

## Development of the Banking System of Uzbekistan in the Conditions of Digitalization of the Economy

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**Abstract:** The article presents the key aspects of the development of the banking sector in the context of digitalization. The features of digital banks and trends in their development in Uzbekistan are revealed. Proposals have been formulated on priority areas for the use of digital technologies as part of the further development of the principles and procedures of management.

**Keywords:** banking system, banking sector, digital bank, digital technologies, digitalization, strategy, priorities.

### Introduction

Mankind receives a lot of information every day. This is largely due to the ever-growing technical capabilities of mobile phones, the Internet, smartphones, people's involvement in social networks and the growth of Internet speed. The transformation of commercial banks and the transition to a digital banking system is a response to the development and active dissemination of new information technologies around the world, moreover, digital technologies not only improve the quality of products and services, but also reduce unnecessary costs. The development of digital financial services is an important aspect of the development of the country's banking and financial system.

Of course, today we can observe radical changes in society, government, economy, business, trade and banking due to significant changes in the information system. After the signing of the Presidential Decree "On measures to radically improve the activities of the Central Bank of the Republic of Uzbekistan", the banking system was given the task of organizing "digital" banks and banking divisions specializing in banking and customer service using innovative banking technologies in order to further improve the quality service.

The concept of "digital banking" has developed rapidly in European countries during 2015-2020. Digital banks are widely using modern digital innovations to provide their customers with more convenient and useful services. The digital transformation of financial services will help expand the economic opportunities for customers, while creating a wide range of opportunities for bank customers, which is an important step towards increasing financial activity. In a word, one of the prospects of digital banks is to reduce the cost of services by 40-60% due to the digitalization of these financial sectors. A visit to the bank will save customers time and money on paperwork.

The banking system of the Republic of Uzbekistan today is introducing modern innovative ICT into activities, which is of great importance for the development of digitalization of banking activities. The introduction of ICT in banks inevitably leads to radical changes in structural, functional and personnel characteristics. And this, in turn, makes it possible to evaluate the effectiveness of transformations not by quantitative financial results, but by qualitative ones. The effectiveness of the banking system is very low, and the President of the People's Republic of Uzbekistan Shavkat Mirziyoyev of the Oliy Majlis of the Republic of Uzbekistan said: "The

banking system will last for 10-15 years with the development of new technologies and new banking products. software". [ 1 ].

In Uzbekistan, in recent years, the digital banking model has been transformed, and it is becoming more and more popular and widespread. Banks invest in the development of this business model. Digital technologies are technologies that use electronic computing equipment to record code pulses in a certain sequence and at a certain frequency [ 2 ]. In Uzbekistan, taking into account the world experience, President Sh. Mirziyoyev ordered to implement digitalization projects in various areas of the economy until 2025. He said: “Without the digital economy, the country's economy has no future” [ 3 ] .

**Analysis of scientific literature.**

With great attention, the digitalization of the banking system is studied by theorists and practitioners. K. Skinner [ 4 ] revealed the conditions for creating a digital bank, its advantages, as well as problems and prospects. J. Kronkis studied the experience of digitalization in the process of transforming financial services [ 5 ], etc. Sharma Gaurav, who is based in the HCL Noida SEZ office and leads the global PMG function on the Next Generation Data Center (NGDC) team in his publication "What is Digital Banking?" it is argued that digital banking is part of a broader context of the transition to online banking, where banking services are provided via the Internet [ 6 ] .

**Main part.**

In Uzbekistan, the banking system is divided into two levels: the first level includes the Central Bank, the second - commercial banks and credit organizations. The Central Bank makes decisions within its powers and functions independently of other state authorities and management. [ 7 ]. 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. In the world, several central banks are exploring the issue of the possibility of state support for digital currency, reducing capital outflow, money laundering , tax evasion, organizing economic activity . In 2017, the banking system of the Republic of Uzbekistan included 28 commercial banks, then at the beginning of 2021 there were 33 of them, of which two were registered in 2020. All these banks provide a traditional range of banking services: lending, deposit operations, settlement and cash services, etc. (Table 1)

**Infrastructure of banks and credit organizations**

	2017	2018	2019
1. Total-to- credit organizations	104	121	147
in volume including:			
Commercial banks, of which:	28	29	30
<i>banks with state stake</i>	11	13	13
<i>other banks</i>	17	16	17
No banking credit organizations, from them:	76	92	117
<i>microcredit organizations</i>	30	37	56
<i>pawn shops</i>	46	55	61
2. branches of commercial banks	862	876	850
3. banking service centers (service offices and mini-banks)	980	1151	1050
4. 24-hour self- service points (24/7)			902

**Source: Central Bank of Uzbekistan. URL: <https://cbu.uz/>**

*\* There are no branches of commercial banks and non-banking credit organizations abroad*

According to the table, it can be seen that the number of non-bank credit institutions for 2017–2019 increased by 41, taking into account the financing of small businesses and private entrepreneurship, non-bank credit institutions are flexible and accessible.

In turn, the digital transformation of banks is aimed at improving the needs of customers, as well as the population and organizations. The process of digital transformation should be based on a digital strategy developed taking into account the characteristics and needs of a particular bank[8].

Decree of the President of the Republic of Uzbekistan UP-5992 dated May 12, 2020 No. The "Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025" was approved. The strategy was developed in accordance with the State Program for the implementation of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021. The strategy defines the goals, objectives and priorities for the development of the banking system, directions for the transformation and reform of the banking system in the period 2020-2025, ways to find possible solutions based on the experience of transforming the financial sector of foreign countries, taking into account global trends in the financial sector.

The main goal of the Strategy is to carry out comprehensive reforms in the banking system aimed at creating a modern banking system, increasing the investment attractiveness of banks and introducing new standards of banking services.

## **Conclusion.**

Digital transformation is a transformation of bank structures based on the use of digital technologies, a change in the target orientation of activities that ensures the creation of new services and new market opportunities. All over the world, digitalization is replacing existing business models in banks, and the market for mobile and contactless payments, digital currencies, etc. is growing rapidly.

In Uzbekistan, banks, due to strict regulations and a high state share in them, have IT infrastructures that are not very flexible and difficult to integrate with new solutions. In recent years, banks have created digital business units in their structure and strive to be in trend. They offer safe storage of deposits, transactions, acceptance at bank branches, use of a network of information kiosks and ATMs, issuance of loans, exchange services, etc. These services are provided mainly in branches, partly through Internet banking and mobile applications.

Statistical assessment of the use of modern ICT by banks makes it possible to monitor the level of ICT development. In order to change the situation, banks need to have employees with the appropriate professional knowledge on staff, enter into agreements with leading technology providers and use the most efficient and effective. Improving the efficiency of the banking system through digitalization will meet the growing needs of business entities and the population for 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 accessibility quality financial services are priority directions reforming banking systems Uzbekistan.

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