POSITION OF DIGITAL BANKING IN THE MODERN BANKING SYSTEM AND CONDITIONS OF FORMATION IN THE REPUBLIC OF UZBEKISTAN

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Abstract: The article discusses the place of digital banking in the financial ecosystem. With the support of the latest technologies, banks are working to identify new niches for business, develop individual services, implement innovative strategies, develop new market opportunities and increase profits. We emphasized important, in our mind, opinions of scientists in the field of digital banking, both from the point of view of commercial banks and from the side of customers. The article provides the elements of the legislative framework of Uzbekistan, which regulates the digital economy and contributes to its development, and underlines the main advantages and disadvantages of digitalization.

Key words: digital banking, big data, block chain, mining, smart contracts, cryptocurrencies, crowd funding.

Introduction

Today, it is impossible to imagine the banking industry without data digitalization. We visit banks' buildings less and less, and banks, for their part, try to do their best to promote this. We can place funds online, carry out online conversion without additional bureaucracy. All these points help to reduce costs on the part of banks and clients, as well as contribute to a decrease in the level of corruption.

The purpose of our article is to study the importance of research in the field of digitalization of the economy, in our case we will talk about banks, and show the state of the regulatory and legal framework of Uzbekistan, which is necessary for the effectiveness of this process.

We set the following tasks for our research:

Study the scientific literature and the opinions of individual scientists in the field of the use of digital technologies in banks;

To highlight the main advantages and disadvantages of digital banking in our opinion;
Study the preparedness of the regulatory framework of the Republic of Uzbekistan in the field of digital economy;

Make conclusions on the research and develop proposals.

Electronic processing significantly reduces the cost of the transaction. Banks have the ability to submit customer accounts electronically. The cost of delivering invoices in electronic form is significantly lower than if the invoice was delivered in paper form by mail. Electronic invoicing costs 40% less [1] than paper delivery. Such savings can offer both customers and banks a lower cost of banking services while still providing efficient and varied services.

It is much easier for banks to know consumer interests by using social media. Knowing the demand for certain banking products among customers, it is easier to develop and offer these products. Banks offer a “hub” of financial services, including billing, financial planning, real estate finance, insurance, lending and brokerage.

By acquiring the loyalty of the client, who becomes dependent on the bank for many financial instruments, it is possible to offer more banking service packages and get a higher income per client.

Banks are acquiring a new role, a kind of role of a financial portal that allows customers to use the products and services of the bank, avoiding bureaucracy, shortening the transaction time, and reducing dependence on the human factor.

Methodology

At choosing a research methodology, it is very important that it is chosen correctly, since research methodology always plays a key role in any research. An incorrectly chosen research methodology can harm the entire work and slow down the research process. When choosing a methodology, we are guided by three key aspects: what is the most rational choice for our research, what methods we intend to use when collecting data and what practical questions we need to find answers to. Referring to our task to show the advantages of digitalization of the economy and the preparation of the regulatory and legal framework of Uzbekistan, we concluded that we would use methods of the empirical and theoretical level, namely, methods of study and generalization, analysis and synthesis, observation. The data were collected in the course of other published studies related to the study of the regulatory framework of Uzbekistan.


**Literature analysis**

In our research, we tried to collect a holistic view of how banks and customers can benefit from digital banking. The study analyzed literature on customer experience, satisfaction, loyalty and financial performance by authors such as Keisidou, 2013, Klaus & Maklan, 2013, Yee, Yeung & Cheng, 2010. Scientists studied the financial statements of the bank and employees from the perspective of customers to understand the links between digital banking services, improving the quality of customer service and financial performance of banks. Teo, Anderson, Fenwick and Ying, (2014) report that businesses are constantly using digital technology to create new sources of value to improve customer service efficiency. Hence, every business must transform into a digital business in order to survive. This suggests that banks need to focus on digital technology as banking aims to improve customer service, as customer needs change. Customers want the highest quality service, convenience and the best digital experience.

However, studies of digital banking by Martins, Oliveira & Popovic, 2014, Hanafizadeh, Behboudi, Koshksaray & Tabar, 2014 have shown that there is more emphasis on learning than at studying customer experience, perceptions of banks and employees who make decisions on how to offer services. While digital banking is prevalent among major banks, it is still necessary to understand its impact on customers and bank financial performance, especially for different target customer groups. Keisidou, Sarigiannidis, Maditinos & Thalassinos, 2013, Patsiotis, Hughes & Webber, 2012, Garg, Rahman & Qureshi, 2014 believe that this will allow different banks to refine their strategies in accordance with the overall business model, goals and objectives.

**Results**

So, digital banking means the complete digitalization of banks and all their activities, programs and functions. This applies not only to the digitalization of banking services and products - the interface that customers see but also to the automation of internal processes.

Digital banking is the automation of every step of banking relationships that goes far beyond online, offline, mobile and internet banking platforms.

Digital banking is a complete transformation into a digital environment, interface, backend and everything in between, for both customers and employees. Hoffman Thomas, 1999 [4] says that digital banking relies on big data, analytics and uses all new technologies to improve the quality of customer service. A bank
can be considered digital-only if it has digitized all available functions - from product development to customer service.

**The main advantages of digital banking:**

1. Cutting costs. Banks have lowered their costs to be competitive. If a bank does not move to digitalization, it must, for example, continue to invest in expensive outdated hardware and software to keep these systems up to date;

2. The likelihood of increased profitability: banks do not have a complete overview of their customers. They lack intelligent systems to collect customer information and systems to target customers. The study of preferences through social networks, messengers leads to the creation of a banking product in accordance with the interests of customers. The larger the bank’s market share, the higher the likelihood of an increase in its profit;

3. Attracting and retaining customers and staying ahead of the competition: Fintechs and other newcomers have shocked the banking community. As a result, there is a growing demand for improved customer service and personalized services, and the products and services of well-known banking services are more expensive. Digital banking allowing to improve the quality of customer service and reduce costs, which is necessary in order to predict and anticipate customer demand;

4. Studying the benefits of new technologies allows predicting new technologies such as data analytics, blockchain and cognitive banking, which will have an impact on the business models of banking operations. However, legacy systems limit the ability to respond quickly to these events. A complete digitization position is needed to study the benefits of these technologies and to calculate the bank for the future.

Customer expectations are changing, new regulations are being introduced, and competition from tech companies is increasing. These changes should stimulate banks to create their digital space.

**The main disadvantages of digital banking:**

1. Security system. Digital banks are subject to the same laws and regulations as traditional banks. Sophisticated encryption software is designed to protect your account information, but no system is perfect. Stafford Barbara, 2001 [9] states that accounts can be vulnerable to phishing, hacker attacks, malware, and other unauthorized activities;

2. Types of services. Some digital banks may not offer all the
sophisticated financial services such as insurance and brokerage accounts that traditional banks offer. Traditional banks sometimes offer special services to regular customers such as discounted rates and investment advice at no additional cost. In addition, services such as notarization and bank signatures are not available on the Internet. They are required for many financial and legal transactions. However, today, social media users can lower the interest rate for the bank by gaining a certain number of likes for the bank. The system is identical to savings cards in stores. Having collected, for example, 10 thousand likes, the bank can reduce the lending rate by 0.2%, gaining 20 thousand - by 0.5%, etc., in accordance with the loyalty program of a particular bank.

3. Relationship with the client. Often, a bank, knowing its client, his credit history, the specifics of his business, can make decisions that are beneficial for the client. The digital banking system excludes such possibilities.

4. The complexity or significance of the transaction. Often a face-to-face meeting with a client is required to complete a major transaction or make an important decision. A traditional bank can hold meetings and call experts to resolve a specific issue. Complex international transactions, international financing problems, syndicates may not be possible with digital banks.

Uzbekistan adopted a Resolution of the President dated on July 03, 2018, No. 3832 "On measures for the development of the digital economy in the Republic of Uzbekistan" [12], which defines the most important tasks for the further development of the digital economy:

Implementation and development of activities in the field of turnover of crypto assets, including mining (activities to maintain the distribution platform and create new blocks with the ability to receive remuneration in the format of new units and commission fees in various cryptocurrencies), smart contracts (agreement in electronic form, exercise of rights and responsibilities for which is carried out by automatic execution of digital transactions), consulting, emission, exchange, storage, distribution, management, insurance, crowdfunding (collective financing), as well as blockchain technologies for diversifying various forms of investment and entrepreneurial activity;

Training of qualified personnel in the development and use of blockchain technologies with practical skills in the use of modern information and communication technologies;

Comprehensive development of cooperation with international and foreign organizations in the field of crypto assets and blockchain technologies, attracting
highly qualified foreign specialists in the development of blockchain technologies for the joint implementation of projects in the digital economy;

Creation of the necessary legal framework for the implementation of blockchain technologies, taking into account the best practices of foreign countries;

Ensuring close interaction between government bodies and business entities in the field of introducing innovative ideas, technologies and developments for the further development of the digital economy.

This Resolution also provides for the introduction of blockchain technologies from January 1, 2021, into the activities of state bodies, when maintaining state registers, classifiers and other databases, into the corporate governance system of large commercial organizations with the predominant participation of the state in the authorized capital, in clearing operations, when making payments, trade finance (letter of credit), as well as in project lending. Since October 1, 2018, the procedure has been in force according to which activities in the field of crypto asset turnover, including the creation of crypto exchanges for trading crypto assets, are subject to licensing. The decree provides for the adoption of the Law "On the Digital Economy and Blockchain Technologies", which provides for:

Basic concepts in the field of "blockchain" technologies and principles of its functioning;

Powers of state bodies, as well as participants in processes in the field of blockchain technologies;

Measures of responsibility in case of using blockchain technologies for illegal purposes.

In accordance with the Decree of the President as of January 09, 2018 No. 5296 "On measures to radically improve the activities of the central bank of the Republic of Uzbekistan" [14]. Banks, on the provision of retail services, improvement of remote banking services through the active use of innovative banking technologies.

In accordance with the Decree of the President of the Republic of Uzbekistan dated on November 21, 2018, No DP-4022 "On measures to further modernize the digital infrastructure in order to develop the digital economy" cost and customs fees) for goods not produced in the Republic of Uzbekistan, imported for the implementation of tasks assigned to the operator.
In accordance with the Decree of the President of the Republic of Uzbekistan dated on October 05, 2020 No. 5296 "On the approval of the strategy" DIGITAL UZBEKISTAN-2030" [15] and measures for its effective implementation", the implementation of over 220 priority projects is envisaged, providing for the improvement of the electronic government system, further develop the domestic market of software products and information technologies. As part of the digital transformation of regions and industries in 2020-2022, it is envisaged to increase the level of connection of settlements to the Internet from 78 to 95 per cent, as well as to complete the digital transformation of commercial banks by January 1, 2022, by providing them with a wide range of online services, including sales of credit products, the opening of deposits and settlement accounts in a remote form.

**Conclusions and offers**

The study demonstrates how banks can use digital banking to improve customer experience, customer acquisition, retention, by examining the experience and level of service of various customers, as well as improving financial performance through improved profitability, cost savings, return on assets, cost-benefit ratio, revenue and sales growth.

The study informs consumers about the attitude of consumers towards civil banks, which needs to consider ways to increase profits. This underlines the upward trend in investment in innovative digitalization technologies. This shows how innovations in civilization enable banks to introduce value-added services, differentiate products, increase sales, increase the competitiveness of banks, and enable them to respond to growing customer needs with digital devices.

The reports highlight operational and digital banking risks that affect the brand and reputation of banks, customer confidence, and service quality.

In our opinion, it is necessary to expand research in the field of digitalization. Uzbekistan is a densely populated country with a population of 34.5 million at the beginning of 2021. There are regions remote from the financial infrastructure. To reach these regions, first of all, it is necessary to have an uninterrupted Internet, which will allow banks to use digital services and educate clients about them. In addition, in our opinion, it is necessary to improve the financial literacy of the population.

The digitalization of the economy of Uzbekistan will improve any quality of transactions in the banking and financial system, as well as any other transaction. The result of digital visualization will provide even more transparent information.
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