



## **PROSPECTS OF EXPANDING THE REVENUE BASE IN THE TRANSFORMATION PROCESSES OF COMMERCIAL BANKS**

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### **ABSTRACT**

Issues such as strategic investors, adaptation to market principles, elimination of dependence on state funds and creation of equal competitive conditions are defined as the main directions of the banking system reform strategy. The transition of banks to this process requires changing their business models. This article is an important scientific and practical aspect in the process of expanding the income base of commercial banks in the process of transformation.

### **KEY WORDS**

Banking transformation, liquidity, business model, interest income, non-interest income, FinTech technologies, digital transformation.

### **Introduction**

Digital transformation is an inevitable process in which the world business begins to adapt to the new conditions and advantages of the digital economy society, and it is a tool that serves to improve people's living standards, create convenience and increase the quality of life in society through the implementation of digital technology.

One of the main directions of transformation of state banks is the development of the IT sector. Therefore, in accordance with the Decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025", the "Roadmap" for the reform of the banking system of the Republic of Uzbekistan and the target indicators of the implementation of the strategy were approved. (Decree, 2020)

On the basis of this "Road Map", the priorities for the reform and development of the banking and financial system in the next five years have been determined:

- Attraction of financially stable and influential investors who can have a positive effect on the introduction of modern solutions to the banking system, increasing the efficiency of financial and human resources;
- Reduction of preferential and subsidized loans, transition to lending only under market conditions based on monetary policy signals: (decree, 2020)

In the course of organizing bank operations and providing services to its customers, the interest and non-interest-bearing benefits received from them, as well as all the income received by the bank due to the placement of its assets in profitable sources, are credited to the account 40000-"Revenues". As

a result, all expenses incurred in the implementation of banking activities are covered by the received income, and surplus funds are considered the bank's net profit for the reporting year (month). From this net profit, taxes and dividends paid to shareholders (dividends tax) were transferred to the remaining retained earnings of the bank.

In the transition of banks to this process, it is of great importance to change their business models and introduce a customer-oriented work system.

## Literature Review

In this article, the scientific research of several foreign and local scientists was introduced.

One of the Russian economists, O.I. Lavrushin (2008), commented that "asset operations of credit organizations are goal-directed actions on the distribution (use) of borrowed funds for the purpose of obtaining income, maintaining liquidity and financial stability."

Commercial banks should allocate the resources involved in various asset operations. Depending on whether the bank's assets generate income as a result of activity; divided into income-generating assets and non-income-generating assets.

Under the influence of this theoretical view, it was implemented that the return of the principal debt and interest payments on loans, first of all, correspond and correlate with the level of income expected by customers, both in terms of amount and time.

The main goal of commercial banks is to increase the amount of profit as much as possible. This, in turn, depends on the size and stability of their income.

O.B. Voloshina (2014) The analysis of the commercial bank's income cannot be done without evaluating it.

Fixed bank earnings are earnings that remain virtually unchanged over a very long period of time and can be easily predicted for the future. High stability is primarily characteristic of income from core activities. Lack of stability reflects the riskiness of the business. The greater the volatility of earnings, the lower the quality of earnings. A number of calculated indicators are used to determine the stability of income:

- ✓ standard deviation of income, its low value indicates high quality of income;
- ✓ coefficient of volatility, its high level is explained by increased risk, instability of income.

According to local economists U.U.Azizov, T.M.Karaliev (2015) in the textbook "Banking" - the following types of banking business are the source of income of commercial banks:

- loan business;
- discount business;
- securities business;
- property and asset management business;
- providing guarantees;
- activities related to attracting funds to deposits and keeping their accounts;
- trade brokerage business.

The above-mentioned banking operations are considered to be of great importance to the profitability of the bank's business models.

## Research Methodology

Methods such as scientific abstraction, induction, deduction, comparison, analysis and synthesis, grouping were used during the research. The research methodology is based on the identification of innovative features of FinTech technologies, increasing the income of banks, and analyzing the costs of digitization of banks in the process of digital transformation.

Analysis and discussion of results. Currently, commercial banks of Uzbekistan are implementing the process of transformation throughout the entire system. In 2022, within the framework of the strategy of reforming the banking system, work aimed at transforming banks with a state share was continued.

✓ In particular, in order to increase the efficiency of corporate management in state-owned banks, 11 independent members with the necessary experience in banking and finance were recruited in addition to the composition of the bank councils.

By the end of 2022, the number of independent members of the banks' councils will be 36, including 5 each at Uzsanoatkurilishbank, Qishloq Kurilish Bank, Agrobank, 4 each at Mikrokreditbank, Turon Bank, Ipoteka-Bank and Xalq Bank, 2 each at Asakabank and Milliy Bank, and 1 each at Aloqa Bank. organized. The activities of corporate management service and corporate consultant in banks were revised based on new requirements, and their practical participation in the effective organization of the work of the supervisory board was further increased. (UzRMB report, 2022)

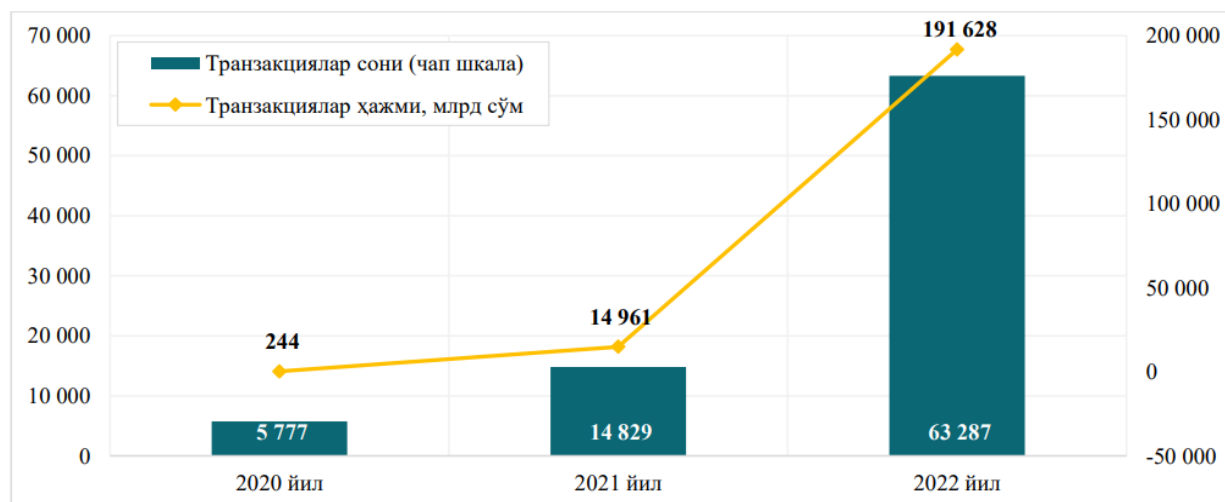
These changes require banks to introduce new types of FinTech technologies. The main important aspects of the use of FinTech technologies in the banking sector can include:

- increase banking (financial) capabilities;
- provision of quality banking services;
- reduction of transaction costs and acceleration of implementation of banking services;
- has a positive effect on financial stability due to increased competition

The role of FinTech technologies in the regulation and supervision of banking activities is important. The Central Bank is paying special attention to the digitization of banking services as part of the work aimed at developing the national payment system and increasing the popularity of financial services.

During the reporting period, the number of users of remote bank account management services increased by 1.5 times and reached 30 million as of January 1, 2023. In this case, 1.2 million users were business entities, and the number of individuals was 28.8 million. In the reporting year, the volume of operations carried out remotely by individuals online through the banks' mobile application programs amounted to 145.8 trillion soums. In this, online deposits made through mobile application programs - 21.9 trillion soums, online conversion operations - 20.9 trillion soums, online microloans - 5.6 trillion soums, the volume of loan repayments - 8.2 trillion soums and other payments

In order to expand the scope of making contactless payments in the infrastructure of payment systems, the Central Bank, together with all commercial banks, is paying special attention to the issue of providing trade and service entities with payment tools that allow making payments based on QR-code and NFC technologies.



**Figure 1. The number and volume of transactions made in the QR-online system. (UzRMB report, 2023)**

The "QR-online" system, which was launched in order to make quick payments for goods and services using mobile applications using a QR code without directly using a bank card and payment terminal, is gaining popularity. In 2022, the number of QR-codes provided to business entities by the "QR-online" information system increased by 8 thousand to 99 thousand compared to 2021, and the amount of transactions increased by almost 13 times to 191.6 billion soums. At the same time, as part of the expansion of contactless payment technology, the service of making payments for trade and paid services without using a bank card through the "HUMO PAY" program (NFC system of a smartphone) is being provided through the mobile applications of 21 commercial banks.

As of January 1, 2023, the number of subjects using the services of the Tap-to-phone system (which allows receiving payments like a payment terminal) has increased from 2,300 as of January 1, 2023.

From the above data, we can see that over the past years, commercial banks have increased the types of banking services with the help of FinTech technologies, improved the quality of service, and at the same time, it was an important impetus to expand the bank's income.

Commercial banks are also offering new types of banking services, digitized banking platforms, to expand their revenue base. In particular:

In Turon Bank, a system for allocating loans to legal entities and non-legal entities through the "Colvir Analytical Platform (KFO)" program has been established, while in Qishloq Kirilish Bank, a new mobile platform "Quant" has been developed based on modern information technologies, with the help of which the bank details making payments, withdrawing cash from ATMs without using a bank card, and a number of similar additional possibilities have been created.

The changes made in the process of business transformation of commercial banks will certainly not affect the bank's income, i.e. interest and non-interest income. In particular, we will consider these changes in the example of TIF National Bank.

**Table 1 Dynamics of interest income of TIF National Bank (in billion sums)**

№	Кўрсаткичлар	31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.12.2023
1	Фоизли даромад	4 376	5 922	6 321	10 610	12 804
2	Фоизсиз даромад	1 603	1 679	2 638	5 107	7 278
3	Жами даромадлар	5 979	7 601	8 959	15 717	20 082

As can be seen from the data, the main part of the income of the banks operating in our banking system is the interest income. The share of interest income in total income was 4,376 billion soums in 2019, and 12,804 billion soums by 2023. We can see that it will increase by 3 times compared to the previous period. Similarly, we can see the increase in non-interest income of the bank. In 2019, it was 1,603 billion soums, and by 2023 it was 7,278 billion soums. This is an increase of 145% compared to the previous period. The share of non-interest income, in turn, changed accordingly. Declining percentage of interest income can be both positive and negative. Its advantage is that banks receive additional interest-free income in return for performing various other activities typical of banks. However, it confirms that there is more negativity in the activity of the republic's banks in this case, it indicates that there are problems in these operations, the decrease in the implementation of bank operations that bring interest income. Since the main operations of banks are related to interest income, it would be appropriate if they increase the implementation of these operations and increase their share in the income structure to 70-75 percent.

### Conclusions and Suggestions

Digital transformation is an inevitable process in which the world business begins to adapt to the new conditions and advantages of the digital economy society, and it is a tool that serves to improve people's living standards, create conveniences and increase the quality of life in society through the implementation of digital technology.

In order to improve the quality of service and to transform traditional services into remote services, the bank established its own team of developers. Now, automation of existing services and new innovative developments are carried out at the expense of their own resources, without involving outsourcing companies.

Based on the application of FinTech technologies in the expansion of the income base in the transformation processes of commercial banks:

- improvement of mobile applications of commercial banks,
- automated scoring,
- development of credit monitoring systems,
- it is desirable to automatically collect service fees from cards ordered online and to expand the scope of existing services.

Issues such as strategic investors, adaptation to market principles, elimination of dependence on state funds and creation of equal competitive conditions are defined as the main directions of the banking

system reform strategy. Therefore, it is necessary for banks to change their business models and improve the customer service system.

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