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THE EVOLUTION OF BANKING SYSTEM

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ABSTRACT

This article explores the fascinating journey of banking systems, tracing their evolution from the rudimentary practices of ancient civilizations to the sophisticated digital landscape of today. We delve into the core functions of banking that have remained constant throughout history – safekeeping deposits and facilitating loans – while highlighting the dramatic changes in technology, accessibility, and financial instruments that have transformed the way we interact with money.

Introduction: The concept of banking, at its core, revolves around trust. It is the act of entrusting one's valuable resources to an institution that safeguards them and facilitates their movement. This seemingly simple idea has underpinned economic activity for millennia, evolving alongside human civilization.

The earliest forms of banking can be traced back to Mesopotamia and ancient Egypt, where temples functioned as storehouses for grain and other valuables. Over time, these institutions expanded their roles, accepting deposits, offering loans, and exchanging currencies. The rise of merchant banking in medieval Italy further solidified the foundation of modern banking practices, with families like the Medici establishing branches across Europe.

This article delves into the two main parts of this evolution:

• **Part 1: The Traditional Banking System:** This section explores the development of brick-and-mortar banks, the rise of central banking, and the regulations that govern the financial sector.

• **Part 2: The Digital Revolution in Banking:** This section examines the transformative impact of technology, the rise of online and mobile banking, and the emergence of FinTech (financial technology) companies.

The Traditional Banking System

The traditional banking system, characterized by physical branches and paper-based transactions, dominated the financial landscape for centuries. Here's a closer look at its key features:

- **Brick-and-Mortar Banks:** The cornerstone of the traditional system was the physical bank branch. Customers could deposit and withdraw cash, apply for loans, and access other financial services by interacting with bank tellers. This personalized approach fostered trust and relationships between banks and their customers.

- **Central Banking:** As economies grew more complex, the need for a central authority to regulate the money supply and oversee the banking system became apparent. Central banks emerged, tasked with ensuring financial stability, issuing currency, and managing interest rates.

- **Financial Regulation:** To protect depositors and maintain financial stability, governments established regulations for banks. These regulations cover capital adequacy requirements, lending practices, and consumer protection measures.

The Strengths and Limitations of Traditional Banking

The traditional banking system provided a safe and secure environment for financial transactions. However, it also had limitations:

- **Limited Accessibility:** Physical branches restricted access to banking services for people residing in remote areas. Additionally, banking hours often posed a challenge for busy individuals.

- **Slow Transaction Speeds:** Processing transactions, particularly loans and international payments, could be time-consuming due to manual verification and paperwork.

- **Limited Product Innovation:** The traditional system was slow to adapt to changing customer needs and technological advancements.

The Digital Revolution in Banking

The advent of the internet and digital technologies has revolutionized the way we bank. Here's how:

- **Online and Mobile Banking:** The rise of online and mobile banking platforms has transformed accessibility. Customers can now manage their accounts, transfer funds, and pay bills 24/7 from virtually anywhere with an internet connection. This has empowered individuals and businesses with greater control over their finances.

- **FinTech and Innovation:** The FinTech industry has emerged as a force for disruption and innovation in banking. FinTech companies offer a wide range of digital financial services, from alternative lending platforms to mobile payment solutions. This has increased competition in the financial sector, driving down costs and creating new financial products and services for consumers.

- **Data and Analytics:** Banks are increasingly leveraging data analytics to gain deeper insights into their customers' financial behavior. This allows them to offer personalized financial products and services, improve risk management, and enhance fraud detection.

The Future of Banking

The future of banking appears to be a blend of the traditional and the digital. Here are some potential trends:

- **Embedded Finance:** Banking services will become seamlessly integrated into everyday life experiences. For instance, imagine paying for your groceries or booking a ride directly through your messaging app.

- **Artificial Intelligence (AI):** AI will play a more prominent role in areas such as automated loan processing, fraud detection, and personalized financial advice.

- **Blockchain Technology:** Blockchain technology offers the potential to revolutionize banking by enabling secure, transparent, and efficient cross-border transactions.

Conclusion: The banking system has undergone a remarkable transformation, evolving from rudimentary practices in ancient civilizations to the sophisticated digital landscape of today. While the core functions of banking remain the same, the way we interact with and manage our money has been radically reshaped. The digital revolution has brought convenience, speed, and a wider range of financial products to consumers. However, with these advancements come new challenges, such as cybersecurity concerns and the potential for increased financial inequality if access to technology is not equitable. As we move forward, the banking system will likely continue to evolve, adapting to new technologies and the ever-changing needs of individuals and businesses. The key will be striking a balance between innovation and stability, ensuring that everyone has access to safe and secure financial services.

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