

## DEVELOPMENT PROSPECTS OF DIGITAL BANKS IN UZBEKISTAN

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**Abstract:** *The article examines the prospects for the development of digital banks in Uzbekistan, the impact of digital technologies on the banking and financial system of Uzbekistan. The basis for improving the activities of digital banks is the development and implementation of an effective customer-oriented digital strategy of financial credit institutions. In the article, various approaches to the development of digital banks have been researched and the author's scientific and practical conclusions have been formulated.*

**Key words:** *digital banking, banking system, fintech technologies, digital transformation, financial and credit organizations, digital technologies, digital strategy.*

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### ENTER

In today's era of innovation and development of latest technologies, digital banks are also developing at a great pace. There is a growing need to serve customers differently from traditional banking through Fintech technological innovations.

There are a total of 33 commercial banks operating in the banking system of our republic, and three of them, namely "ANOR BANK" joint-stock company, TBS bank and Apelsin bank, are digital banks [11].

"ANOR BANK" joint-stock company's activities focused on radically changing the usual model of relations between the client and the bank, went down in history as the first digital bank in Uzbekistan, which aimed to develop innovative retail products and introduce a new format of service to small and medium-sized businesses.

The goal of BANK Apelsin joint-stock company is to strengthen the position of a modern, innovative and rapidly developing bank of Uzbekistan that provides full financial services throughout the country.

At this point, the question arises as to what aspects digital bank and traditional bank differ in. According to the current legislation, a bank is a legal entity that is a commercial organization that performs a set of operations defined as banking activities on opening and maintaining bank accounts, making payments, attracting funds to deposits (deposits), and granting loans on its own behalf [1]

"Digital bank is an innovative banka bank or its structural division that provides remote banking services using technologies (without providing cash desk service). Remote provision of

banking services by digital banks is carried out based on the internal procedures of the bank, taking into account the requirements of legal documents".[3 ]

1) Opening a current account remotely online;

Nowadays, opening a current account online is a standard function for fintech companies, neo-banks and digital banks. Although a few years ago, the ability to open an account through a mobile application was considered very innovative. According to statistics, 60-70 percent of people prefer to use online channels or mobile applications for financial services, because it is not always convenient and acceptable to go to the bank building, and it requires the client to plan and spend time to go to the bank branch, which, it is more inconvenient for the customer compared to the physical identification used in digital banking.

2) Creation of personalized services for clients;

In the world of fintech, an improved customer experience is defined by a personal approach to customers that truly differentiates financial institutions from traditional banks.

Unlike traditional banks, in the world of financial technologies, bank clients communicate with the bank through a personal cabinet for a long period of time and use banking services frequently, which in turn eases the issue of attracting clients to the bank.

3) Customer service in the bank using artificial intelligence;

Artificial intelligence has become an integral part of many digital banking solutions. It can be used to manage customer data such as preferences and interests, demographics or transactional data. This data can be analyzed and then used to improve the customer experience. Simply put, customers use the services they need based on their habits and preferences.

4) Use of cloud technologies in digital banks;

In addition to online applications for end users, banking technologies have also become available online, in the cloud.

Digital technologies are reshaping payments, lending, insurance and asset management around the world, becoming a key enabler for financial services consumers.

Digital financial services and financial technologies have brought significant changes around the world:

By 2024, the number of digital banking users is expected to exceed 3.6 billion. (Juniper Research, 2020).

In developing countries, the share of account holders sending and receiving payments digitally increased from 57 percent in 2014 to 70 percent in 2017 (Findex 2017).

39 percent of companies are focusing primarily on implementing financial technologies. (JDSpura, 2020).

However, in these cases, financial fraud and risks may increase significantly, limiting access to traditionally provided services for certain categories of citizens.

There is clear evidence that these risks have increased in recent years, and crises such as the COVID-19 pandemic in particular have exacerbated these risks. Achieving equitable digital finance requires a globally collaborative and coordinated approach from all [8].

The rapidly evolving and complex nature of digital financial services highlights the need for innovative regulatory approaches based on consumer empowerment.

Analysis of literature on the topic

Digital transformation is an inevitable process in which world business begins to adapt to the new conditions and advantages of the digital economy society, and it is a tool that serves to improve people's living standards, create conveniences and increase the quality of life in society through the implementation of digital technology.

In this regard, in the development strategy of New Uzbekistan for 2022-2026 put forward by President Sh. M. Mirziyoev, the task of "increasing the level of digitization of production and operational processes in the real sector of the economy and in the financial and banking sectors to 70% by the end of 2026" [2].

Digital banks and their foreign and local economists have conducted research on improving its activities.

For example, Russian economist Lavrushin O.I. believes that "in the conditions of globalization, banks can cope with competitiveness due to effective use of digital technologies. It needs to be developed to transform the business models of large banks into new strategic directions that include greater use of information technology and greater efficiency in providing convenient customer service.[4]

Abdrakhmanova G.I., Vishnevsky K.O., Goxberg L.M. "The term digitization means converting information into a digital form. However, digitization in business usually means two types of changes in operating models. The first is to transfer communications to digital channels, and the second is to automate routine operations. They believe that these changes are closely related to each other[5].

According to Uzbek economist academician S.S. Ghulomov, "Digital business is the emergence of new business models that combine the physical and digital worlds" [6].

Our economists, R.H. Ayupov and G.R. Boltaboevas describe that "Digital economy is a new modern form of economic management, in which a large set of data in digital form and the process of processing them serve as the main factor of production and management" [7].

At the same time these economists, "Digital banking services are observed in all spheres of people's life activities, first of all, mobile devices, social networks, information services, e-commerce, internet trade, etc. [7].

A digital bank offers a variety of digital products and services to its customers using digital channels. Such bank infrastructure is optimized for digital communications, and the main tasks of such banks include quickly informing the client about the status of his accounts and transactions, finding the nearest bank branch, ATM, exchange point or car kiosk for him [10].

In our opinion, taking into account the opinions of the economists mentioned above, we believe that the activities of digital banks should be based on the development of a new customer-oriented innovative strategy by carefully studying the needs of customers and analyzing the available opportunities.

## RESEARCH METHODOLOGY

In this study, statistical tables and graphs, comparison of practical analytical data, logical and comparative analysis, grouping methods, and research works of foreign and local scientists on the subject were widely used. Brief description of the results obtained during the research:

- the scientific views of some economists on digital economy, transformation of the banking sector were presented;

- introducing innovative new types of online provision of high-quality banking services to the population with the development of information technologies and communication;
- digital banking saves time and costs when providing financial services through mobile and online platforms, ensures the safety of personal data, and increases the speed and quality of service.
- in the banking system, to evaluate and control the activity of employees through the KPI system, to motivate them materially and morally or vice versa.

## ANALYSIS AND RESULTS

Today, according to the decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025", 6 commercial banks - "Ipotekabank", "Sanoatqurilishbank", "Turonbank", "Asakabank", "Aloqabank" and "Agrobank" started cooperation with international financial institutions on issues of privatization and development of promising strategies based on financial diagnostics.

In particular, the processes of transformation and preparation for privatization of state-owned banks in cooperation with 3 international financial institutions (IMF, ETTB and OTB) and foreign consulting companies such as KPMG, PWC Ernst&Young and McKinsey, based on the "Banking System Reform Strategy of the Republic of Uzbekistan" being carried out.[11]

One of the main results expected from the transformation of commercial banks with the support of international financial institutions is to reduce the state's share in a number of commercial banks, bringing international experience into the operation, attracting strategic investors with sufficient experience, knowledge and reputation in banking.

One of the main directions of the transformation of state banks is the development of the IT sector, at the same time, the goal of the digital transformation of the banking system is to consistently eliminate the administrative burden by freeing credit organizations from performing functions that are not typical for them, as well as from excessive burdens, modern information and communication technologies. is to create necessary conditions for wide implementation, automation of business processes of commercial banks and expansion of remote banking services.

In order to evaluate the quality and effectiveness of the activities of executive bodies in banks, "key performance indicators" (KPI) were developed and put into practice in 10 banks with a state share [9].

In this regard, on the basis of new business models, structural divisions in banks that duplicate each other's tasks are optimized, and specialized structural divisions such as retail block, small business block, corporate block, and risk block are being established in the organizational structure of the bank.

At the same time, work aimed at introducing a modern risk-management system in banks has been accelerated, underwriting and scoring systems for credit allocation have been introduced in order to ensure consideration of credit applications of business entities and citizens in a short period of time without excessive bureaucratic obstacles.

The introduction of the system of remote biometric identification of users, which optimizes the quality and order of providing financial services to the population and business entities, and ensures the automatic collection of reliable and detailed information about individuals, is also of particular importance.

Currently, a contactless payment system using bank and transport cards has been introduced to make payments in public transport, and this service is developing very quickly due to its popularity and convenience.

In order to further expand the system of payments based on bank cards, to introduce digital technologies in the services provided to consumers of banking services, regulatory legal documents have been improved. In particular:

- several regulatory legal documents regulating the relations related to bank cards were formed as a single document by combining them into the regulation "On the rules for the issuance and circulation of bank cards in the territory of the Republic of Uzbekistan";

- a procedure for digital identification of individuals was developed.

In order to create favorable conditions for customers, banks introduced modern payment services based on the development of the existing infrastructure, using the HumoPay technology installed on mobile devices (similar to ApplePay or GooglePay) to make NFC payments at trade and service outlets without a bank card. In addition, in 2020, the Central Bank launched a quick QR-online payment system, which provided business entities and individual entrepreneurs with additional opportunities (in addition to the POS terminal) to accept payments via QR code. "Tap-to-phone" technology enables business entities and individual entrepreneurs to accept payments via smartphone via NFC. The system is built on the basis of web services technology, which allows making interbank payments through remote banking systems 24/7.

Today, all commercial banks in the republic are connected to the Quick Payments system, and all customers working through remote service systems are fully able to use this new system. The decision of the President of the Republic of Uzbekistan dated July 1, 2021 "On measures to improve cyber security in the activities of payment system operators, credit and payment organizations" was adopted. In accordance with the decision, the Central Bank was designated as a coordinating body for identifying cyber security threats in the activities of payment system operators, credit and payment organizations, preventing them and taking effective measures against them.

In order to effectively organize activities in this direction, the Cyber Security Center "CERT-CBU" has started its activity within the Security and Information Protection Department of the Central Bank.

The "CERT-CBU" center is responsible for identifying and preventing cyber security threats in the activities of payment system operators, credit and payment organizations, taking effective measures against them, monitoring the elimination of the consequences of cyber security incidents that have occurred, carrying out expertise on compliance with cyber security requirements and the state of cyber security tasks of monitoring were determined.[11]

In general, the acceleration of digital transformation processes in the banking system of our republic, the provision of high-quality, fast and convenient financial services by banks to the population and bank customers, and the reduction of bank operational costs.

### CONCLUSIONS AND SUGGESTIONS

In conclusion, we believe that it is permissible to pay special attention to the following issues in order to develop digital banks in the process of transformation in Uzbekistan:

1. Changing the way banks work, developing their own customer-oriented strategy;

2. Critical study of problematic loans in the banks' credit portfolio, in this regard, analysis of the financial situation of the bank's clients in remote areas, individual approach to each client;
3. Further improvement of the introduction of innovative new types of online provision of high-quality banking services to the population with the development of information technologies and communication;
4. Digital banking saves time and costs when providing financial services through mobile and online platforms, ensures the safety of personal data, and ensures the improvement of the speed and quality of service;
5. Allocating funds to replenish the working capital of economic entities whose financial situation has worsened during the pandemic, thereby restoring jobs, and taking measures aimed at reducing poverty in our republic;
6. Creating an effective mechanism to fight corruption in the banking system.
7. Evaluation of employees' performance in the banking system through the KPI system and control, materially and morally encourage them or vice versa;
8. In the financing of programs and projects, study and deep analysis down to the lower layers, identify the existing problems on the spot, organize and implement the solution consistently.

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