must be carried out periodically. Given the frequent technological cyber attacks. So this must be considered in carrying out digital transformation. Because basically the digital transition in the banking industry provides a great opportunity for banks to improve their performance and serve customers better. However, the challenges associated with changes in technology, regulation and organizational culture should not be ignored. To successfully deal with this shift, banks need to adopt the right strategy, strengthen their technology infrastructure, and continue to pay attention to customer needs and preferences. This conclusion can provide guidance for banks in planning and implementing an effective digital strategy to deal with the digital transition in the banking industry in the future.

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