



THE ROLE OF DIGITAL BANKING IN MODERN BANKING ECOSYSTEM AND TERMS OF ESTABLISHING IN THE REPUBLIC OF UZBEKISTAN

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Abstract

The article shows 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. The highlights of the regulatory and legal framework of Uzbekistan to promote the development of the digital economy are given.

Keywords: Digital banking, big data, block chain, mining, smart contracts, crypto-currencies, crowd-funding

INTRODUCTION

Today it is impossible to imagine the bank industry without digitalization of data. We are visiting banks' premises less and less, and the banks, from their side, are trying to contribute to this by different ways. We can place funds in a deposit online, conduct online conversion, transfer money from one account to another, make online purchases and even borrow loan without additional bureaucracy. All these points contribute to reducing the costs both for banks and customers, and also help to reduce corruption.

Software processing significantly reduces transaction costs. Banks have the opportunity to submit customer accounts by soft. The cost of delivering invoices in electronic form is much



lower than if the invoice was in paper form delivered by mail. Electronic billing costs 40% less¹ than paper delivery. Such savings can offer both customers and banks a lower cost of banking services, while providing efficient and diverse services.

It is much easier for banks to know consumer interests using social networks. Knowing the demand for certain banking products from customers, it is easier to develop and offer these products. Banks offer a “center” of financial services, including presentation and payment of bills, financial planning, real estate financing, insurance, lending and brokerage services.

By acquiring customer loyalty, which becomes dependent on the bank for many financial instruments, it is possible to offer more packages of banking services and receive higher income per client.

Banks acquire a new role, some kind role of financial portal, which allows customers to use the products and services of the bank avoiding bureaucracy, reducing the time of the transaction, and reducing dependence on the human being factor.

So, digital banking means the complete digitization of banks and all their activities, programs and functions. This applies not only to the digitization 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 a banking relationship, which goes far beyond the scope of an online, off-line, mobile and Internet banking platform.

Digital banking is a complete transformation into a digital environment, an interface, a backend and everything in between, both for customers and employees. 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 digitalized all the available functions - from product development to customer service.

Pros of digital banking

So, the following aspects can be considered as main advantages:

1. Reduce costs. Banks are forced to reduce their costs in order to remain competitive. If the bank does not switch to digitalization, it should, for example, continue to invest in expensive outdated hardware and software to keep these systems up to date;
2. The opportunity to increase profitability: traditional banks do not have a complete overview of their customers. They have lack in smart systems for collecting customer information and systems for customer orientation. Research of customer preferences through social networks, instant messengers, leads to the creation of a banking product

¹ Irvine, Steven. "Click, Click--You're Dead," *Euromoney* (365), 1999, p. 78-80.

in accordance with the interests of customers. The greater the bank's market share, the higher the likelihood of increasing its profit;

3. Attracting new customers and saving loyalty of existing clients, as well as outstripping competitors: Financial technologies and other newcomers shocked the banking community. As a result, the demand for improved customer service and personalized services is growing, and the products and services of well-known banks are becoming more expensive. Digital banking can improve the quality of customer service and reduce costs, which is necessary in order to anticipate and prevent customer demand;
4. Research of the advantages of new technologies allows us to predict how new technologies, such as data analytics, block chain and cognitive banking, will affect the business models of banking operations. However, outdated systems limit the ability of banks to respond quickly to these events. Full digitalization is needed in order to research the advantages of these technologies and calculate the bank's position for the future.

Customer expectations are changing, new regulation is being introduced, and competition from technology companies is growing. These changes should encourage banks to create their own digital space.

Cons of digital banking

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. Accounts may be subject to phishing, hacker attacks, malware and other unauthorized actions;
2. Types of services. Some digital banks may not offer all of the comprehensive financial services, such as insurance and brokerage accounts that traditional banks offer. Traditional banks sometimes offer special services to regular customers, such as preferred rates and investment advice at no extra charge. In addition, services such as notarization and bank signature are not available on the Internet. They are necessary for many financial and legal operations. However, today, users of social networks can reduce the lending rate for the bank by collecting a certain number of "likes" for the bank. The system is identical to cumulative cards in stores. By collecting, for example, 10 thousand likes, the bank can reduce the lending rate by 0.2%, by typing 20 thousand - by 0.5%, etc. in accordance with the loyalty program of a particular bank.

3. Relations with the client. Frequently, a bank which knows its client, its credit history, and the specifics of its business, can accept favorable terms for the client. The digital banking system excludes such opportunities.
4. The complexity or significance of the transaction. Frequently, to complete an important transaction or make a serious decision, a direct meeting with the client is required. A traditional bank can hold meetings and call experts to resolve a specific issue. Complicated international operations, issues of international financing, syndicates may not be possible in digital banks.

In addition to the general characteristics of the above mentioned information regarding the digitalization process, it is necessary to emphasize that regulatory framework has to be developed and comply with current legislative. For example, in Uzbekistan, Decree of the President dated from July 3, 2018 No. 3832 "About measures for development of digital economy in the Republic of Uzbekistan", defines the most important tasks for the further development of the digital economy:

implementation and development of activities in the field of crypto assets turnover, including mining (activities to maintain the distribution platform and create new blocks with the opportunity to receive remuneration in the form of new units and commission fees in various crypto-currencies), smart contracts (electronic agreement, exercise of rights and responsibilities for which is carried out by automatically making digital transactions), consulting, issue, exchange, storage, distribution, management, insurance, crowd-funding (collective financing), as well as technology "block chain" to diversify the various forms of investment and entrepreneurial activity;

personnel training for high qualification in the development and use of block chain technologies with practical skills using modern information and communication technologies;

comprehensive development of cooperation with international and foreign organizations in the field of activities on crypto assets and block chain technologies, attracting highly qualified foreign experts in the field of developing block chain technologies for joint implementation of projects in the digital economy;

creating the necessary legal framework for the implementation of block chain 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 Decree supposes introducing from January 1, 2021 block chain technologies in the activities of state bodies, while maintaining state registers, classifiers and other databases, in

the corporate governance system of large commercial organizations with a major share of the government in the charter capital, in clearing operations, making payments, trade finance (letter of credit), as well as lending the projects.

According to the procedure active from October 1, 2018 the activity in the field of the circulation of crypto assets, including the creation of crypto exchanges for trading crypto assets, is the subject to licensing. The Decree supposes to adopt the Law "About Digital Economy and Block chain Technologies", which has to include:

- basic concepts in the field of block chain technology and the principles of its functioning;
- power of authorities, as well as participants in the field of block chain technologies;
- responsibilities in case of using block chain technologies for illegal purposes.

In accordance with the Decree of the President dated January 9, 2018 No. 5296 "About measures on significant development the activity of the Central Bank of the Republic of Uzbekistan", the central bank has to make critical review of regulations in order to remove obstacles and create conditions for improving the provision of modern banking services, including establishing "digital" banks and bank divisions specialized in the provision of retail services, improvement of remote banking services through the active use of innovative banking technologies.

Digitalization of the economy of Uzbekistan will improve not only the quality, but also the volume of any transactions both in the bank and financial system, and in other fields of economy. The result of digitalization will allow investors to see information quite transparently, make the country more open and accessible for further globalization.

CONCLUSION

In our article we tried to describe the significance of digitalization in current banking ecosystem. We discovered the main pros and cons in terms of digital banking and illustrated situation in Uzbekistan. We showed benefits, cost saving, new opportunities of technology as main advantages of digitalization. Security, inability to make complex deals without face to face contact with clients is designated as disadvantages. In article you can see targets and measures taken in digitalization of Uzbek economy.

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