



DIGITIZATION OF THE BANKING SYSTEM OF THE REPUBLIC OF UZBEKISTAN: PROS AND CONS

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Received: October 4 th 2023 Accepted: November 6 th 2023 Published: December 6 th 2023	This article discusses the pros and cons of digitalization of the banking system of the Republic of Uzbekistan.
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Digitalization in the modern world is one of the main factors of global economic growth. It also did not bypass the banking system. The use of digital technologies in banking fundamentally changes the bank's decisions to improve further work and expand products and services, and also opens up new development paths, thereby ensuring the transition of the banking sector of the economy to a new level.

A developed legislative framework for Internet banking is being formed in Uzbekistan. It includes the Laws of the Republic of Uzbekistan: "On banks and banking activities"; "On the Central Bank of the Republic of Uzbekistan"; "About informatization"; "On electronic digital signature"; "On electronic document management"; "About e-commerce"; "On electronic payments"; "On the protection of information in an automated banking system".

Digital banking is the digitization of every program and activity carried out by financial institutions and their clientele. The benefits of data digitization include:

- The increase in the number of non-cash transactions and the conditions for their implementation (for example, a large number of ATMs) contributes to significant savings for both the client base and the banking organizations themselves.
- Digital analytics available to banks allows them to approach decision-making more effectively.
- Growth of the client base due to the fact that interaction with the bank becomes more convenient.
- Reducing the number of errors made due to the human factor.
- Reduced need for large amounts of cash.
- Reduce differences in customer service between urban and rural areas.
- Reducing the threat of the creation and spread of counterfeit currency (due to an increase in the volume of non-cash transactions).

The main goal of digitalization of the banking system is to increase the accessibility of financial services. Digitalization of the banking system improves the quality of service and increases competition among market participants. At the same time, banks have the

opportunity to expand their presence, increase their client base and provide a higher quality range of services to a larger number of citizens. The main result of the digitalization of banking services is that banks are investing in the development and integration of artificial intelligence (AI) and big data technologies in interaction with clients, the task of which is to provide the client with only the services he needs. There is an opportunity to improve customer service through bots that are available at any time and can answer even the most difficult questions. From the advent of virtual financial assistants to computerized credit scoring and predictive analysis, artificial intelligence has the potential to transform organizations on a massive scale.

The introduction of banking digital platforms is aimed both at creating new benefits for clients and at creating their own ecosystem. The emergence of services aimed at small businesses (for example, online accounting, operational accounting, automatic profit forecasting), which can be included in it, will make it possible to take into account the needs of consumers much better and more accurately.

Data digitization creates about 70% of digital risks for banks. According to analytical data, almost a quarter of banks around the world have allocated more than 1/4 of their annual budget to the digitalization of risk management. Diversification of banking risks is one of the main methods that ensures the stable development of banks in the global economy, and its effective management requires a new strategy within the framework of digitalization. This is especially important, since diversification of loan portfolio risks has a significant impact on profit growth and reduction of overall risks.

Among the problems associated with the development of digital banks, it is especially necessary to highlight the following:

- the need to protect data security and confidentiality;
- the need to introduce innovations, new technologies, ideas and products;



- development and implementation of new technologies in management processes;
- insufficient qualifications of employees in the field of digitalization;
- increased load on remote service channels associated with the growth of an interested client base;
- increasing economic uncertainty and growing geopolitical risks;
- insufficient involvement (coverage) of the population and low level of access to information in the banking system.

Each of these problems must be solved taking into account the capabilities of banks, the interests of clients and, at the same time, within the framework of legislation.

There are risks involved in the process of going digital. In the process of automation, robotization and digitalization, the transparency of many products for the consumer is lost. Communication with clients has shifted to communication with bots and voice assistants. Robots and machines do not solve problems or answer questions, they do not explain unclear terms and conditions, which often leads to claims and disputes. After all, clients cannot always clearly formulate their problem or question; they need the help of a living person and a hint.

Very often the terms of the agreement are unknown to the client until the loan is approved. As a result, complaints arise regarding the imposition of additional services. Nowadays it's quite easy to get a loan or a loan, but a standard agreement, not to mention clarifications and explanations of individual clauses, is almost impossible - they suggest searching on the website among hundreds of pages and tabs. At the same time, the document is always written in complex legal language, it contains specific terms, formulas and calculations that are not completely clear. Unfortunately, the level of legal and financial literacy of the population is still not high enough.

As for the banks themselves, they may face tougher competitive conditions on the one hand, and a lack of resources for digitalization on the other. However, we can also assume such a development of events when large banks with large budgets for the development of IT projects will act as developers and suppliers of IT platforms. Small banks, in turn, will be able to obtain the necessary tools by purchasing a license. The same approach can be implemented in the field of cybersecurity. However, it can be assumed that players in the banking sector will not want to share their own developments and data with competitors in the market in the face of fierce competition for clients.

Regarding the digitalization of the banking system of the Republic of Uzbekistan, it can be noted that the transformation processes of the largest commercial banks, aimed at achieving compliance with modern industry requirements, are behind the planned schedule, including due to the need to invest in digitalization. This lag is manifested in the practical implementation of corporate governance standards, IT products, modern methods of managing bank resources, and customer relationships.

Protecting confidentiality and data security is one of the main problems of corporate governance in banks during the digitalization of the banking system. To solve this problem, it is necessary to apply modern security methods, such as data encryption, access control and network activity monitoring. It is also important to improve the skills of employees in the field of security and information technology. The use of new technologies in management processes, such as artificial intelligence, process automation and digital platforms, can lead to improved efficiency of management processes. However, for these technologies to be effective, employees must be trained and given access to the necessary tools. Thus, modern technologies allow banks to automate many processes and improve the quality of services provided, which in turn increases the level of customer satisfaction. Another challenge is the increase in the number of customers who prefer digital services to the detriment of traditional service channels, such as offices and bank branches. To solve this problem, banks can use modern service methods, such as chatbots, mobile applications, Internet banking, etc. It is important that banks provide customers with easy and secure access to such services, and also train them to use them. It is also necessary to take into account that with the digitalization of the banking system, there may be a risk of losing contact with clients, since personal service can be replaced by automatic processes. Therefore, banks must develop and implement strategies to retain customers and improve customer satisfaction. In addition, the level of financial inclusion in the country often remains low due to the orientation of banks' business models towards servicing corporate clients and the poor development of innovation and information systems.

Traditionally, banks in Uzbekistan are focused on corporate clients, and the main source of profit for banks is lending to corporate projects. However, with the digitalization of the banking system, corporate clients may turn to other financial instruments, for example, payment systems or online lenders. In addition to the above, one of the main challenges



facing the banking system of Uzbekistan during digitalization is the need to ensure financial inclusion of the population.

According to the World Bank, in 2021, only 44% of adults in Uzbekistan had a bank account. To solve this problem, work is being done to expand the network of bank branches and branches in remote and sparsely populated regions of the country, as well as to develop microfinance institutions, however, when introducing modern remote client services, the development of mobile payment systems plays an important role. It should be noted that increasing access to information in the banking system in Uzbekistan is also an important step towards its development and improvement. Various subjects of the financial system, such as banks, regulators, educational institutions, as well as ordinary citizens, can have access to information. A significant step towards increasing access to information will be the expansion of the practice of presenting open data. Uzbekistan has already introduced open data practices in other areas, such as healthcare and education. Extending this practice to the banking system will help provide greater access to information about the activities of banks and the services they offer.

In conclusion, we can conclude that digitalization of the banking sector is an important step in the development of the banking industry, which allows banks to improve the quality of services provided and optimize business processes. The development of the banking system is an important element of the economic development of the Republic of Uzbekistan. However, to achieve maximum results in this area, it is necessary to carry out constant work to improve legislation, infrastructure and constantly develop personnel in this area. In addition, it is necessary to take into account development trends in the global banking market.

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