

## **Development Of Banking Activity In The Modern World**

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### **Abstract**

This article reveals the prospects for banks to use the digital economy's opportunities based on high development dynamics. To actively introduce innovative types of banking services into the banking system, it is necessary to develop a strategy for developing the digital economy.

### **1 Introduction**

Today, digital technology is becoming the most important and key to developing the country's economy. They are undoubtedly evolving at such a rapid pace, accelerating change and progress and accelerating the pace of change. The economic transformation and formation of the banking system in the Republic of Uzbekistan are actively developing digital technology of banking activity. In turn, the development of networks and network services has led to the penetration of information technologies in the interaction between the client and the bank.

In recent years, the work carried out on the widespread introduction of digital technologies in the social sphere has also given priority to the use of electronic services by the population, the gradual transfer of public services into electronic format, and digital skills the population. In order to accelerate the development of digitization in the Republic of Uzbekistan, as well as to increase the competitiveness of the national economy and ensure the realization of the objectives defined in the State programme for the implementation of the "Strategy for Action" in the five priority areas of development of the Republic of Uzbekistan in 2017-2021 in «Year of development of science, education and digital economy»[1]

### **2 Literature Review**

In recent years, the reforms carried out in Uzbekistan had been accompanied by the active introduction of modern information and communication technologies and by increased access by the population to telecommunications services. Public services phased into electronic form, especially in the banking sector. Several measures were taken to implement the country's development. The strategy pays special attention to the current issues of the banking system, which allowed to improve the adequate condition and support the banking sphere. It also had a positive impact on the economic development of banks and on the availability of banking services.

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### **3 Materials and Methods**

To ensure the accelerated digital development of the Republic of Uzbekistan, the development of a digital economy based on data, by creating the necessary environment for the production of innovative products and increasing the efficiency of State administration, A presidential decree had adopted to provide the public and business enterprises with appropriate State services. In the course of realization of the strategy «Digital Uzbekistan-2030» and measures for its practical realization, President of the Republic of Uzbekistan Mirziyoyev Shavkat Miromonovich noted that the completion by January 1, 2022, of the digital transformation of commercial banks by providing them with a wide range of online services, including the sale of credit products, the opening of deposits and settlement accounts remotely[2].

### **4 Results and Discussion**

The Head of State approved the "Strategy for the Reform of the Banking System of the Republic of Uzbekistan" for 2020-2025, accordingly identified essential issues affecting the bank's development. Naturally, several changes were made, such as the introduction of new concepts and technologies in banking (fintech, marketplace, digital banking); Broadening the range and quality of banking services by attracting international best practices and technologies; expansion of product offerings, forms and types of non-bank financial services, including new solutions in the area of financial technologies. It should be noted that the most prominent commercial banks lagged in their transformation to the modern requirements of the industry. Additionally, they lagged in the practical implementation of corporate governance standards and information technology products, modern methods of asset and liability management, customer relations[3].

Accelerated measures required to ensure the widespread introduction of information technologies in the banking system based on modern service solutions, financial technologies and adequate information security and reduced the influence of the human factor in providing financial services. In Uzbekistan, 2020-year declared «Year of development of science, education and digital economy». This did not mean that we were beginning to move to a new level, but we would focus on what evolved over the years since Uzbekistan became independent. The transition to a digital economy is significantly changing the banking market. All these changes undoubtedly have an impact on the banking environment of Uzbekistan.

Since the reforms began, the banking sector blown up as the suffocating restrictions had lifted. A comprehensive "Banking Reform Road Map" adopted with a specific road map containing specific steps that separated the designated individuals' responsibility. There were 31 banks in Uzbekistan, 13 of which were State-owned. According to the "Road map", the State would retain only four banks, while the rest would fully be privatized. In order to prepare these banks for sale, the State embarked on a significant transformation process with the assistance of the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the International Consulting Company "The Big Four" and the others.

IFC had already extended a \$35 million convertible loan to one of the leading banks, and three more banks were preparing for partial privatization by development banks. The Ministry of Finance had established a roster of international independent directors, and the activities of the Supervisory Board of State Banks were also changing.

The banking system's assets were 52.1 per cent of GDP, and domestic credit to GDP was 40.4 per cent that was modest.

Two foreign banks - TBC Bank of Georgia and Halyk Bank of Kazakhstan (under the brand Teng Bank) - had already entered the Uzbek market and received a bank license. The local digital bank "Anor" also licensed. Other players, such as OTP Bank of Hungary, were also reportedly considering opening a store in Uzbekistan.

Uzbekistan received an international credit rating from the BB - and successfully issued Eurobonds for \$1 billion for 5 and 10 years, followed last year by issuing bonds for \$300 million by the leading Uzbek bank SQB(Sanoat Qulish Bank-Industrial Construction Bank). Most of the revenues from this fiesta money invested in the production of physical gold in the Navoi and Almalyk mining enterprises, which increased the level of production and quantity of gold in the state reserves.

Several more banks were preparing to enter the fixed-income market. "Navoi Mining" (the largest producer of gold and uranium) and "Uzbek hydropower" have also announced their intentions to issue international bonds.

The coronavirus pandemic turned the world upside down, and some aspects of how consumers manage their financial lives were likely to change forever. However, if there were any positive side to all this, some of these changes would be positive. Fortunately, technology helped financial institutions cope with the disruption, allowing them to maintain greater business continuity while keeping their employees and clients safe. Nevertheless, ensuring that a limited number of personal services remain available would be necessary, would ensure the reliability, efficiency and security of digital solutions.

The collective response of the banking industry to the pandemic was remarkable. It was a difficult feat to fully virtualize and execute an untested operating model in a few weeks. Despite some setbacks, many banking operations were smooth. Clients served, employees worked productively, and regulators reassured. Banks had effectively implemented technologies and demonstrated unprecedented flexibility and sustainability. As vital engines of growth for the world economy through their multiple roles as intermediaries in financial markets, asset owners, investors and employers - banks had a crucial role in sustainable financing. Banks could help shift capital towards economic activities that were net positive for society. They could also stimulate new customer and counterparty behaviour.

Many banks accepted this growing power and influence and strengthened environmental, social and governance commitments in meaningful ways.

In addition to measures to develop the payment system, special attention paid to improving its regulatory framework. In this connection, the Law of the Republic of Uzbekistan «On Payments and Payment Systems» drafted and approved on November 1, 2019, based on an in-depth study of the best practices of foreign countries and international norms and regulations. This Law, as single information and legal environment in the field of payments and payment systems, served as a normative basis for effective regulation by the Central Bank of the market of payment services, functioning of payment systems, operators of payment systems, payment service providers, e-money relations and e-money participants[4].

Under the Decision of the President of the Republic of Uzbekistan of September 19, 2018 PP-3945 «On measures for the development of the national payment system» in the fourth quarter of 2018, the National Interbank Processing Centre and the payment system «Humo» established and launched in the first quarter of 2019. The launch of this retail payment system contributed to creating a competitive environment for the provision of retail payment services based on bank cards, significantly increased the scale of cashless payments in the economy, and reduced risks related to the operation of retail payment systems bank cards. The "Humo" payment system,

represented by its operator, established relations with international payment systems (Visa, MasterCard, UnionPay International) that would make it possible to conduct operations in foreign currency from "Humo" bank cards abroad and the cards of the above-mentioned foreign systems on the territory of Uzbekistan. Bank membership in the payment system «HumoCard» considered voluntary[5].

To receive payments from the public 24 hours a day (24/7), the Central Bank Clearing System of Retail Payments established. This system allowed payment in real-time through branches and banks of commercial banks and remote banking systems of taxes and other obligatory payments, payment for electricity and gas consumption (also other utilities), mobile operators, digital TV, notaries and other services. All commercial banks are now paying through this system, and many sites sell their products online without leaving their offices. Worldwide online stores entered the banking market as ALIEXPRESS[6]. For such services, payment through bank cards became even more convenient thanks to the innovative services of modern banks of Uzbekistan. All banks in the country had their applications where you can use banking services from home. The bank's customers could take microloans, open deposits, and pay bills; local and international transfers became available.

In a new study, What is Going On in Banking 2020, the top five technologies for 2020 included [7]:

- 1) Opening of digital accounts;
- 2) P2P payments
- 3) Video cooperation/marketing;
- 4) Cloud computation
- 5) Application Programming Interfaces (APIs).

Remote technologies allowed the client to make the most convenient use of banking services and minimized time and financial costs when working with the bank. The application platform would have access to any facilities throughout the bank and would therefore be able to collect information from any source, whether deposit accounts, credit and debit cards, loans, mortgages, investments, etc.

Nowadays, the public used mobile applications of commercial banks for real-time (P2P) card-to-card transactions, budget payments, utility payments, micro-loans and repayments, online deposits, the opening of a remote deposit and loan account, payment from an international bank card account, online conversion and other services. It was important to note that the world's banks plan to choose a new or a replacement P2P payment instrument in 2020. This percentage was down from 35% who planned to do so in 2019. However, the number of banks and credit unions seeking to expand or change their P2P payment capabilities risen from 25% in 2019 to 40% in 2020. It should be emphasized that Uzbekistan was also introducing transfers of funds from one international plastic card to another, including P2P between conversion cards. For example, this possibility found in «ASIA ALLIANCE BANK».

Consequently, mobile banking for individuals, so-called «My Alliance», launched, which facilitated the work of interested persons. It allowed individuals, like bank customers, to use the right retail services, especially P2P, from one currency card to another via the bank's mobile application installed on the client's mobile device. To make payments for goods, services and jobs in the same row, one of the leading banks - SQB, also would provide its P2P payment capabilities in 2021.

**Table 1 Number of users of remote banking services**

Date	Legal entities and individual Entrepreneurs (thousands)	Natural persons (thousands)	Total (thousands)
1	2	3	4
<b>01.01.2011</b>	14.2	10.3	24.6
<b>01.01.2012</b>	26	30.7	56.7
<b>01.01.2013</b>	39.2	69.3	108.5
<b>01.01.2014</b>	56.5	207.8	264.3
<b>01.01.2015</b>	62.2	472.6	534.8
<b>01.01.2016</b>	81.5	979.5	1020
<b>01.01.2017</b>	135.6	1906.5	2042.1
<b>01.01.2018</b>	227.9	4225.4	4453.3
<b>01.01.2019</b>	359.8	7599.4	7959.1
<b>01.01.2020</b>	691	9462.5	10153.5

As showed in Table 1, the total number of users of remote service systems by bank accounts as of January 1 2020, was 10,153,500, of whom 691,000 were legal entities, and sole proprietors and 9,462,500 were natural persons. Compared to the situation on January 1 2019 (7,959.1 thousand), the total number of users of remote banking services increased by 127.6 per cent, respectively the number of legal entities and individual entrepreneurs (359.8) by 192.0 per cent and the number of natural persons (7,599.4) by 124.5 per cent.

It should be stressed that not every bank agreed to give money online. Many financial enterprises made a loan only in the presence of the client. At present, however, some Uzbek banks considered such inconveniences and submitted a new offer to their clients in an online loan. To do that, people sent an application and filed the paperwork. For example, ASAKA BANK - between 2,000,000 and 60,000,000 (30 to 730 days); MIKROKREDITBANK - from 1,000,000 to 20,000,000 (10 to 365 days); IPOTEKA BANK - from 10,000,000 to 500,000,000 (365 to 3,700 days)[8].

## 5 Conclusion

In conclusion, the prospects for the digital dismantling of existing banks were growing. Potential incremental changes in digital technology profoundly impact how brokering took place between investors and depositors, government and citizens, among others. This, in turn, might affect the dynamics of competition or other key risk factors for banks. We noted that COVID-19 accelerated the innovation and digitization of many banking markets. However, we also stressed that digital disruption offered many opportunities for banks to meet clients' rising expectations while helped banks expand and diversify revenues and control spending.

In summary, the following points could be concluded:

1. Digital technology offered a wide range of services to its clients. Clients could now interact with their bank accounts and perform financial transactions from virtually any place without time limitations.

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2. The application of innovative technologies would enable banks to offer quality services to customers.
3. The development of the necessary legal and regulatory framework to further develop digital economy relations could be proposed. At the same time, we were studying the best practices of foreign countries and applying them in practice yield effective results.

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