Implementation of the Process of Digital Transformation in Banks in the Context of Globalization

Bakieva Iroda Abdushukrovna [1], Fayziyev Shavkat Shaxabidinovich [2]

[1] Assistant Professor of Tashkent institute of finance

[2] Senior lecturer of Tashkent institute of finance

Abstract: In the article, the processes of globalization taking place in the economy of the countries of the world, in addition to having a positive effect on the stability of the banking and financial system, show various risks, dangers, the instability of international financial markets, the low level of diversification of foreign exchange reserves and foreign exchange transactions, and the increase in the popularity of banking services are shown.

Keywords: transformation processes, dollarization of assets and liabilities, business models of banks, business environment, non-bank credit organizations, capital adequacy.

1. Introduction

In the Resolution of the President of the Republic of Uzbekistan No. PR-5992 of May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025", among the difficulties and problems in the development of the banking system are[2]:

➢ lagging behind in transformation processes of large commercial banks in accordance with modern requirements in the network, delays in implementing modern methods of corporate management standards, information technology products, management of assets and liabilities, communication with customers;

➢ state-owned banks partially fulfill the role of traditional "development banks" that provide loans at rates lower than market rates to priority programs, sectors, and state-owned enterprises;

➢ high level of dollarization of assets and liabilities, concentration of loans and deposits in large companies and individual sectors of the economy exposes banks to currency and credit risks, as well as liquidity risk;

➢ it is emphasized that the business models of banks are oriented towards serving corporate clients. Also, in this decree, a number of tasks and measures are defined in order to increase the efficiency of the banking system, ensure its financial stability, reduce the share of the state in the banking sector, increase the popularity and quality of financial services, and increase the position of the banking system of Uzbekistan in international ratings.

If we look at the analysis, although the volume of the gross domestic product (hereinafter referred to as GDP) in Uzbekistan increased by 18.0% on 01.01.2022 compared to 01.01.2021, the ratio of bank assets to GDP was 0.2% and the ratio of credit deposits to GDP was 1.6 percent decreased. Also, the ratio of bank capital to GDP remained unchanged and amounted to 9.7 percent. Although the ratio of bank deposits to GDP increased by 2.2 percent, banks cannot extend their liabilities and give

unlimited loans. There is the capital adequacy regulation of the Central Bank, which ensures the stability of banks and curbs their risk appetite. The capital adequacy ratio of the banking system of Uzbekistan was 23.5% on 01.01.2020, 18.4% on 01.01.2021 and 17.5% on 01.01.2022. On 01.01.2022, the capital adequacy indicator for the banking system is 01.01. Compared to 2020, it decreased by 6.0 percent. Also, based on the information on the official website of the banks, as of January 1, 2021, the capital adequacy indicators of 7 banks in the republic (Turon Bank, Aziya Alliance Bank, Xalq Bank, Mikrokreditbank, Kapital Bank, Savdogar Bank and Universal Bank) are out of the danger zone (norm - 13%) is only 1-2% higher. If banks do not increase their regulatory capital, it will be difficult to expect them to lend aggressively. Another case is that among the above banks, the risk assets of Mikrokreditbank and Xalq Bank, in particular, the loan portfolio, increased sharply by 79% and 51% respectively in 2020, which in turn led to a sharp decrease in the capital adequacy ratio of these banks by 9.1 and 10.3 percentage points.

2. Literature review

A number of economists have given their definitions to digital transformation. In particular, foreign economists Ablyazov T., Asaul V. according to the process of digital transformation means the use of digital technologies to improve existing business models, as well as to increase work efficiency. This process involves the continuous introduction of innovative technologies, which will lead to a complete digital transformation of the entire economy[4]. Russian economist Vadim Arkadevich Koshcheev [5] from the point of view of the development of the financial sector, believes that the digital transformation is considered as an improvement of the practical methods of conducting business, which forms a new working environment. Another foreign economist, L. Pirainen, believes that digital transformation means the widespread introduction of modern methods of providing banking services [6].

Uzbek economists have also conducted a number of studies on digital transformation and the development of the transformation process in the banking sector. Academician S.S. Gulomov considers digital business as the emergence of new business models that combine the physical and digital worlds [7].

3. Research methodology

In the research process, research methods such as systematic analysis, logical abstraction, induction and deduction were used to systematize the results of the analysis.

4. Analysis and discussion of results

World experience shows that at the end of 2021, the world's worst bank was announced by Bloomberg - this is China's Minsheng Banking Corp. The bank's shares have fallen 31% over the past 12 months. This is the most negative indicator in the Bloomberg World Banks index. This was caused by loans allocated by the bank to high-risk construction companies in the amount of $20 billion. In 2021, 26 commercial banks of Uzbekistan were given "Stable" ratings by international rating agencies such as "Mudis", "Standard & Purse", "Fitch Ratings" (for 25 banks) and "Expert RA" (for Soderot Bank of Iran). It is difficult to say that 2021 was a fruitful year for Uzbekistan's commercial banks. This can also be seen from the net profit and profitability indicators. In 2020, the banking system ended the year with a net profit of 5.6 trillion soums, In 2021, this indicator will be 3.9 trillion. amounted to soum. 2021 was a testing year for commercial banks, as a result of the pandemic, the share of non-performing loans in the total loan portfolio rose to 6.2% by the middle of the year, and was reduced to 5.2% by the end of the year. At the same time, reserves formed for possible losses on loans and leases increased to a record level and reached 12.2 trillion soums (in 2020 it was 6.3 trillion soums). Nevertheless, in 2021, commercial banks were more active in the credit and deposit market, and the main indicators all increased significantly compared to 2020. A reduction of up to 2% was achieved. At the same time, reserves formed for possible losses on loans and leases increased to a record level and reached 12.2 trillion soums (in 2020 it was 6.3 trillion soums). Nevertheless, in 2021, commercial banks were more active in the credit and deposit market, and the main indicators all increased significantly compared to 2020. A reduction of up to 2% was
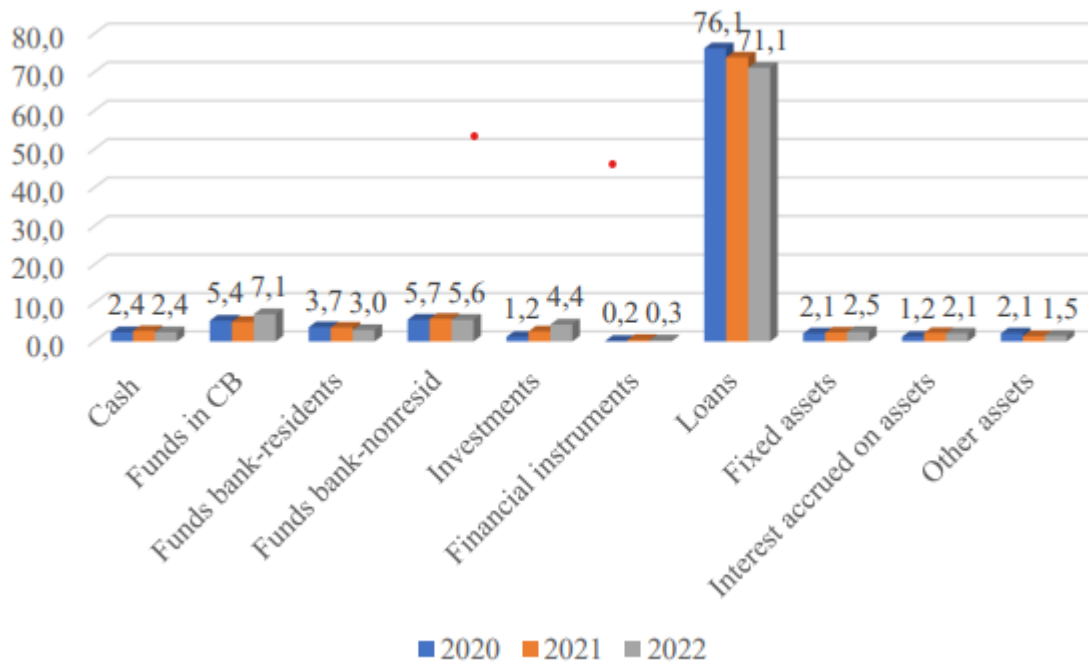
achieved. At the same time, reserves formed for possible losses on loans and leases increased to a record level and reached 12.2 trillion soums (in 2020 it was 6.3 trillion soums). Nevertheless, in 2021, commercial banks were more active in the credit and deposit market, and the main indicators all increased significantly compared to 2020.

Transformation of banks is an objective and modern process and is considered one of the actual processes of today. Transformation of banks requires them to move their activities to new tracks. On the one hand, the transformation process envisages changing the activities of the banks themselves, using new techniques and technologies, digitizing it, and on the other hand, this process itself envisages the digitization of the relations and processes of bank customers with the bank. Despite the adoption of a number of laws and regulatory documents on the automation of banking activities, reforms in the banking system in this area require further development.

In the transformation of banking activities, it is important to focus on digital transformation. In turn, it is important to speed up the processes of introducing digital technologies into the activities of banks, and to apply the positive aspects of foreign experience in making "digital" decisions. Of course, these processes are not easy for Uzbekistan. Monitoring the activities of banks and the processes implemented in them in 24x7 mode, implementing measures aimed at customers, especially the population, wide introduction of remote services for residents and small businesses, developing a network of service points of bpnk branches to provide low-cost services, in this direction together with banks increase the popularity and quality of financial services by creating favorable conditions for the formation and development of non-bank credit organizations, during the reform of the banking system, to meet the population's demand for financial services, to implement measures to widely introduce the mechanism of support for investment projects, to increase the share of non-bank credit organizations in the total volume of lending from the current 0.35 percent to 4 percent by 2025, to transform the banking system to new conditions along with speeding up the processes, it can also help to clarify the ways of effective management of the risks encountered in the banks' activities. By 2025, attracting at least three strategic foreign investors with the necessary experience, knowledge and reputation to the capital of at least three banks with a state share, with the support of international financial institutions: "Ipoteka-bank" ATIB, "Uzsanoatkurilishbank" ATB, "Asaka" ATB, JSC "Aloqabank", Implementation of the tasks set for gradual privatization of state shares in "Kishloq Kurilish Bank" ADB and "Turonbank" ADB can also create a basis for reducing risks by transforming the banks into new conditions. In order to minimize the risks encountered in the activities of banks, stress testing the activities of banks, diagnosing their activities and evaluating their financial situation can be the basis for effective management of banking risks. Accelerating the processes of transformation of banks in the banking system, as well as ensuring the stability of the banks' activities, lays the groundwork for the further improvement of the function of banks as financial intermediaries between clients, business and entrepreneurial entities.

Current issues that remain in the banking system of Uzbekistan:

1. The state's share in the capital structure of commercial banks remains high.

2. Banks' assets include highly liquid securities, that is, low volume of investment operations.

3. Prioritizing the strict monetary policy of the Central Bank. Monetization coefficient. Deposit and loan interest rates. Risk assets of banks. Cost of products.

American Journal of Science and Learning for Development
For more information contact: mailto:editor@inter-publishing.com

Volume 2, No 1|
Jan - 2023

Figure 1. Structure and Share of Assets of the Banking System of Uzbekistan, as of January 1 [9]

In our opinion, it will be necessary to increase the volume of investments to solve this issue.

4. The disproportion between the growth and low volume of banking system assets, loans and deposits in relation to the country's GDP.

5. Decrease in the quality of bank assets. Problem loans. Preferential loans. Low money supply.
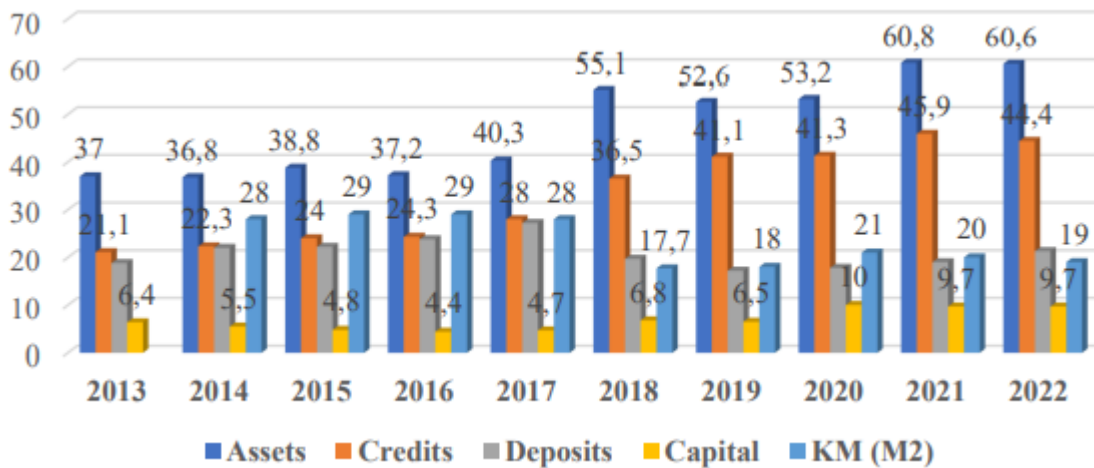
Figure 2. Ratio to GDP the main indicators of the banking system of Uzbekistan, as of January 1 [9]

The figure shows data on the ratio of the main indicators of the banking system of Uzbekistan to the country's GDP, according to which the share of bank assets and loans is increasing, but the coefficient of deposits, capital and monetization remains low.

In particular, in 2020, the volume of investments in the economy of Uzbekistan from all sources of financing will reach 60.7 trillion soums. soums or 11.9 billion soums. USD. Its share in GDP increased by 0.2 percentage points compared to 2016 and amounted to 24.4%. At the same time, 60.3% of investments in fixed assets were directed to construction and installation works, and 31.5% to the purchase of machinery and equipment. 43.9% of total investments are own funds of enterprises and the population, 26.9% are foreign investments and loans, 11.0% are loans and other borrowings of commercial banks, 8.5% are the Republic of Uzbekistan Reconstruction and Development 5.5%

American Journal of Science and Learning for Development
For more information contact: mailto:editor@inter-publishing.com

Volume 2, No 1|
Jan - 2023

from the state budget and 3.9% from state trust funds. The total volume of foreign investments and loans disbursed in 2019 amounted to 3,184.6 million. USD. Of this, the volume of direct and other foreign investments and loans amounted to 2,420.4 mln. USD, a decrease of 2.4% compared to 2016. In addition, one of the important factors in the rapid growth of GDP in the reporting year was the increase in labor productivity by 5.6% compared to 2019 as a result of measures taken to modernize production, technical and technological re-equipment.[10]

6. High level of dollarization of commercial banks' assets.

7. Some other urgent issues. Financial literacy of the population.

There are the following urgent problems related to the development of investment activities of commercial banks of the Republic of Uzbekistan in the securities market:

✓ high rate of depreciation of the national currency;

✓ the fact that the level of inflation is high;

✓ lack of development of investment operations of commercial banks with securities;

✓ existence of liquidity problem in commercial banks.

In order to positively solve the problems mentioned above, we consider it appropriate to implement the following measures:

1. In order to strengthen the long-term resource base of commercial banks by issuing long-term securities, first, by reducing the rate of inflation and depreciation of the national currency, it is necessary to prevent the real value of investments in these securities from decreasing;

secondly, the income of investors from investments in long-term securities of commercial banks should not be taxed.

2. It is necessary to eliminate the risk of transformation by ensuring compatibility between the terms of assets and liabilities of commercial banks and using only the stable balance of transaction deposits as a resource. Transaction deposits do not have a term. Moreover, their degree of instability is very high. Therefore, their direct use as a resource can cause a strong negative impact on the liquidity of a commercial bank, even in the conditions where the compatibility between the terms of assets and liabilities is ensured.

3. In order to increase the volume of commercial banks' investments in securities, it is necessary to reduce the weight of non-earning monetary assets of banks in the volume of gross assets and increase the current level of liquidity of commercial banks.

It is impossible to finance government programs without the participation of commercial banks. However, each program must clearly indicate the source of the loan provided by the commercial bank in case of non-repayment. However, in many state programs implemented in the economy of the Republic of Uzbekistan, the source of repayment of overdue debt on loans given by commercial banks within the framework of this program is not indicated. As a result, a large amount of overdue arrears was incurred on loans granted under government programs, which are still outstanding. This caused a negative impact on the liquidity and financial stability of commercial banks. In addition, an increase in the level of transformation risk was observed in banks. The current procedure for determining the creditworthiness of customers has not improved. This is explained by the following reasons:

➢ only three financial coefficients (liquidity coefficient, coverage coefficient, autonomy coefficient) are used in the assessment of credit solvency of enterprises;

➢ the current methodology does not allow to determine the permissible threshold level of the enterprise's ability to use credit;

➢ the existing methodology does not allow to assess the level of creditor indebtedness of the enterprise that wants to get a loan.

5. Conclusions and suggestions

In the conditions of transformation of banks, it is inevitable that the demands of customers will increase, and as a result of not providing high-quality innovative banking services in this regard, it can lead to the loss of trust of bank customers in their bank. As a result, bank customers tend to switch banks or use other banking services. Therefore, it is necessary for banks to transform their activities according to the requirements of their customers, that is, to create new banking services using modern information and communication technologies.

One of the main results expected from the transformation of commercial banks with the support of international financial institutions is to reduce the state's share in a number of commercial banks, bringing international experience into the operation, attracting strategic investors with sufficient experience, knowledge and reputation in banking. In addition, by freeing credit organizations from performing functions that are not typical for them, as well as from excessive burdens, they will consistently eliminate the administrative burden, widely introduce modern information and communication technologies, create the necessary conditions for automating the business processes of commercial banks and expanding the types of remote banking services. As a result of the complex transformation of existing commercial banks with a state share, the popularity of financial services will increase. conditions of equal competition are formed in the financial market, lending is subject only to market conditions. Service provision will be modernized, efficient infrastructures of banks will be created, a network of low-cost service points will be developed, activities will be automated, remote services for the population and small businesses will be widely introduced, and the level of financial stability of the banking system will increase. In short, the transformation of commercial banks, the expansion of banking products and services, leads to an increase in the level of competitiveness of banks. the level of financial stability of the banking system will increase. In short, the transformation of commercial banks, the expansion of banking products and services, leads to an increase in the level of competitiveness of banks. the level of financial stability of the banking system will increase. In short, the transformation of commercial banks, the expansion of banking products and services, leads to an increase in the level of competitiveness of banks.

We have formulated the following scientific conclusions regarding the issues of improving the quality of remote banking services in Uzbekistan.

1. In the conditions of the transition to the digital economy, it is of great practical importance for commercial banks to retain existing customers and attract new ones, as well as to use new remote banking services. This and it allows to increase the income of banks.

2. Today, innovative technologies and digital economy are rapidly developing in developed countries. The main factor of this is the intensive large-scale introduction of innovative technologies in the real sector of the economy, in the banking and financial system.

3. The process of globalization observed in the world economy, the deepening of competition, the acceleration of the process of transformation in commercial banks creates the need to bring banking services to a new level. Today, innovative technologies and remote banking services are widely used in the economy and banking-financial system of developed and developing countries.

Literature

1. About the new Development Strategy of Uzbekistan for 2022-2026. Resolution of the President of the Republic of Uzbekistan dated January 28, 2022 No. PR-60. www.lex.uz.

2. Resolution of the President of the Republic of Uzbekistan dated May 12, 2020 No. PR-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025"

3. www.stat.uz is the official website of the State Statistics Committee of the Republic of Uzbekistan.

4. Ablyazov T., Asaul V. On competitive potential of organization under conditions of new industrial base formation // SHS Web of Conferences. 2018. Vol. 44. 00003.

5. Koshcheev VA, Tsvetkov Yu.A. Digital transformation of the banking sector.https://cyberleninka.ru/article/n/tsifrovaya-transformatsiya-bankovskogo-sektora

6. Piirainen L. Digitalization of the financial sector and change management. Bachelor's Thesis. 2016. 60 p.

7. Gulyamov SS et al. Blockchain technologies in the digital economy. Study guide pages 21-22. TMI 2019 - 447 pages.

8. Fundamentals of banking: textbook / team of authors. Ed. OI Lavrushina - 4th ed. revised and additional - M.: KNORUS. 2018. P. 213.

9. www.cbu.uz is the official website of the Central Bank of the Republic of Uzbekistan.

10. Yarashevich Nurillayev J., Omonovich Tursunov B., Sherzod ogli Raimberdiyev S. Evaluation of The Efficiency of Commercial Banks in Financing Investment Projects //The 5th International Conference on Future Networks & Distributed Systems. - 2021. - S. 361-365.

11. Chen Richard Insik, Petrov A.Ya., Torbeev EI, Limarev PV Digital technologies in the banking sector. Access mode:https://cyberleninka.ru/article/n/tsifrovye-tehnologii-v-bankovskoy-sfererossiyskiy-i-mirovoyopyt.

12. Lomskaya T. Sberbank implemented artificial intelligence in a mobile application. Access mode:https://www.rbc.ru/finan-ces/18/07/2019/5d2f3a809a-79470f1a2399f6.