



## **Prospects for Digitalization of Retail Lending Practice in Banks of the Republic of Uzbekistan.**

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The main problem of creating and developing the information society and digital economy in the Republic of Uzbekistan is providing the economy with various effective means of communication, developing elements of e-commerce and their integration. In modern conditions, the economy is being transformed into a system with extensive use of digital technologies. Today, the main direction of economic policy is the creation of technologically modern types of communication, as it is a factor in sustainable economic growth. Effective communications are of great importance in the creation and development of individual enterprises and organizations, in increasing the competitiveness of all sectors of the national economy. The beginning of the 21st century is characterized by the emergence of new information technologies, the active development of the Internet and an increase in the number of its users, which led to the emergence of new areas of research in the global and national economy.

In the course of consistent reform of the financial sector, a number of measures were implemented, as a result of which the necessary legal conditions were created for conducting a progressive banking business and strengthening the competitive environment in the sector.<sup>1</sup>

Currently, the main task of the management of the largest banks is to introduce new digital technologies and use them to analyze the potential customer market and increase profits through new channels of attracting and accelerating processes. Forecasts show that in the context of digitalization, most of the profits of the banking sector will go to those banks that can adapt to new conditions and successfully implement digital mechanisms, creating new products and processes. The most advanced banks in the world are already improving their mobile applications and organizing “hackathons” and agile teams, where specialists from different fields jointly develop and improve breakthrough technologies and new bank products, which makes this topic relevant for study.

The study of the economic nature of financial services in e-commerce in the context of the development of the digital economy, opinions and comments on economic content, theoretical, practical and methodological aspects were studied in the works of such foreign scientists as R. Anderson, S. Becker, S. Seppi, D. Ashter, D. Shaffey, D. Kujlan, J. Karlshoi, J. Schneider, S. Travel, economists of the Commonwealth of Independent States P.V. Antipina, E.V. Beschastnaya, A. Veres, P. Trubetskov, V.M. Davydov, A.V. Medvedeva, A.S. Poerov, D.V. Martsulevich, I.E. Shaidakov, domestic economists and scientists B.S. Akhbarov, A.Sh. Bekmuradov, S. Gulyamov as well as N.S. Kasimova, A.T. Kendzhabayev studied some features of e-commerce in their works.

According to a study by McKinsey, about 45% of all net profits in global retail banking will be generated through digital technologies.

Thus, digitalization will help develop new sales channels and offers for clients, but at the same time increase competition in the market due to the fact that each bank will develop in its own way, expanding its offer for retail banking clients. However, there are a number of threats associated with possible losses of net profit, in particular an increase in the operational risks of banks due to the development of digital technologies.

Today, each of us can do most of our work at home with just one phone or tablet in our hands. You can also open a mobile application or go to the official website of any organization and get the necessary information, place an order, make a payment and even send a complaint.

There are programs and devices that allow you to perform these operations in a matter of seconds, because previously it took months and often had to stand in line for days. All this is the result of the development of information and communication technologies (ICT), digitization of information, and integration of disparate data from paper sources into electronic databases. The rapid introduction of ICT into our lives has sharply increased the globalization of world economic relations and competition in the market for suppliers of goods and services, including financial ones. The banking system also continues to widely introduce information and communication technologies in accordance with the requirements of the time, as a result of which many banking services are automated. Now almost all banking services can be accessed instantly using a mobile phone or special devices. A few years ago there was no such possibility.

<sup>1</sup>Decree of the President of the Republic of Uzbekistan “On the strategy for reforming the banking system of the Republic of Uzbekistan for 2020 - 2025”

In the "Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025", approved by the President of the Republic of Uzbekistan on May 12, 2020, the priority is to create the necessary conditions for the widespread introduction of modern information and communication technologies. tasks were identified to automate business processes of commercial banks and expand remote banking services.

During the corporate transformation of commercial banks in the field of introducing modern information and communication technologies, the following activities are planned:

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

One of the important characteristics of the financial services sector is its rapid growth and widespread penetration of innovative financial instruments, which is reflected, in particular, in the disappearance of boundaries between different financial institutions. Many types and volumes of financial services are currently provided by insurance companies and commercial banks. These trends may become even more widespread in the future.

**Table- 1.**

**SWOT analysis of financial services in the digitalization of the economy<sup>2</sup>**

Strengths	Weak sides
<ul style="list-style-type: none"> <li>• Relatively high growth rates;</li> <li>• increasing the level of culture of using financial services;</li> <li>• gradual transition to a client-oriented development model;</li> <li>• presence of international financial services groups in the market;</li> <li>• openness of the economy.</li> </ul>	<ul style="list-style-type: none"> <li>• low level of financial literacy of the population;</li> <li>• low demand for non-classical types of financial services;</li> <li>• high price sensitivity;</li> <li>• rates are below the technically acceptable level;</li> <li>• high agent commissions;</li> <li>• the private sector counts on government assistance in the event of the introduction of new major technological innovations;</li> </ul>
Possibilities	Threats
<ul style="list-style-type: none"> <li>• market development potential;</li> <li>• economic growth prospects;</li> <li>• expectations of growth in the volume of financial services;</li> <li>• market volume;</li> <li>• tariff growth;</li> <li>• opportunity to enter neighboring markets and price competition</li> </ul>	<ul style="list-style-type: none"> <li>• worsening economic situation due to the pandemic;</li> <li>• increase in the cost of capital;</li> <li>• tightening capital requirements.</li> </ul>

The SWOT analysis shown in Table 1 shows the strengths and weaknesses of financial services in the digitalization of the economy. The main feature of financial services is intermediation, which is why this type of service is different from other services. Financial services are provided to those who need them through the redistribution of available financial resources, and the intermediary receives a commission for assisting in concluding and conducting a transaction. Financial services enable businesses to reduce the cost of lending, stimulate investment and trade, and provide investors with a range of tools to increase profits and manage risk. The above-mentioned feature of financial services is reflected in the documents of the World Trade Organization.<sup>3</sup>

<sup>2</sup>Compiled by the author based on materials from V.V. Barabanov. Using elements of the theory of international competitiveness to determine the development strategy of the MGIMO insurance market// <https://www.elibrary.ru/>

<sup>3</sup>Modern IT solutions for the financial industry - M.: Publishing Group "BDC Press", 2004.

The steps are aimed at developing the digital economy in our country, ensuring rapid growth of the economy of Uzbekistan, digitalization of banking services to accelerate the country's integration into the world economy and the free market along with economically developed countries. Digitalization of banking services is the establishment of relationships between the bank and the client based on digital information and communication technologies.

As bank clients benefit from financial services, they realize how important it is to provide convenience, quality and speed of service, save time and reduce operating costs, electronic document management.

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### **Accounting and management systems are integrated, CRM (Customer Relationship Management) is created.**

Access to banking facilities and services was difficult, especially in remote areas. Digital financial services have made it possible to effectively reach individuals and legal entities in remote and sparsely populated areas where it is unprofitable to open bank branches. Banks' business models are being optimized through digital transformation, and the banking and payment segment is developing: from remote banking services to changes in the field of financial transactions. Increased competition between banks. The transition to providing banking services in electronic format and the creation of convenience for the population, of course, increased competition.

On the other hand, as competition increases, so does the need to take advantage of new opportunities in the field of information and communication technologies. Thus, the digitalization of the economy has increased competition between banks and non-banking organizations in the financial services market. Customers now have the opportunity to choose where and when to use financial services. As a result of studying the client's needs, banks opened offices that operate around the clock (24/7). In accordance with these needs, electronic banking technologies offered in the financial market are rapidly developing. Examples include electronic payment systems, electronic money, remote banking services including online banking products, banking terminals and automated banking centers. The use of digital financial technologies optimizes the possibility of active cooperation between the government, payment service providers and customers. Constant analysis of customer requests and needs leads to the introduction of new service methods by banks and the creation of new attractive products. It should be noted that the pandemic also influenced the rapid development of digital financial services. Before quarantine, the population was less interested in remote banking services, preferring to come to the bank and solve the problem "on the spot." Only a few bank clients used mobile applications and software designed for remote banking. Residents who were unable to leave their homes due to quarantine felt an urgent need for remote banking services. They began to search for the necessary services through electronic channels and used them when necessary. This encourages banks to pay more attention to electronic applications, improve remote services, and mobile applications. In other words, the digitalization of the economy not only creates new opportunities for banks, but also encourages them to look for new ways to attract customers by increasing competition, creating favorable conditions for customers, and providing affordable and high-quality financial and payment services.

**Table 2.**

#### **Increasing the actual capacity of the electronic market commerce for 2018-2019<sup>4</sup>**

	2020	2021	2022	2023
<b>Number of transactions (millions)</b>	<b>71.4</b>	<b>69.8</b>	<b>72.1</b>	<b>73.8</b>
<b>Total amount of online transactions (billion soums)</b>	<b>872.4</b>	<b>1 610.7</b>	<b>2017.0</b>	<b>2516.3</b>
<b>Number of registered cards</b>	<b>813 831</b>	<b>817 179</b>	<b>1,038,336</b>	<b>1,052,816</b>

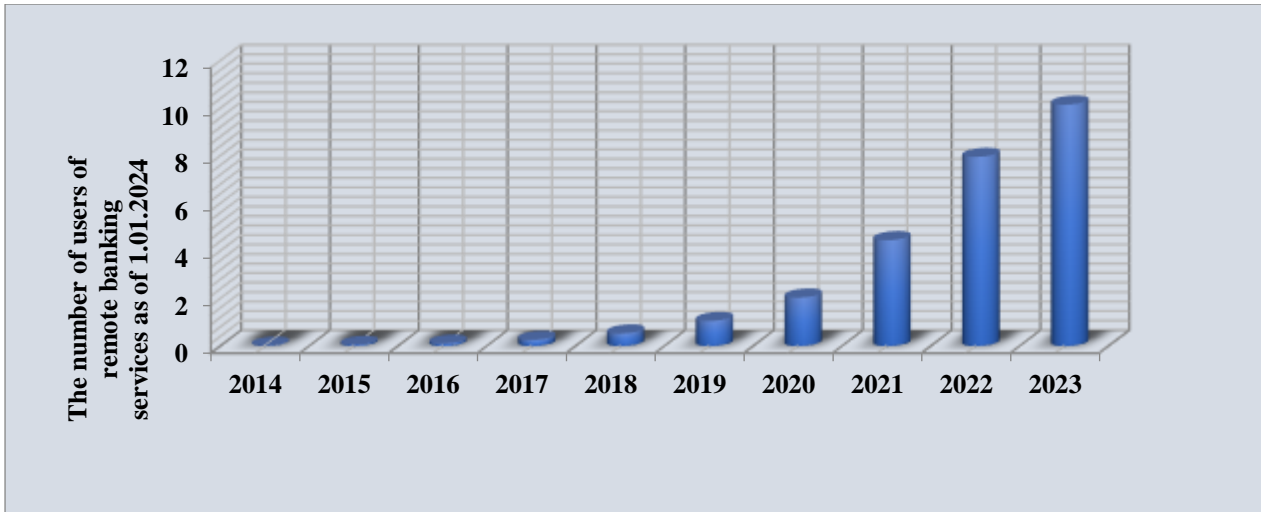
Based on the data presented by the Electronic Commerce Association of Uzbekistan, we can conclude that the number of transactions via the Internet is increasing every day. In addition, the number of bank cards in the country is increasing monthly, which indicates a clear growth trend in the e-commerce market. However, this is not the limit; growth will be even more dynamic if we attract more technologies and increase the efficiency of their use.

By region of the country, an analysis of the use of information services shows that information and communication services are more common in the capital and large regions.

**Results of digitalization of the payment system.** Over the past three years, effective work has been carried out to radically improve the activities of commercial banks, establish full-fledged interaction with the population and business, and mass introduction of remote banking services. As a result, the use of customer-friendly remote banking services, such as modern technologies such as the Internet and mobile banking, is increasing. Today, the introduction of digital financial services has become an important direction in the development of the country's banking and financial system.

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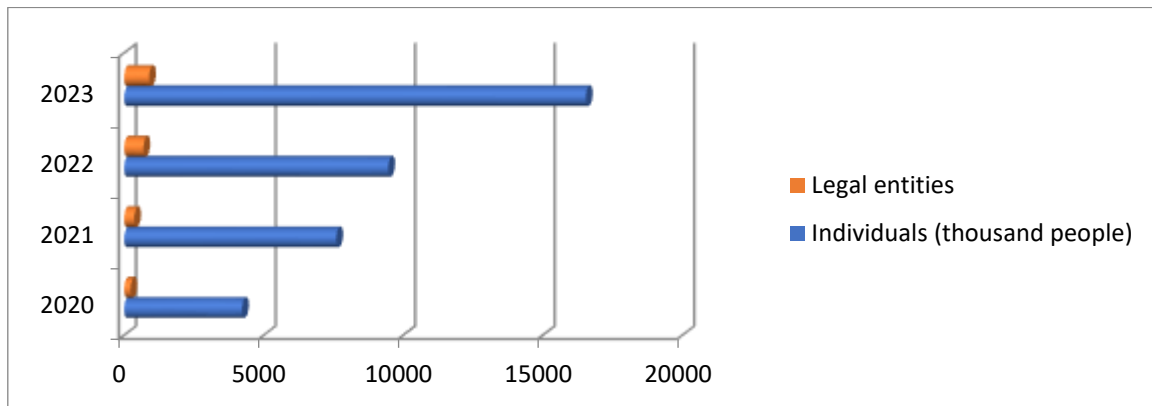
<sup>4</sup>Based on data provided by the E-Commerce Association of Uzbekistan



**Figure 1 - Number of users of remote banking services as of January 1, 2024 (million people)<sup>5</sup>**

The regulatory framework of the network is being improved, the development of payment infrastructure is being encouraged, and the activities of payment organizations specializing in providing remote banking services (fintech companies) are expanding. With the adoption of the Law of the Republic of Uzbekistan “On Payments and Payment Systems,” the infrastructure for servicing payment system operators operating in the country has sharply increased.

In addition, 28 payment organizations specializing in providing digital financial services are registered. In order to develop contactless payments, the retail payment system HUMO was created, which fully complies with international standards, which in turn created a competitive environment in the field of bank cards. Currently, all basic banking services for individuals have been introduced into mobile applications of banks, including making payments, blocking (unblocking) a bank card, receiving a microloan (loan), online deposit transactions and online conversion. As of July 1, 2021, the number of users of remote service systems is 5.5 million compared to the same period in 2020. per person (31%) and 17.4 million soums, one user was formed (Figure 2).



**Figure 2 - Users of remote banking services<sup>6</sup>**

In addition, to enable users under quarantine restrictions, a mechanism has been introduced for issuing bank cards based on online orders sent through mobile applications (websites) of banks. For 6 months of 2021, individuals who are bank clients will make online deposits through mobile banking applications (6.7 trillion soums), online conversion (3.6 trillion soums), receive online microloans (1.5 trillion soums), loan repayment operations (0.4 trillion soums). ), other (for the budget, housing and communal services, communications, etc.) 0.4 trillion. payments were made in the amount of soums.

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In 2020, the launch of another interbank payment system - the “Instant Payment System” of the Central Bank allowed legal entities and individual entrepreneurs who are clients of commercial banks to make payments remotely 24/7. In September last year, the “Instant Payment System” made it

<sup>5</sup>Source: State Committee of the Republic of Uzbekistan on Statistics;stat.uz

<sup>6</sup>Stat.uz

possible to transfer budget and tax payments to the treasury of the Ministry of Finance, as well as make payments from a credit account 24/7. As a result, in the first half of this year, 127.0 trillion were transferred through the Instant Payment System. The operations amounted to 5.4 million soums, of which 4.3 trillion went to the budget. More than 724,000 soums were paid out.

To create innovative services, the Tap-to-phone system (trade name "Onetouch") has been introduced, as a result of which business entities (including self-employed and delivery service entrepreneurs) can receive payments via NFC using a smartphone. appeared. As part of the expansion of contactless payment technology, as well as for the convenience of the population, a service has been introduced for making payments at retail and paid service stations without using a bank card through the Humo Pay program installed in mobile applications (NFC system). was presented. In 2020, the Central Bank also launched an information system for instant payments QR-online, which provides the opportunity to pay for goods and services using a bank card without directly using a bank card or payment terminal.

To use it, trade and service enterprises contact commercial banks and, based on the available bank details, take the generated QR code, and buyers of goods and services pay for this code on their mobile devices, scanned using its applications ("compare verified"), not being able to implement the exchange.

From more than 75,000 commercial organizations today, a QR code equipped with Qr codes (stickers) of an online information system.

Running this system:

- built-in POS terminal for commercial organizations in addition to the (traditional trading terminal), this is necessary for quick payment for purchases and provision of quality services to customers;

- delivery, passenger transportation carried out in areas such as

organizations also include from payment terminals to hired workers (freelancers).

work by timely accepting payments from customers without using a QR code has reduced costs. Uzcard services bank cards in our country and the infrastructure of Humo retail payment systems, as well as payment systems and payment services provided under the program, are developing. Expansion of bank card infrastructure as a result of work this year

The number of ATMs and kiosks installed in public places increased by 1,194 units compared to the same period last year, to 12,298 units used by business entities for payment, and the number of terminals reached 8,375, amounting to 438.9 thousand units.

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### **National payment systems.**

Integration with the International payment systems Visa and Mastercard has begun, thanks to which international bank cards of clients at ATMs and terminals located on the territory of the Republic carry out transactions using them.

In general, the state of the economy, in particular the level of customer satisfaction with financial and payment services, the quality of banking services, their attractiveness and variety, as well as customer finances are inextricably linked with opportunity and literacy.

Increasing the level of digital financial services in our country is inextricably linked with information security, including in banks with the formation of qualified personnel in the field of cybersecurity, as well as in remote areas, especially with the formation of skills in using payment infrastructure in rural areas remote from the development of banking services and digital financial services, development of a system for remote identification of depositor clients, as well as current ones planned for coverage.

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