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## **ANALYSIS OF THE ADVANTAGES AND DISADVANTAGES OF DEVELOPING INNOVATIVE SERVICES IN COMMERCIAL BANKS**

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### **Abstract**

The advantages and disadvantages of developing innovative services in the banking sector were analyzed in this article, the author gave proposals and recommendations on solving problems and preventing threats in the process of developing and implementation innovative banking products.

**Keywords:** Banking sector, commercial banks, innovation, innovative activity, digital technology, mobile banking.

### **INTRODUCTION**

Today, competition in the financial services market is conducted not only between commercial banks, but also payment organizations and payment system operators (Click, Pay me, ATTO, etc.), which have become active participants in financial transactions. In such conditions of such competition for clients, only those banks that actively implement innovations can maintain their positions in the market and attract new clients. The development of innovative services in the banking sector helps to increase the quality and speed of customer service, reduce costs and increase the efficiency of banks by introducing remote customer service through the use of the Internet.

Today, commercial banks in developed countries offer a wide range of digital services, automated investment platforms, clients can carry out transactions with their accounts, receive balance and transaction information, pay bills and transfer money through digital platforms, receive recommendations on forming their investment portfolio and performing trading operations with securities of



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issuers from various countries. In the Strategy for the Development of the Banking System of the Republic of Uzbekistan for 2020-2025, among the priority areas for reforming the sector, the following priorities are identified: "modernization of banking services, creation of an effective infrastructure and automation of banking activities", "increasing the availability and quality of financial services through the widespread introduction of remote services for the population and small businesses" [1].

The banking sector of Uzbekistan, thanks to the development and implementation of mobile applications, digital payment systems, electronic wallets and virtual cards, has also become an active participant in the digitalization of the financial system. Digital technologies allow domestic banks to automate and optimize many operational processes, such as payment processing, credit scoring, bank data analysis and risk management, which helps banks improve efficiency and reduce costs. However, innovative activities are considered high-risk. The risk lies in the likelihood of not receiving the expected results from the implementation of innovations and the loss of part (or all) of the funds invested in the creation and implementation of innovative products. In the event of an unsuccessful result from an innovative project, this can lead to a deterioration in the bank's image, loss of customers and invested funds, a decrease in public confidence in this bank, therefore, at the current stage of economic development, the study of the economic essence of innovative activities in commercial banks, all the advantages and disadvantages of innovative activities, existing risks, problems in the development and implementation of innovative banking services is of particular relevance.

### **RESEARCH METHODOLOGY**

SWOT analysis of the advantages and disadvantages of developing innovative services in commercial banks was used in this research, as well as methods of induction and deduction, statistical and structural analysis methods.

### **ANALYSIS AND RESULTS**

In recent years, one of the most popular innovations in commercial banks is mobile applications for banking services. These applications allow customers to



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access their bank accounts and make transactions anytime and anywhere through mobile banking. Thanks to mobile applications, customers can check their account balance, transfer money, pay bills, convert from a foreign currency card to a local currency bank card and vice versa, and much more without leaving home or work. However, creating mobile applications is a fairly expensive technical innovation. As a rule, commercial banks turn to IT specialists as a customer for the creation, and then for the smooth operation and improvement of mobile applications. Therefore, not all domestic banks have such mobile applications yet.

A rather bold decision in the banking sector was the creation of digital banks in Uzbekistan in 2020 (Anor bank, TBC Bank). Their main difference from traditional banks is that customer service is entirely remote, without clients physically visiting the bank building. Given the growing trend in the number of Internet users, mobile devices, applications and social networks in Uzbekistan, this gives positive financial results. Thus, according to the results of the first quarter of 2024, TBC Bank held a 15.3% share in the domestic microloan market. And the bank's net profit increased by 1.5 times over the year compared to the first quarter of 2023, from \$ 4.7 million to \$ 7 million. Today, 14.6 million people, that is, 13% of the population of Uzbekistan, use the digital services of this bank, which indicates a large capacity and promising future for the digital banking services market. [2]

In addition to digital banks, digital payment systems are being created in our country - these are systems that allow customers to make payments via the Internet or mobile applications without having to visit a bank. These systems simplify the process of paying bills and purchases, making them more convenient for customers. In addition, digital payments can be faster and safer than traditional payment methods. The installation of payment terminals and information kiosks in populated areas of Uzbekistan for making non-cash payments, as well as ATMs for withdrawing cash from plastic cards, also contributed to the improvement of the availability of banking services. Although their implementation is not considered an innovation, the dynamics and rate of their growth demonstrate the demand of the population and the speed of digitalization in the field of financial services.



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**Table 1. Dynamics of individual indicators of the banking system of  
Uzbekistan and their growth rate compared to 2018 [3]**

Year	Number of bank plastic cards	Growth rate compared to 2018, %	Number of installed payment terminals	Growth rate compared to 2018, %	Number of installed ATMs and information kiosks	Growth rate compared to 2018, %	Number of citizens using remote services	Growth rate compared to 2018, %
2018	19 225 702	100.0	235 712	100.0	5632	100.0	4225361	100.0
2019	17 686 598	92.0	244 913	103.9	6859	121.8	7599337	179.9
2020	20 547 366	106.9	392 361	166.5	9203	163.4	9462450	223.9
2021	25 775 662	134.1	438 410	186.0	11800	209.5	13748576	325.4
2022	27 105 785	141.0	433 384	183.9	12 940	229.8	19265610	456.0
2023	34 195 648	177.9	434 018	184.1	20 379	361.8	28843869	682.6

As we can see from the table, the number of plastic cards has shown a growth trend and increased by almost 178% over the past six years. The number of installed payment terminals at points of sale of goods and services increased from 235.7 thousand in 2018 to 434 thousand in 2023, that is, by 1.84 times. And the number of installed ATMs and information kiosks had a rapid growth rate over the period 2018-2023, and their number increased by 3.6 times. However, among the data given in the table, the highest growth rate was shown by the indicator of the number of individuals using remote banking services, which amounted to 4.225 million people in 2018 and increased by 6.82 times by 2023, exceeding 28 million people.

Banks are also implementing artificial intelligence and automated systems for data processing, customer information analysis, customer service and decision-making. Commercial banks are actively developing innovative solutions to ensure the security and protection of customer data, which includes biometric authentication, monitoring of suspicious activity, etc.

Funding of innovative activities in banks can be carried out in various ways. As a rule, banks finance innovations at the expense of net profit. In organizational terms, a bank can create a structural unit whose main activity will be the creation, implementation and maintenance of innovative products. In addition, the bank



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can order the creation of innovations from third-party organizations. Banks must choose the most suitable method, taking into account their needs and capabilities.

In order to understand the economic nature of innovative activities in the banking sector, we will conduct a SWOT analysis of the development of this type of activity in commercial banks.

**Table 2. SWOT analysis of the development of innovative services in commercial banks [4]**

Strengths	Weaknesses
<ul style="list-style-type: none"><li>- availability of banking services from anywhere in the world;</li><li>- high speed of service;</li><li>- reduction of clients' time and money spent on visiting the bank;</li><li>- increase in bank performance indicators;</li><li>- decision-making based on data processing by artificial intelligence;</li><li>- reduction of queues in banks;</li><li>- automation of processes and routine operations.</li></ul>	<ul style="list-style-type: none"><li>- requires hiring IT specialists;</li><li>- high R&amp;D costs made from net profit;</li><li>- possibility of technical failures and malfunctions;</li><li>- require additional skills and knowledge from bank staff;</li><li>- service depends on Internet speed and uninterruptible power supply;</li></ul>
Opportunities	Threats
<ul style="list-style-type: none"><li>- increasing the bank's competitiveness and position in the market;</li><li>- increasing the number of clients, attracting the younger part of the population with innovative solutions;</li><li>- reducing the time of service provision and reducing the number of bank personnel;</li></ul>	<ul style="list-style-type: none"><li>- technical failures and malfunctions that can lead to a deterioration in the bank's image and a decrease in public confidence;</li><li>- cyber threats and the possibility of hacking systems, archived data, and information carriers of banking secrets;</li><li>- elderly people may refuse to use innovative products;</li><li>- the costs of creating innovations may not pay off or may not produce the expected results.</li></ul>

As can be seen from the results of the SWOT analysis, the development of innovative activities in commercial banks has many advantages. However, the implementation of banking innovations is not uniform; commercial banks may face a number of complex problems and the consequences that follow from



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them. For example, technical problems - the provision of online services requires the development of digital systems and corresponding software, which may give technical failures, be accompanied by malfunctions and breakdowns. Banks may face problems with the compatibility of existing systems and difficulties in integrating new technologies. In addition, digital technologies require additional costs to ensure data security and protection against cyber threats.

Commercial banks are forced to develop effective measures to prevent fraud, cyber-attacks and data leaks. In addition, the implementation of banking innovations may face resistance from customers, especially from older generations or those who do not have a sufficient level of computer literacy or low Internet speed in their region. Banks must conduct customer training and provide sufficient support for their successful adoption of innovative services. In terms of competitiveness, the introduction of new services may require significant resources and time for development and subsequent marketing. After all, any financial or technical problems that arise in the process of providing an innovative service may cause a loss of customer confidence in the bank, cause negative customer reviews and worsen the bank's reputation. Also, the introduction of new services may require staff training, changes in work processes and the development of new skills and competencies among bank employees. Banks must be prepared for these changes and provide support to their employees and clients when implement innovative services.

## **CONCLUSION**

To address these issues, the following recommendations can be made. To eliminate technical difficulties, banks should invest in updating their IT infrastructure and systems to ensure compatibility with new technologies. At the same time, the competence of software and mobile application developers is important, as they should have a certain positive experience in this area of activity. Commercial banks should also develop and implement a security strategy that includes multi-level data protection and fraud prevention measures. They should also train their employees and customers in the basics of cybersecurity and comply with relevant laws and regulations. This may include



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holding seminars, creating user-friendly interfaces, and providing instructions on how to use new services.

To support competitiveness, it is recommended to create platforms and initiatives that facilitate cooperation between banks and innovative companies. This may include the creation of incubators, accelerators, or financial technology centers that help banks and innovative companies exchange knowledge, resources, and experience.

Commercial banks should also provide support to their employees when introducing new services. This may include staff training, changing work processes, and creating measures to stimulate the development of new skills and competencies.

Artificial intelligence has great potential for use in the banking sector for routine operations, calculations, daily reporting, and work that does not require analytical skills or human creativity.

In addition, when moving to an innovative path of development, commercial banks provide financial support for innovative projects and start-ups. They can provide loans, investments, or other forms of financing to help companies implement new technologies and develop innovative products and services. Banks can also provide consultations and support on digital transformation for their clients - legal entities.

All these measures will undoubtedly raise the banking sector of Uzbekistan to a qualitatively new level - the stage of innovative development of commercial banks of the New Uzbekistan.

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3. Source: Statistical Bulletin of the Central Bank of the Republic of Uzbekistan for 2018-2023.
4. Source: compiled by the author based on the research results.



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