

## **Issues of Digitization of the Banking and Financial System in the Integration of the Republic of Uzbekistan into the World Economy**

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**Annotation:** Nowadays Digitalization processes are rapidly accuring national economies all around the World. The level of digitalization remains an important factor in the active participation of national economies in their integration and not lagging behind the fastest growing regions. In this research the state of digitization of the banking and financial system of Uzbekistan was examined. Existing shortcomings were analyzed and suggestions and conclusions were made.

**Keywords:** Innovation, digitalization, digital economic system, mobile banking, digital technologies, transactions, digital banking.

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## INTRODUCTION

The digital economy is a system of economic, social and cultural communication based on the use of digital technologies. It is sometimes referred to as the Internet economy, the new economy, or the web economy [1]. Digital and traditional economies are merging with the development of technology and the process of globalization. It is no exaggeration to say that the introduction of this concept into the banking system has led to a radical change in this system. The economic processes that we face in our daily lives, from access to a computer or mobile device to cashless transactions in trade, show the advantages of digital banking, and this is happening now, not in the future.

Digital banking, including online and mobile banking, is creating more opportunities than ever for people to perform the tasks they need to regulate their financial situation. The importance of digital banking services is growing dramatically, especially during the Covid-19 crisis, when there was a need to maintain social distance.

When the Internet appeared in 1983, the UK created the Homelink system, which allowed depositors to check their deposits, pay bills and make money transfers by connecting their phones to a bank computer. In the same year, a similar Pronto system was launched in the United States. At first, people were skeptical of this innovation, but with the advent of the mass Internet, there has been a major shift in the established concept, including in banking institutions.

In 2001, Bank of America became the first successful bank in the field of e-banking, providing more than \$ 1 billion in online services, setting an example to banks around the world to accelerate the development and spread of e-banking. About the Internet. In 2017, the same Bank of America opened three bank branches, which were called "automated terminals for banking services". The latter has become prototypes, now called digital banking or virtual banking / neobank.

Internet-banking means access to banking products and services from a computer through the bank's website. You can check your balance or get information about your account to pay for electricity. You can use additional banking services at many banks, such as applying for a loan or credit card through an online banking portal.

Mobile banking is the use of an app to access certain banking services via mobile devices such as a smartphone or tablet. These apps are the property of the bank where you opened your account and usually use the same login information as your online banking portal.

With the digitization of our economy, the term Neobank (in ancient Greek - "new") came into circulation. The term first appeared in foreign media in 2017 as a new entrant in the banking sector that has only begun to provide banking services remotely. There is no single recognized explanation for it today, so you can find names like "digital banking", "virtual banking", "online banking" and "neobank". It should be noted that digital banks are divided into 2 types:

- licensed, operating independently under its own brand;
- It cooperates directly with existing traditional banks and has become a kind of online subsidiary of these banks, but at the same time they have their own name and brand.

For example, in 2020, the digital bank of Georgia TBC Bank was opened in Uzbekistan, which has its head office and full branches in Georgia, as well as a digital branch called Space, which is located as a licensed digital bank of TBC Bank.

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There are two digital banks in Uzbekistan - the first local commercial digital bank of Anorbank, as well as the above-mentioned branch of the Georgian digital bank.

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It is noteworthy that due to the resolution of the President of Uzbekistan "On measures to radically improve the activities of the Central Bank" in 2018 created favorable conditions for the opening of digital banks in Uzbekistan. Apparently, the number of digital banks is now much lower compared to "traditional" banks. However, it is possible to assess the advantages of digital banks over "traditional" banks and predict that their number will increase significantly in the near future.

Advantages and disadvantages of digital banking. The advantages of the new banks over the traditional ones are: service to new customers without queues and corruption; Customer support is available 24/7/365; most online banking transactions are inexpensive, all processes are based on blockchain technology, and loan rates and deposits are often offered to the customer at a greater benefit.

Digital banks focus on the target audience (advanced youth and business people) adapted to modern technologies and online banking services. The main source of income for such banks is transaction fees, paid subscriptions to VIP or premium services, and commissions for third-party services (e.g., an online store that adds a banking app and pays a "rent" to be digital) banking platform).

Some of the disadvantages of digital banking are that it involves a narrow audience. For example, most retirees and the elderly, who are not familiar with modern technology, do not have full access to neobank services. In addition, digital banks are "sharpening" mainly for money transactions within the network and without their terminals (or a small part of them), and sometimes even without plastic cards (for virtual cards and e-wallets). For some, this may be the deciding factor in choosing a traditional bank.

In addition, the factors slowing down the spread of digital banking in Uzbekistan are the lack of harmonization of the regulatory framework and the lack of technological capabilities (data centers, experienced IT specialists, the coverage and speed of the Internet, etc.).

## **THE MAIN FINDINGS AND RESULTS**

It is well known that money is equal to the value of goods and services. Their forms vary: from ordinary coins and banknotes to digital and information sources of their issuance. There are currently 157 currencies in circulation in 193 countries. According to the information portal FinFocus, 80.9 trillion. including long-term deposits, of which 5 trillion. - in coins and banknotes, the rest - in electronic form. Among them, the most popular are 5 national currency units (US dollar, British pound sterling, Japanese yen, Swiss franc and Australian dollar) and 1 interstate - the euro. There are also gold and foreign exchange reserves, without which no state can do. They are valued at \$ 7.8 trillion. The IMF and the central banks of the participating countries account for about 17 percent of all gold reserves. It is also worth mentioning cryptocurrencies - virtual money. The total value of cryptocurrencies in the world is estimated at \$ 196.5 billion, according to the international journal Global Finance. The top three in terms of market capitalization by 2020 include Bitcoin (\$ 156.5 billion), Ethereum (\$ 17.5 billion) and

Ripple (\$ 9.8 billion).

But that is only part of the total money supply. The rest, and that's a pretty big share, cashless. When asked how much electronic money is in the accounts of different e-wallets, no research provides accurate data. According to various experts, the global volume of e-money and securities could fluctuate and reach \$ 1.28 trillion. (or \$ 1,280 trillion), that is. we can say with certainty that almost all money in the world today is cashless. Thus, in developed countries, the amount of cash does not exceed 10%, ie. about 90% of all money in developed countries is electronic. For example, according to the National Association of E-Commerce Participants in the Russian Federation, e-money turnover is 1.7 trillion rubles a year. rubles, and the e-wallet is used by more than 10 million Russians. Today, the leaders of the Russian electronic money market are WebMoney and Yandex.Money, whose total share is about 46%.

According to the UK's specialized resource LearnBonds, the global digital payment market in 2020 was a record \$ 4.7 trillion, up 15.3% from the previous year. Analysts predict that the market will continue to grow in the coming years and reach \$ 6.7 trillion by 2023. According to a statistic study by Finista Technology, the global digital payment market will grow by an average of 14% per year in 2017-2023. The market is growing mainly due to online commerce. Over the next three years, digital payments in this segment will account for 67 percent of the total number of digital payments. However, mobile payments show the most significant growth: if in 2019 their volume was \$ 745 billion worldwide, in 2023 it will reach \$ 2.1 trillion. Currently, China is the world leader in the volume of digital payments, which by 2023 will account for 49% of the total world volume (\$ 3.1 trillion).

In February 2020, the Law of the Republic of Uzbekistan "On Payments and Payment Systems" came into force, including regulating the use of electronic money and payment systems. There are so many electronic money in Uzbekistan, only its circulation is carried out in an electronic system. From them you can buy goods and services from individual entrepreneurs and system entities. For them, special electronic wallets are formed, which receive electronic currency for goods sold or services provided for the subsequent transfer of the amount equivalent to the current accounts of the bank.

In February 2020, the Law of the Republic of Uzbekistan "On Payments and Payment Systems" came into force, including regulating the use of electronic money and payment systems. Today, there are three such systems in Uzbekistan - Click, Payme and Easy Payment. The first was the Brio Group, which registered the Easy Electronic Money System. Turkiston PJSCB was the issuer of the electronic money system. In August 2020, LLC Inspired (E-Card) and LLC Click (Click) registered electronic money systems. The issuers were AKB Universal and AKB Agrobank, respectively. Currently, about 500,000 wallets have been created in the Click system, more than 140,000 in Oson, and more than 100,000 in Payme.

It is important to know that e-wallets for consumers in Uzbekistan are mainly for those who do not have a bank card, but want to use electronic payments. However, the capabilities of such wallets are limited compared to classic plastic cards, and fully electronic wallets are not yet able to replace the cards. You can use them only in places where contactless payment is accepted (for example, using a QR-code). It is also not possible to withdraw cash from an e-wallet at an ATM.

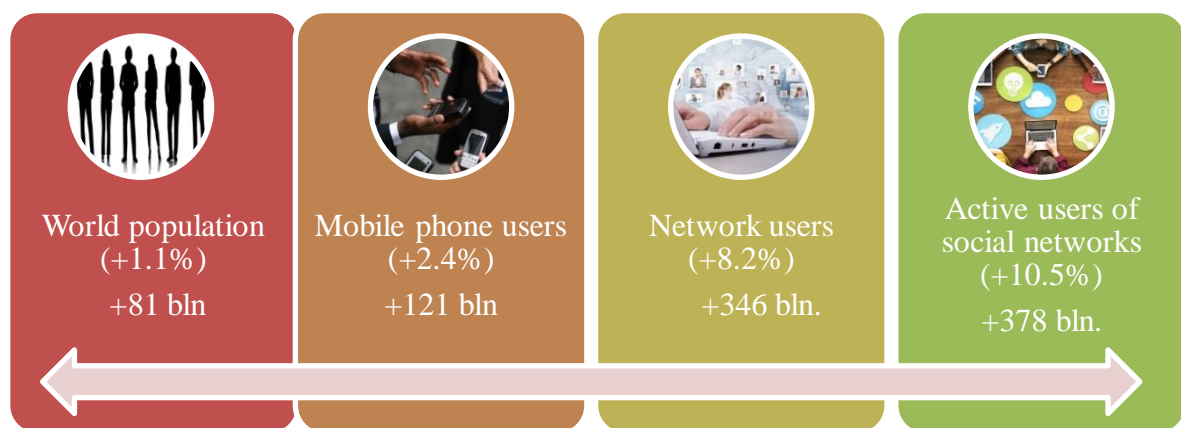
The expansion of electronic circulation is paying special attention to cybersecurity issues. According to a survey of IT directors of companies in Uzbekistan in 2019, 55% of companies in the country are exposed to internal cyber threats, and 72% - to external threats. 'Idi. For example,

spam and malware have become the most common cyber threats. Also, 18 percent of respondents said their companies were harmed by the spread of random data, and 10 percent by intentional damage. The most important entrepreneurs in Uzbekistan pay attention to financial data: 75% of companies say they need special protection against cyber-threats, 48% - information on operational activities, 45% - partners and customers. 25% - personal data of employees.

Sberbank, Russia's largest bank, began the digital transformation process in 2017, initially moving from four leased data centers where bank data is stored to a new, bank-owned data center. Today, Sberbank, despite its huge market share, compares its activities with technology companies rather than other banks to respond quickly and targeted to changes. Sberbank Online has become the largest payment system for bank cards with 40 million monthly users. By partnering with financial technology startups, investments and joint stock companies around the world, Sberbank hopes to create an interface in the market. For example, Apple and Android are planning to enter the market with new solutions for using and creating apps for other institutions.

To understand how comprehensive digital banking technology is, we will try to analyze it on the example of the United Kingdom. As of 2021, a quarter of British citizens (27%, 14.0 million people) preferred to open an account in digital banks. This means that while the number of digital banking customers has tripled since January 2019, by the end of 2021, 38% of Britons (20.0 million people) will be digital banking customers. 4 out of 5 British citizens use one of the digital banking services. Today, about 9.5 million individuals in Uzbekistan use this service.

At the same time, it should be noted that despite various negative factors, the use of digital banking and technology in the world is growing day by day (Figure 1).



**Figure 1. The dynamics of the use of digital technologies in the world in January 2020**

*Source: Compiled by the author.*

## CONCLUSION

Statistics show that the digitization of the banking system is a direct requirement of the times. In short, there are a number of factors to consider when digitizing banks in Uzbekistan:

1. It's a common sense

If a bank chooses to create a digital economy as a direction of development, it must first become a digital organization. For example, the Development Bank of Nigeria (DBN Digital Bank) started operations in 2018. He started the banking business by developing a digital system that

enables the adoption of digital technologies, cloud services, and a solid foundation for digital growth.

2. Understand key “users” and improve their user interface.

It means thinking through the digital interface and the experience of applying, paying and monitoring / reporting for partner funds. Of course, the process of understanding the needs of users - whether they are borrowers or other financial institutions - is not the same. It is important to have clear goals and change as needed.

3. Help businesses develop digital skills. Many organizations offer training programs to help start-ups. Programs can include business planning, accounting and financial management, marketing and more.

4. Use policies aimed at building a strong digital ecosystem. Developed banks are located in areas that are at the peak of politics, financial markets and economic development. Usually their board members are members of the government. Employees, especially managers, can vary between government and commercial banks. They are mainly independent agencies under the main ministries of finance, agriculture, trade and others. They are not usually regulated like a commercial bank, but are often in close contact with regulatory authorities under independent legislation. Together, these attributes mean that state-owned banks occupy a single political position. They have the opportunity to sit in the political arena and advocate for better services that improve financial services and economic development and financial inclusion.

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