

Ways to Improve the Efficient Operation of Digital Banks in Uzbekistan

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Abstract

The article focuses on digital banking, which is a new and fast-growing trend in banking. The article analyzes the ways of development of digital banking and transformation of banks, examines models of digital banking in developed countries and possible ways of their application in Uzbekistan.

Keywords: digitalization, financial technology, digital bank, remote banking, mobile banking.

Introduction

In a market economy, the development of information technology has a great impact on the economy, human behavior and society as a whole. It is in developed countries that the banking sector, due to the digitalization of both the environment and business, has undergone significant changes over the past decades, and in Uzbekistan this process is still in its initial stages. The variety of available information, especially digital technologies, allows people to move to new ways of interacting and relating to each other in particular and in business. For several years now, entrepreneurs and individuals as clients have been using more and more channels for receiving banking services with great confidence and trust, using new platforms for interacting with banks. Banks offer various types of services in more favorable conditions and there is specific open competition where the client has access to analysis and himself determines his preference for banking services, which reveals the efficiency and low-cost solutions for providing services to the bank's products. There is also parallel adaptation to technology and changes in people's behavior. The digitalization process is evolving in stages, as in parallel the issues of providing technologies with an increased level of information security to banks, personnel issues such as retraining and retraining, and also increasing the level of knowledge of the client environment are being resolved.

The term "digitalization" itself means the transformation of information into digital form. However, in a business context, digitalization typically refers to two types of changes to operating models. The first is the transfer of communications to digital channels, and the second is the automation of routine operations. These changes are closely related [Abdrakhmanova G.I. et al., 2019].

In the conditions of the modern economy, where there is an increased level of competition, the boundaries between regional markets are blurred and there is an increased process of growth



in the criteria for satisfying their needs on the part of people, it does not seem to be a reasonable decision to operate commercial activities in the previous form, as was accepted 7 - 15 years ago.

The use of digital technologies, processing and analysis of large data sets simplifies the creation of new banking products. And the task of Digital and technology companies (FIN TEX groups, telecommunications players, IT companies) is to provide the market for financial services, and large traditional banks create ecosystems, focusing on the most profitable components within the banking value chain and beyond.

Financial technology (FinTech) is customer-centric, bridging the gap between what financial companies offer and what customers want. They target industry niches with the best products and services to fill the gaps left by employees throughout the customer journey. Fintech firms are now penetrating almost every segment of banking and financial services, driving both innovation and disruption. FinTech's core business areas include digital payments (PayTech), fully digital insurance (InsurTech), banking (BankTech), wealth management services (WealthTech) and creating markets for trading financial products.

The Russian banking sector is moving in the same direction as the global one. Service models are changing significantly under the influence of digital technologies (machine learning, artificial intelligence, blockchain [Swan M., 2017], P2P lending, robo-advising), as well as as a result of the development of an integrated network economy. Barriers to entry into the market for non-bank players are being lowered, and telecommunications and IT companies are launching financial services and products based on their competencies. Large and technologically advanced banks are creating their own ecosystems, which open up new, non-traditional sources of income. These trends are shaping the direction of the industry, and it is important for banks to take them into account in their strategies. The banking sector is a typical example of the consumer archetype. The demand for innovation here is largely driven by consumers. Their main requirements are a reduction in the time it takes to complete banking transactions, the ability to carry them out 24x7, more convenient use of banking products and services, and the ability to receive other services along with banking ones using a single interface. These needs are the driver of innovation in the industry [Megargel A. et al., 2017]. The pace at which new ideas, technologies and business models are emerging is rapid, so speed to market and quality are key to competitiveness and maintaining customer loyalty. For the successful development and implementation of innovations, banks in Uzbekistan have already defined a long-term strategy for targeted work in this area with clear goals for three types of innovations.

Effective work with process innovation is impossible without a plan for digitalization of internal processes. Achieving speed to market for new products, a key driver of product innovation, requires partnerships and the right competencies in both technology and people. When working with innovations in building a business model, it is important to focus on increasing non-banking sources of income by developing your own ecosystems and partnerships [Megargel A. et al., 2017].

The “Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025”, signed by the President on May 12, 2020, identified such priority tasks as creating the necessary conditions for the widespread introduction of modern information and



communication technologies, automation of business processes of commercial banks and expansion remote banking services.

The Central Bank has developed a strategy for the development of digital banking and contributes to the development of the process, continuing to create a favorable climate for banks to work with innovations and actively supporting the financial infrastructure, including such non-traditional organizations for the banking industry as accelerators, business incubators and independent fintech companies.

In the process of corporate transformation of commercial banks in the field of introducing modern information and communication technologies, the implementation of the following measures began:

- expanding the number and coverage of remote banking services, including contactless payments;
- widespread use of a scoring system, remote identification and a credit conveyor;
- strengthening the information security of banking information and systems;
- widespread introduction of new concepts and technologies in the banking sector (fintech, digital banking).

These steps are aimed at developing the digital economy in the country, digitalizing banking services to ensure rapid growth of the economy of Uzbekistan, accelerating the country's integration into the world economy and the free market along with economically developed countries.

As bank clients use financial services, they begin to understand how important the role of providing convenience, quality and speed of service, saving time and reducing operating costs, and electronic document management is.

Many commercial banks are already integrating accounting and management systems and creating a CRM (Customer Relationship Management) customer relationship management system.

The websites of commercial banks periodically update data according to which clients already have the skills to use it; all information is also published, including obtaining services and how to solve problems that arise. In parallel, banks work with banks.gya. Each bank has Call centers that resolve customer issues as best as possible. But everywhere and always there are moments where you need to find a more effective way to resolve issues, and this contributes to the development of the bank.

How do banks solve the issues of more efficiently providing services and generating income in a fiercely competitive environment?

Banks provide a number of offers such as:

- ✓ Low-interest and long-term loans
- ✓ Deposits at high rates
- ✓ Contactless transfers with favorable conditions
- ✓ Presentation of P2P transfers with advantageous services (in some cases even free)
- ✓ Special offers and promotions carried out by banks are announced on the websites and channels of banks, which shows the openness and availability of information.

The number of total users of remote banking systems as of January 1, 2024 was 44,099,600, of which 42,759,991 were individuals, which constituted 96.96% of the total number of users.



Top 10 banks Number of total users of remote banking systems

	Bank	Legal entities and individual entrepreneurs	Individuals	Total	Percentage
1	Uzpromstroybank	73 177	6 296 325	6 369 502	14.44
2	Agrobank	201 760	5 878 174	6 079 934	13.78
3	National Bank	120 118	4 587 680	4 707 798	10.67
4	ANOR bank	25 924	3 827 971	3 853 895	8.74
5	Ipoteka-bank	167 567	3 220 676	3 388 243	7.68
6	Bank Ipak Yuli	61,938	2 353 516	2 415 454	5.48
7	National Bank	97 411	2 001 214	2,098,625	4.75
8	TBC bank	-	2,051,728	2,051,728	4.65
9	Hamkorbank	126 047	1,741,682	1,867,729	4.24
10	Aloqabank	64 685	1 604 832	1 669 517	3.79
	Total				78.24

Source: *bankir.uz*

The table shows that the main users of remote services are individuals, and this confirms that the banks of Uzbekistan are making maximum use of the services of payment systems and FIN TECH institutions, which by March 2024 reached 49 in number, providing their services.

According to statistics from the Central Bank of the Republic of Uzbekistan, by October 1, 2023, 41,359,507 pieces of individual and corporate plastic cards were issued, the same data on October 1, 2022 amounted to 31,820,600, which is 9,538,907 pieces or 1.3 times more than for the previous year. By the end of 2023, the number of plastic cards opened by banks amounted to 45,224,213 pieces, which is 3,864,706 pieces more than 01.10.2023 (statistical bulletin of the Central Bank of the Republic of Uzbekistan, 2022-2023, tables 6.4).

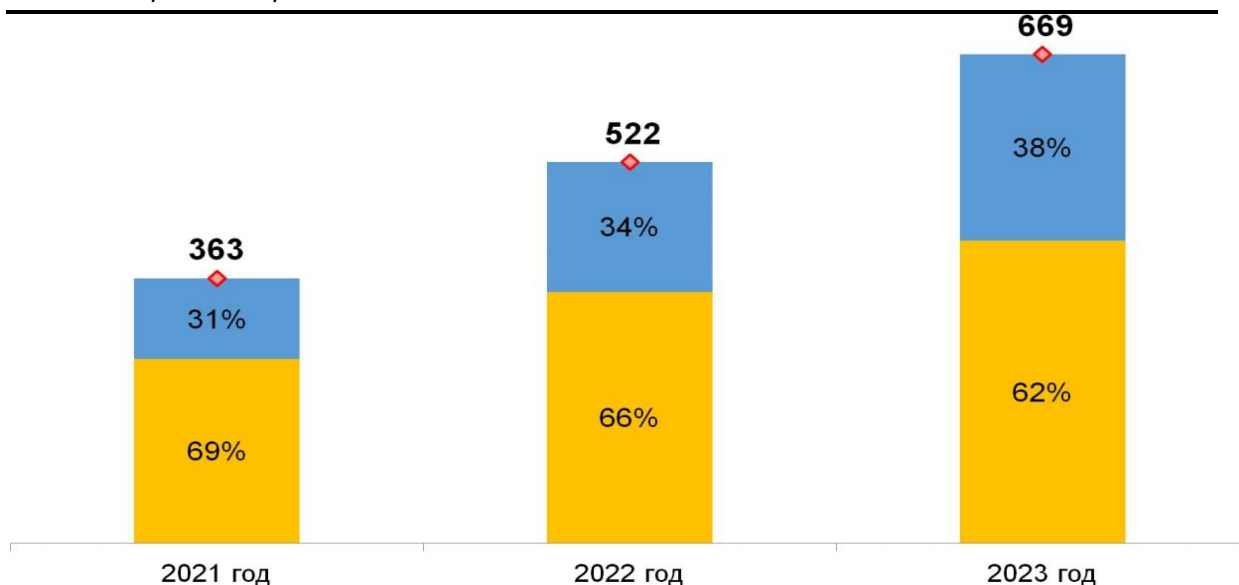
The total amount of cash in circulation (M0) as of January 1, 2024 amounted to 46 trillion sums, with a total money supply of 212 trillion sums. The share of cash is 21.5%, or 0.8 percent less than a year earlier. The largest item in the volume of cash flowing into banks remains the sale of goods. However, its share is declining and now stands at 38% - 3 percent less than two years earlier. (<https://www.spot.uz/ru/2024/01/23/cash-2023>)

Brief overview of cash circulation in 2023

The total amount of cash receipts amounted to 669 trillion. sums, and increased by 28 percent compared to 2022. There was also an increase in the share of receipts through terminals in the total amount of cash receipts compared to 2022 from 34 percent to 38 percent, and accordingly, the share of receipts through terminals from the trade and services sector increased from 37 percent to 40 percent.

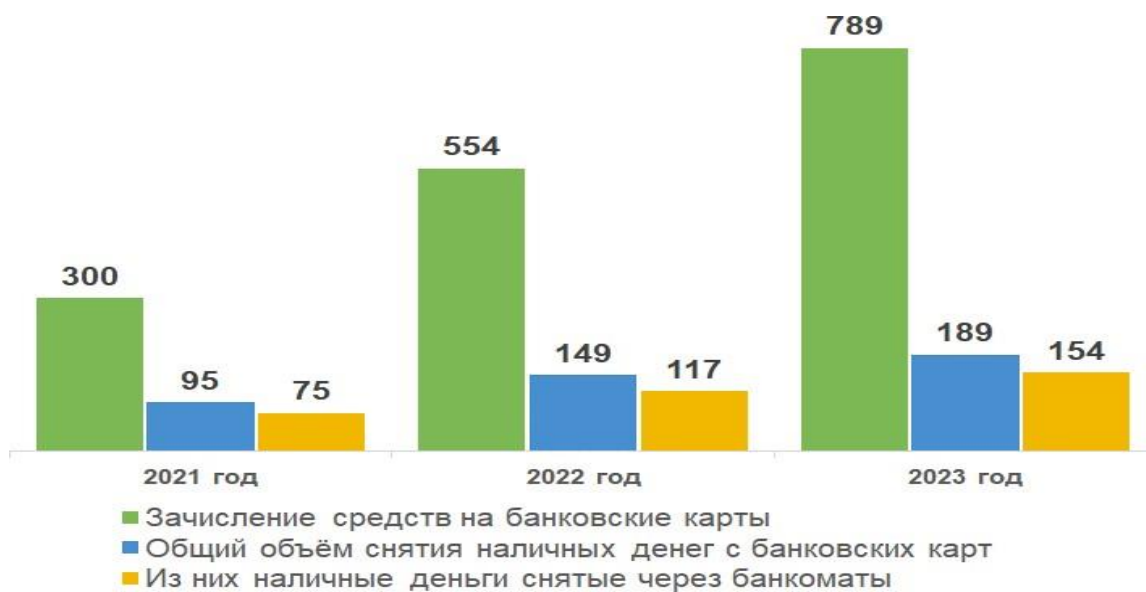
1-figure





■ Поступление наличных денег ■ Поступление через терминалы ◆ Общее поступление
 In 2023, the volume of bank cash turnover amounted to 831 trillion sums, and increased by 19 percent compared to 2022.

In particular, the flow of cash to banks increased by 20 percent compared to last year and amounted to 414 trillion sums

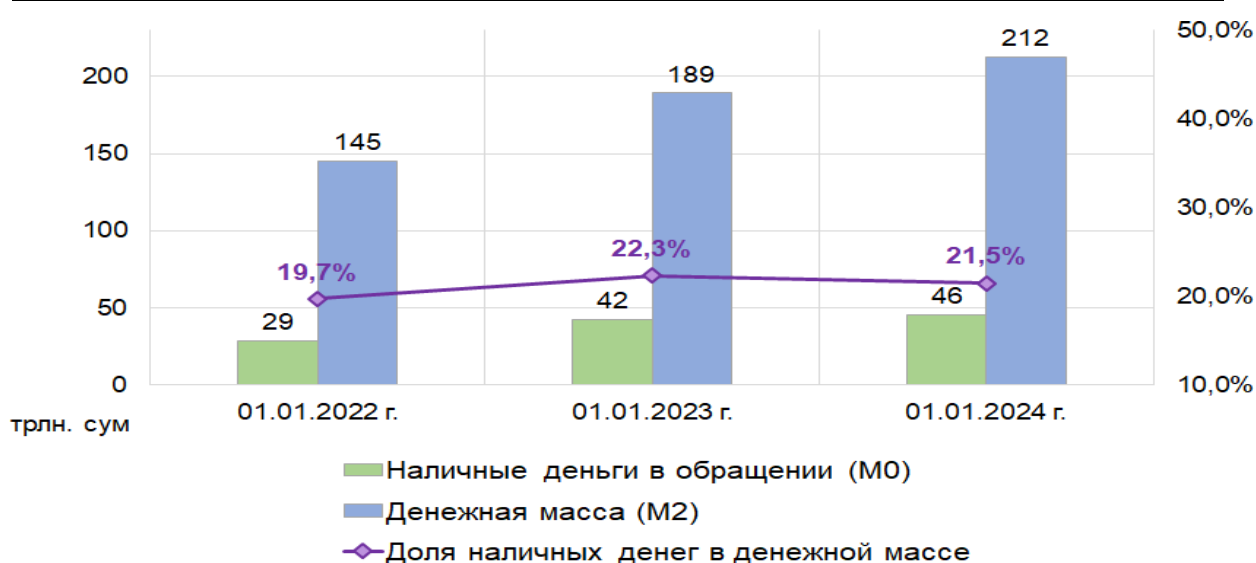


2-figure: Dynamics of the volume of funds received on bank cards and their cashing out

in trillion sums

The share of cash in the total money supply as of January 1, 2024 amounted to 21.5 percent, and compared to the previous period decreased by 0.8 percentage points.





3-figure: Share of cash in circulation in the total money supply

Source *cbu.uz*

From the figures you can see the growth rate of receipts from plastic cards, which proves the growth of non-cash turnover through payment systems.

Online payments, online conversions and other types of remote services are already becoming an integral part of plastic card users, which is most likely proven by the increase in online turnover and the development of digital services.

The adoption of the Law of the Republic of Uzbekistan “On Payments and Payment Systems” created the legal basis for the issuance, use and redemption of electronic money.

Based on this Law, the Central Bank developed “Rules for the issuance and circulation of electronic money on the territory of the Republic of Uzbekistan”, registered by the Ministry of Justice on April 29, 2020 (registration No. 3231).

According to the law, the payment system operator is subject to the following conditions:

- establishes the rules of the payment system and monitors their compliance by payment system participants;
- processes and issues payment and information messages to participants (participants) of the payment system, individual execution of orders or clearing;
- concludes an agreement with a payment system participant on participation in the payment system;
- ensures the functioning of the payment system infrastructure;
- ensures compliance with information security requirements and measures for the continuity of functioning of the payment system (Law of the Republic of Uzbekistan on Payments and Payment Systems, 09/19/19, Article 7)

The growth of non-cash turnover in recent years is, of course, encouraging, but there is another side that hinders the development of digitalization of banks.

The scale of thefts from bank cards in Uzbekistan in reality significantly exceeds previously published figures. Criminal cases have been initiated on more than 5,000 cases of theft of funds from cards of citizens of Uzbekistan committed in 2023. It is also reported that

most of the crimes were committed by criminals from foreign countries. The total amount of stolen funds is about 300 billion sums, or \$24 million.

The number of crimes, according to statistics from the Ministry of Internal Affairs for 2023, committed with the help of information technologies in Uzbekistan over the past 3 years has increased 10.3 times, amounting to 8.5% of the total number of crimes. Of these, cases of fraud increased 18 times, theft - 32 times, extortion, slander and insults - 4 times, distribution of prohibited materials - 3 times. In 2023, the Central Bank of Uzbekistan received 119 requests from citizens about fraudulent activities related to bank cards. Hackers leak databases, there is a huge risk of data leakage from database administrators, operators, and also through attackshackerson OneID, systems of a number of government agencies, search and payment services of the country.

The second source is the users themselves. It is very easy to obtain users' full name, date of birth, email, cell phone number and other personal information from open sources and social networks. (Anhor.uz as of 12/01/2023)

To develop and improve the efficiency of digital banks in Uzbekistan, it is necessary to solve a number of problems such as:

- uninterrupted operation of payment systems 24/7, limited availability of high-speed Internet and insufficient mobile coverage in a number of regions complicate the implementation and use of digital banking services.
- increasing the protection of the payment center system from hacker attacks by introducing the latest technologies, studying experiences and working together with developed foreign countries;
- improve the system of protection and non-distribution of the database, allow the processing and transfer of personal data only after confirmation of the owner of the data, by entering passwords.
- transformation of human resources in banks and even in legal custodian bodies, this is the most key issue in the context of digitalization, through retraining of personnel and the introduction of new specializations on a global scale
- increasing the financial literacy of consumers, especially among the older generation of the population

The above issues have already been raised and are being resolved by the state through the adoption of laws and presidential decrees, and a strategy for the development of the digital economy in the Republic of Uzbekistan for 2022-2026 has also been adopted.

What banks should pay special attention to

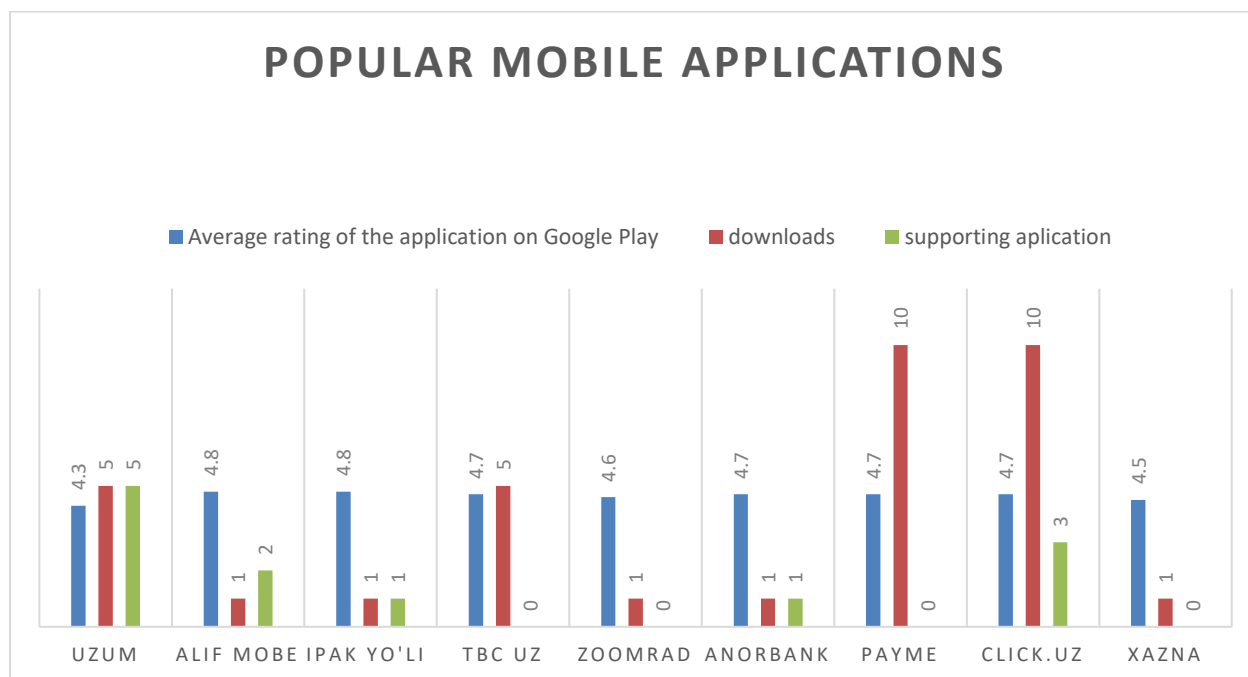
1. Digitalization and technological development
2. Expansion of services
3. Security and data protection
4. Increasing the financial literacy of consumers and improving the classification of the personnel system of banks.

Many banks are actively introducing digital technologies such as mobile applications, online banking, blockchain, etc. to improve the availability of services and streamline processes.



The level of digitalization of all user tasks in mobile banks of Uzbekistan does not exceed 50-70%. Some processes still take place offline: obtaining certificates and documents for presentation to some institution, data management, uploading information on accounts. These tasks fall under the category of digital office and can be solved through the application. The strong quality of mobile banks in Uzbekistan is the digitalization of payments. The leaders in this are UZUM (5 million+ downloads, average rating 4.3, there are 5 supporting applications), Alif Mobi (1 million+ downloads, average rating 4.7, supporting applications 1), Ipak Yo'li Mobile (1 million+ downloads, average rating 4.8, supporting application 1) TBC UZ (5 million+ downloads, average rating 4.7, supporting applications 1), Zoomrad (1 million+ downloads, average rating 4.6, no supporting application), Anorbank (1 million+ downloads, average rating 4.6, supporting application 1) etc.

I would also like to see how payment systems like Payme and Click are doing. Users are more in demand for them. Both systems have over 10 million downloads and an average rating of 4.7.



What is the difference between payment systems and banks?

The payment system supports the national card of any bank, a convenient electronic wallet, any payments and transfers are available, you can use services with or without identification, the structure is easy to understand and, most importantly, all data is available to the client.

- Not all banking applications work with other people's cards (in some banks you can attach other cards to pay for loans and online deposits. Only a bank card is supported for payments).
- Not all applications allow you to make payments to online stores, even within the country (such as
- Not all banks do not require support for the application itself. Many applications do not allow online transfers from or to other countries.



- Not all applications offer foreign exchange transactions in all currencies (almost all banks only offer US dollars)

Currently, numerous users are looking for applications with ruble and euro wallets to make online payments.

The AVO application, although not a trend among users, in a short time (it became available from 02/20/24) was able to accumulate enough clients in Uzbekistan. And how does it attract the client? Transfers with foreign currency are available, promotions to attract customers, and the most relevant are credit cards with 0% interest for a certain period. Consumers themselves search for and find clients, which helps developers reach a wide audience in a short time and this spreads like geometric progress. Provides feedback to clients to resolve problems and answer questions.

Apart from online transfers from Sberbank and the Golden Crown, interstate transfers are not available in many banking applications, at least with neighboring countries. Again, you need to look for bank branches, although this function is also possible for mobile applications. All users still go to the bank to pay for the visa service, since embassies charge for services either in US dollars or in euros.

Visa applications and documents are mostly processed online through the websites of the desired country. Banks need to open correspondent accounts for embassies to resolve the issue of payment from a card and in the required currency. By solving online payment, other issues will be resolved. Such as currency exchange, searching for the nearest bank offices and wasting time in queues.

Conclusion:

For successful and effective development in a highly competitive environment, the banking sector of Uzbekistan needs to strengthen its position in digital banking, invest not only for the development and expansion of assets, but also constantly improve by creating an ecosystem and expanding cooperation with fintech institutions with the same goals.

Adopting advanced technologies such as artificial intelligence to provide seamless customer service and streamline operations. In addition, improving cybersecurity becomes an integral part of the strategy, and investing in digital literacy will help create a more informed and technologically aware society. Only in this way can the banking sector truly survive and prosper.

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