

# **BANKING INNOVATIONS IN THE DIGITAL ECONOMY: TRADITIONAL AND DIGITAL SERVICES OF BANKS**

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## **Abstract**

This article aims to understand the complexities of banking innovation in the digital economy. It will build a theoretical framework using established theories and then explore practical aspects through case studies. The research will ultimately provide insights and recommendations to help banks, policymakers, and researchers drive innovation and growth in the digital age.

**Keywords:** Digitalization, neo banks, trust funds, liquidity, digital economy.

## **Introduction**

### **What are traditional banks?**

Banks affect our daily lives and this is especially important when running a business. In addition, it is very important to choose the right bank for the company. Choosing means deciding between traditional and digital banking.

A traditional bank is a financial institution that conducts most of its business on-site. Most traditional banks still rely on physical locations to fulfill their banking needs, although some offer limited online banking services. To help with this, a traditional bank will have branches all over the country and many will have their own branded ATMs. Traditional banks are ultimately chartered and have their own banking licenses. They often provide a variety of financial services, including bank accounts, debit and credit cards, lending, credit reports, and many other options. Customers should expect to pay more for different services, as they all come with a price.

### **Advantages and disadvantages of traditional banking**

While traditional banking doesn't always offer the same convenience as digital banking, it does offer a wide range of services, so you can find everything you need in one place. If you value personal customer service the most, a traditional bank may be better.



**Table 1.1.3 Advantages and disadvantages of traditional banks**

Feature	Advantages	Disadvantages
<b>Security</b>	- Securely insured by FDIC (US) or equivalent institutions.	- Potential for data breaches and security vulnerabilities.
	- Strong history and established security protocols.	- May not offer the same level of security as some online banks.
<b>Services</b>	- Personalized financial advice and guidance from bankers.	- Often have higher fees for services like wire transfers and overdrafts.
	- Physical branches provide face-to-face interaction and immediate assistance.	- Limited opening hours and potential long wait times at branches.
<b>Trust and Reputation</b>	- Customers feel more secure with a physical presence and history of stability.	- Some customers might perceive them as less transparent than online banks.
	- Experienced customer service representatives available in person, by phone, or online.	- Customer service can be impersonal and less efficient at times.

**Source: Compiled by the author based on the information**

The future of banking is digital - especially if you're a business owner. With digital banking, you can reduce fees, have better integration with accounting software, collaborate securely with your team, and have a better view of how much money you earn, save, and spend every day. So, now we look out some types of services in banks and we may know their pros and cons when people use traditional and digital bank services through differentiating them

1. Choosing a traditional bank or a digital platform has a significant impact on **opening an account**. You can apply for a fincra account online in minutes as long as you provide all the necessary information for a successful account verification. But opening an account at a traditional bank takes much longer. Although some major banks have begun to offer an online application process, most require you to visit a location in person before starting your application.

2. When talking about digital banking, it's hard not to talk about fees, or the lack thereof. Entering the market using a sophisticated business model, digital banks have raised the bar for the amount of services businesses can expect before incurring banking costs. Most neo-banks offer free or almost zero fees, unlike the high technical fees and hidden costs associated with traditional banks. For example, you don't have to maintain a minimum balance or pay account fees when you use fincra.

3. **Customer service** is the following key difference between digital and traditional banking. To emphasize this, a well-known digital bank provides online assistance, while a traditional bank only provides assistance in person. Thanks to the faster and more detailed customer service that digital platforms can provide, more business owners are now switching to digital banking. For example, apart from visiting the office in Lagos (Nigeria) or the office in Canada, you can contact fincra customer service and chat support via email.

In 2023, an estimated 2.8 billion people worldwide used mobile banking . In developed countries, mobile banking adoption is often above 80%, with some exceeding 90%.<sup>1</sup> In 2023, 89% of US adults used mobile banking apps . Mobile banking is a key enabler of financial inclusion in developing countries. In Kenya, mobile money services such as M-Pesa have dramatically increased financial access.

Although mobile banking is becoming increasingly popular, online banking still plays an important role. In 2023, more than 80% of adults in developed countries used online banking services for various tasks. In Europe, online banking adoption rates often exceeded 90%.

The fintech sector will receive more than \$120 billion in venture capital funding in 2022 (CB Insights). This shows the huge interest and investment in fintech, which has further fueled the digitization of banks. The EU's PSD2 regulations have spurred the adoption of open banking services, with many banks now offering APIs for third-party services.

Open banking services are gaining popularity worldwide, with various countries adopting similar systems.

Banks around the world are increasingly investing in digital technologies. According to Blockchain Market information, The global banking technology market is expected to reach \$700 billion by 2025.

Now we make also sure about pros and cons of digital banks.

**Table 2.1.3. Pros and cons of digital banks**

Feature	Pros	Cons
<b>Accessibility &amp; Convenience</b>	24/7 access, mobile-first experience, fewer physical branches	Limited personal interaction, potential reliance on technology
<b>Fees &amp; Charges</b>	Lower fees, transparent pricing structures	Hidden fees or charges not clearly advertised
<b>Account Opening &amp; Management</b>	Streamlined onboarding process, quick and easy account setup	Potential for fraud or security breaches
<b>Customer Service</b>	Online chat support, email support, FAQs & tutorials	Limited options for complex issues or personal assistance
<b>Financial Products &amp; Services</b>	Comprehensive range of products (e.g., savings accounts, loans, investments)	Limited access to traditional banking services (e.g., financial advice)
<b>Security &amp; Data Protection</b>	Robust security measures, encrypted data transmission	Potential for data breaches or cyberattacks
<b>Transparency &amp; Communication</b>	Real-time account updates, clear communication channels	Potential for delayed or inaccurate information
<b>Innovation &amp; Technology</b>	Integration with latest technologies (e.g., AI, biometrics), personalized financial management tools	Potential for technical glitches or system failures
<b>Sustainability</b>	Reduced environmental impact, paperless banking	Potential for digital divide, accessibility issues for individuals without technology access

**Source: Compiled by the author based on the information**

<sup>1</sup> <https://www.statista.com/statistics/1440760/mobile-and-online-banking-penetration-worldwide-by-country/>  
Statista Research Department, Feb 29, 2024

Currently, in the digital economy, banks are using various innovative technologies in the process of digitization. Below I have given examples of some of the ones used by online banks in the world. Digital banks are leaders in using technology to deliver innovative and seamless financial experiences. They often use advanced technologies that traditional banks may be slower to adopt. Some of the key technologies powering digital banks today include:

**1. Cloud Native Architecture:**

Digital banks are built on cloud-native architectures that allow them to rapidly scale their operations and adapt to changing customer demands.

Cloud platforms reduce operational costs by eliminating the need for expensive infrastructure. Cloud providers often offer robust security measures that protect sensitive data.

**2. Microservices and APIs:**

Digital banks use microservices to break down complex systems into smaller, independent components, allowing for faster development and easier maintenance. APIs allow for seamless integration with third-party services, allowing banks to offer greater capabilities and collaboration.

**3. Artificial Intelligence (AI):**

AI provides personalized recommendations, tailored financial advice and fraud detection.

AI chatbots and virtual assistants provide 24/7 support by answering frequently asked questions and solving common problems.

**4. Big Data Analytics:**

Digital banks use big data analytics to understand customer behavior, financial habits and needs, leading to personalized product offerings and financial management tools. Data analysis helps identify unusual patterns and anomalies that may indicate fraudulent activity. Data on data supports more accurate risk assessment and credit rating.

**5. Mobile First Design:**

Digital banks prioritize mobile-first design, ensuring that their apps and services are user-friendly and accessible on any device. The user experience is streamlined, making it easier for customers to manage and manage their funds.

**6. Blockchain technology:**

Some digital banks are exploring blockchain technology to enable secure and transparent transactions, particularly cross-border payments and cryptocurrency integration. Blockchain also powers decentralized financial applications, offering alternatives to traditional banking services.

**7. Biometrics and Security:**

Digital banks use multi-factor authentication using biometrics (fingerprint, facial recognition) along with traditional passwords to increase security. Advanced security systems and AI are used to detect and prevent fraud in real time.



#### **8. Open source technologies:**

Many digital banks use open-source technologies to foster collaboration, accelerate development, and engage a large community of developers.

#### **9. Payment innovations:**

Digital banks often integrate with mobile payment platforms, enabling seamless payments via smartphones. They can offer their own digital wallet to make online payments easier and safer. Digital banks are pushing the boundaries of innovation in financial services. Their adoption of these technologies will redefine how people interact with their money, providing faster, more convenient and personalized experiences.

So, when it comes to digital services we should say, digital services more better than traditional services and people prefer digital services in almost every countries in today's world because of it's comforts. Now I give information some kinds of digital services which are used by banks in developed and developing countries.

Mobile banking apps, fintech partnerships, and blockchain-based solutions are just a few examples of key verticals driving the digital banking narrative. The synergy between these verticals creates a dynamic ecosystem that prioritizes comfort, convenience and innovation. As traditional banking institutions and barriers collapse and digital solutions become more embedded in everyday financial activities, the stage is set for a transformative journey that promises a user experience and a reshaped financial landscape. Below, I will shed light types of digital banking services and their definitions:

**Account Management:** A digital banking hub is the ability to manage accounts online and through mobile apps. This includes viewing balances, viewing transaction history, transferring money between accounts, paying bills, and managing account settings. Digital account opening processes have simplified the onboarding experience, allowing customers to apply, upload documents, and complete verification steps without visiting a physical branch.

**Payments and Transfers:** Digital banking has greatly improved payment and transfer options. Contactless payments through mobile wallets such as Apple Pay and Google Pay are becoming commonplace, providing convenience and security at the point of sale. Peer-to-peer (P2P) transfers allow individuals to send money to each other instantly, while online payments simplify the management of recurring expenses. International money transfers are now faster and more efficient through digital platforms, reducing processing times and fees. Digital wallets offer secure storage of payment information, eliminating the need for physical cards for online purchases.

**Savings and Investments:** Digital banking platforms offer a variety of savings and investment options, including high-yield savings accounts that provide competitive interest rates. Customers can access investment accounts to manage stocks, bonds, mutual funds and other assets online. Robo-advisors provide algorithm-based investment advice and portfolio management tailored to individual risk tolerance and financial goals. Financial planning tools



such as budgeting software, spending trackers and goal-setting functions allow customers to effectively manage their finances.

**Loans and Credit:** Digital loan applications have simplified the borrowing process, allowing customers to apply for personal loans, mortgages and business loans completely online. Digital credit card management allows customers to track spending, access rewards programs and manage account settings. Digital mortgage origination platforms streamline the entire process from initial application to loan approval.

**Customer service and support:** Digital banking prioritizes customer service and support, offering various channels for assistance. AI-powered chatbots and virtual assistants provide quick answers to common questions and basic support. Live chat sessions allow real-time interaction with bank representatives, while email support provides secure communication for more complex inquiries.

**Security and Fraud Prevention:** Digital banks prioritize security and fraud prevention. Multi-factor authentication, often involving a combination of passwords, one-time codes, and biometrics, increases account security. Biometric authentication methods such as fingerprint, facial recognition, and voice recognition provide an additional layer of protection. Advanced fraud detection systems powered by AI monitor transactions and detect potential fraudulent activity in real time.

**Open Banking:** Based on regulations and customer demand, open banking allows banks to securely share customer financial information with authorized third-party applications. This allows financial aggregators to combine account information from different institutions, providing a unified view of finances. Third-party applications may use open banking data to offer customized budgeting tools, investment advice and other personalized financial management solutions.

**Emerging Digital Services:** The digital banking landscape continues to evolve rapidly with new innovations emerging. Digital currencies such as Bitcoin and Ethereum are increasingly integrated into banking services, allowing customers to buy, sell and manage digital assets. Blockchain technology is being explored for secure and transparent transactions that could revolutionize cross-border payments and other financial transactions. Offering financial services in virtual worlds and augmented reality environments.

**Conclusion on Chapter I,** This chapter explored the crucial role of commercial banks in the digital economy, focusing on the impact of innovation and digitization on their operations and service offerings. It examined the various theoretical perspectives on innovation, analyzing its impact on digitization and the dynamic relationship between the two. The chapter dived deep into the dependence of bank innovations on digitization, exploring the global trends and processes involved in digitizing banking operations. It further differentiates between traditional and digital banking services, highlighting the distinct characteristics and implications of each





in the modern financial landscape. Ultimately, this chapter provided a comprehensive understanding of how commercial banks are adapting and innovating to thrive in the evolving digital world.

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