



ANALYSIS AND STRATEGY FOR THE DEVELOPMENT OF THE BANKING SYSTEM OF UZBEKISTAN IN THE CONTEXT OF DIGITALIZATION OF THE ECONOMY

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<p>Received: 7th September 2023 Accepted: 7th October 2023 Published: 10th November 2023</p>	<p>In recent years, the digital banking model has been transforming in Uzbekistan, and it is becoming more and more popular and widespread. Banks are investing in the development of this business model. Digital technologies are technologies that use electronic computing equipment to record code pulses in a specific sequence and at a certain frequency. According to Cisco's surveys, many customers are not satisfied with banking services in general. Digital transformation will be the lifeline for the financial sector. In Uzbekistan, taking into account world experience, President Shavkat Mirziyoyev instructed to implement digitalization projects in various sectors of the economy by 2025. He said: "Without the digital economy, there is no future for the country's economy."</p>
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In recent years, the digital banking model has been transforming in Uzbekistan, and it is becoming more and more popular and widespread. Banks are investing in the development of this business model. Digital technologies are technologies that use electronic computing equipment to record code pulses in a specific sequence and at a certain frequency. According to Cisco's surveys, many customers are not satisfied with banking services in general. Digital transformation will be the lifeline for the financial sector. In Uzbekistan, taking into account world experience, President Shavkat Mirziyoyev instructed to implement digitalization projects in various sectors of the economy by 2025. He said: "Without the digital economy, there is no future for the country's economy."

Currently, the banking system of Uzbekistan lags behind modern requirements for the development of digital technologies, the introduction of new banking products and software. In 2020, a large-scale transformation program began in all banks of the country. Emphasis is placed on increasing the capital and resource base, as well as the profitability of banks. The main goal of these reforms in the banking sector is to teach commercial banks to work in a customer-oriented manner. The digitalization of the banking system is studied with great attention by theorists and practitioners. In particular, K. Skinner [1] and B. King [9] revealed the conditions for creating a digital bank, advantages, problems and new prospects.

The Massachusetts Institute of Technology has prepared a report "Digital banking manifesto: The end of banks?". It analyzes digital banks from the point of view of bank customers and investors.

J. Kronk and V. Dubey studied the experience of digitalization in the process of transformation of financial services⁶ and fintech innovation in a digital bank. The ecosystem of the digital economy was studied by L. Chaco, N. Furr, A. Shipilov, M.G. Jacobaides and others.

The novelty and understudy nature of this topic increase the interest of young scientists and practitioners in it. The purpose of the study is to analyze the indicators of the development of the banking system of Uzbekistan in the context of digitalization of the economy, taking into account the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025 and draw conclusions about further improvement of this area.

The object of the research is the banking sector of the Republic of Uzbekistan. The subject of the research is the regulatory framework and activities of banking organizations in Uzbekistan in the context of digitalization of the economy.

In the process of research, the author uses structural-system approaches, classification, logical method, system analysis, scientific abstraction, and the method of generalization. In particular, with the help of structural and system analysis, the main indicators of the banking sector are classified, abstracting other factors, highlighting the impact of digital technologies.

Banks, as a service body, work for customers and have an electronic service channel via the Internet in the form of a platform both in the branch itself and in mobile devices. An electronic service channel based on Internet technologies is a bank branch. Banks are now digitally oriented. Call centers, ATMs, branches,



internet banking, mobile banking – everything is now digital, therefore, the bank has also become digital and relies on a digital platform that penetrates every cell of the banking body.

A number of features of digital banks have been identified in the literature.

1. In digital banks: - digitized business processes are carried out; - Graphical models are used in business processes that are closely integrated with ICT; - work with a large amount of information, such indicators as KPIs, risks, scoring system within the framework of Big Data technologies; - Electronic records management is carried out.

2. Digital banks are focused on customer self-service, and their services are implemented electronically, including through Internet banking, mobile applications, Internet acquiring, interbank services, etc.

3. A single electronic banking system management center is available for managers, and an electronic knowledge base on business processes is available for employees. Making decisions quickly and learning new business processes and technologies is very important for creating a digital bank. The head of the digital bank must have information with complete detailed statistics on all priority business processes of the bank.

4. Highly qualified personnel who acquire skills in accordance with modern development trends and changes. Cross-functional teams formed of experts in different fields and working together on a permanent basis. The bank's corporate culture is focused on digital business and innovation.

5. The system architecture of the bank (composition, content and interconnection of information systems) meets the following requirements: - Most of the bank's information systems are closely integrated with each other and form a single platform; - System architecture as an open ecosystem.

The bank's partners have the opportunity to develop new services of their own and integrate them with the bank's products (services). For example, the sale of services for the sale of construction services and goods when applying for mortgage loans in a bank. At first glance, the services offered by digital banks are traditional: active and passive operations.

However, digital banks are also beginning to use new formats that depend on economic and technological development, the legislative framework and the development of the banking sector.

In Uzbekistan, the banking system is divided into two levels: the first is the Central Bank, the second is commercial banks and credit organizations. The Central Bank makes decisions within the limits of its

powers and functions independently of other bodies of state power and administration.

The monetary policy of the Central Bank is aimed at ensuring the stability of the banking system and the functioning of payment systems. The Central Bank manages the banking system through a single digital centralized system. Around the world, several central banks are exploring the possibility of state support for digital currency, reducing capital outflow, money laundering and tax evasion, and organizing economic activities more transparent and efficient.

In Uzbekistan, banks are established in the form of a joint-stock company. Banks receive the status of a legal entity from the moment of their state registration with the Central Bank. The Bank carries out its activities in the Republic of Uzbekistan on the basis of a license for the right to carry out banking activities issued by the Central Bank. The license is issued for an unlimited period of time. Transfer of the license or rights under it to other persons is prohibited. Banking activities carried out without a license are considered illegal and entail liability. Income received as a result of such activities shall be subject to withdrawal to the State budget of the Republic of Uzbekistan. In order to obtain a preliminary permit for the establishment of a bank, a person authorized by the founders to represent their interests in the establishment of a bank in the Central Bank shall, no later than three months after signing the memorandum of association, submit to the Central Bank an application with the following documents attached: the memorandum of association; Articles of Association of the Bank in two copies; minutes of the constituent assembly; list of founders; information on direct and indirect founders, including ultimate beneficial owners with substantial ownership; The Central Bank has the right to establish a separate procedure for obtaining prior permission when establishing a bank or participating in the authorized capital of a bank of international financial institutions, foreign banks and other credit organizations with high capital and credit ratings.

The monopoly of state-owned banks leads to the provision of services that are not always profitable for the population. In Uzbekistan, taking into account the world experience, the privatization of large banks is carried out in two stages. At the first stage, the institutional foundations are being created, and at the second stage, the full implementation of the state share to foreign strategic partners is being created. Institutional transformations of banks are reflected in the improvement of corporate governance, improving the quality and expanding the range of banking services, introducing modern information technologies and developing human resources. The introduction of information and communication technologies



envisages: increasing the number and coverage of remote banking services, including contactless payments; widespread use of an automated scoring system, digital identification, and a credit pipeline; improving the information security of banking data and systems; introduction of new concepts and technologies in the banking sector (fintech, marketplace, digital banking).

After the successful completion of the transformation of banks at the second stage, it is planned to privatize state shares through securities to strategic investors with extensive experience, knowledge and reputation in this area. In particular, it provides for the transformation and privatization of the coupon banks JSCB Uzpromstroybank (with the assistance of the International Finance Corporation), JSCB Aloqabank (European Bank for Reconstruction and Development, Asian Development Bank), JSCB Asaka (European Bank for Reconstruction and Development), as well as JSCB Qishloq Qurilish Bank and JSCB Turon Bank with the involvement of international financial institutions and consulting companies, with consideration of the issue of their merger.

As a result, competitiveness in the banking sector increases. But, taking into account the social stratification of the population and its needs for banking services, state participation will be preserved in three banks: JSC "National Bank", JSCB "Agrobank" and JSCB "Microcreditbank".

The reform of the banking system in Uzbekistan is carried out in the following four directions. 1. Improving the efficiency of the banking system. This key factor will meet the growing needs of customers for affordable and high-quality financial services. 2. Ensuring the financial stability of the banking system. This direction is the basic condition for the successful implementation of the transformation and strengthens the trust of customers. 3. Reduction of the state share in the banking sector. In this process, a comprehensive transformation of commercial banks is being implemented with the introduction of new digital technologies. 4. Availability and quality of financial services for vulnerable segments of the population and for small businesses. Continuity of remote services and intensification of the activities of the non-bank credit system.

Occupying one of the key places in economic activity, indicators of the level of development and efficiency of the banking system, as a rule, are included in various international ratings, the main of which is the World Bank's Doing Business rating. In order to improve the level of efficiency indicators of the banking system, which are included in various international ratings, in particular, in the World Bank's Doing Business rating, a

number of measures related to lending have been identified in Uzbekistan.

The study and analysis show that for the development of the banking sector, Uzbekistan needs to: 1) ensure the transparency and reliability of the banking sector for customers by transforming to digital technologies; 2) expand the list and improve the quality of online banking services, actively including non-bank commercial organizations in this process along with commercial banks; - Increase the level of liquidity and equity capital adequacy of the banking sector through the issue of securities. In order to assess the success of the efforts made and the timeliness of achieving the goals set for reforming the banking sector, the adopted Strategy includes the following target indicators:

1) increasing the share of assets of non-state banks in the total assets of the banking system from the current 15% to 60% by 2025;

2) increasing the share of banks' liabilities to the private sector in total liabilities from the current 28% to 70% by the end of 2025;

3) attraction by 2025 of at least three strategic foreign investors with appropriate experience, knowledge and reputation in the capital of at least three banks with a state share;

4) increasing the share of non-bank credit institutions in the total volume of lending from the current 0.35% to 4% by 2025.

Thus, improving the efficiency of the banking system through digitalization will meet the growing needs of business entities and the population in affordable and high-quality financial services. In accordance with the studied Strategy, ensuring the financial stability of the banking sector, reducing the state share in the banking sector, increasing the availability and quality of financial services are priority areas for reforming the banking system of Uzbekistan.

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