
Ways of Developing the Banking System in the Process of Transformation

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Abstract: This article analyzes the ways of developing the banking system in the process of transformation in Uzbekistan from a theoretical point of view. In particular, the impact of the transformation process on banking financial services has been analyzed, existing problems have been identified, and suggestions for their elimination have been developed.

Key words: transformation, banking, banking system, banking service, digital economy, banking architecture, financial services, innovation.

Introduction

Today, widespread introduction of information technologies and financial technologies to the banking system based on modern service solutions, adequate provision of information security, as well as reduction of the influence of the human factor in the provision of financial services, and acceleration of their transformation process is one of the urgent issues.

It is known that the analysis of the modern situation in the banking sector has shown that there are a number of systemic problems that prevent the development of the banking sector in accordance with economic reforms and the needs of society, such as high level of state intervention in the banking sector, insufficient quality of management and risk management in state-owned banks, low level of financial intermediation in the economy. In this regard, the Decree of the President of the Republic of Uzbekistan "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" was adopted. [5]

"Strategy for reforming the banking system of the Republic of Uzbekistan"[5] states that the privatization of the state share in banks should be carried out by improving their corporate management system, increasing the quality and scope of banking services, introducing modern information technologies and increasing the capacity of personnel. The main focus is to introduce a wide range of services to clients (investment banking, factoring, project financing), introduce new concepts and technologies (fintex, marketplace, digital banking) and improve personnel skills, including independent members with international experience in the banking sector. and aimed at their retraining.

Therefore, the transformation of the activities of commercial banks creates a competitive financial environment in the market of banking services and increases the scope of providing modern banking services, ultimately increasing the possibility of improving the architecture of the banking system.

Research methodology.

In carrying out the research, the theoretical and practical assessment of the modern situation related to the transformation process in the improvement of the architecture of the banking system, the analysis of the written and oral opinions of scientists and industry representatives who contributed to the development of this field, the observation of processes, the systematic approach to economic events and processes, the author's experiences by conducting a comparative analysis,

conclusions, proposals and recommendations were developed in the relevant directions.

Research results.

Brief description of the results obtained during the research:

- The scientific and legal basis for improving the architecture of the banking system during the transformation process in Uzbekistan was studied;
- the modern state of the transformation process of commercial banks and the practice of introducing new innovative financial services were analyzed using economic indicators;
- as a result of the conducted research, conclusions and proposals were developed regarding the improvement of the architecture of the banking system during the transformation process.

Analyzes.

Commercial banks play an important role in attracting investment in all countries of the world. Foreign investors are asked to provide a guarantee from international banks for investment. Therefore, it is considered appropriate to reduce the state share in the banking system by selling it to prestigious foreign bank holdings. This way two goals are achieved. First, by reducing the state share, competition between private banks will develop, the quality of services will improve, and loan interest rates will decrease. Second, the government-guaranteed loans of state-owned banks will decrease, which will have a positive effect on the total external debt.

In this regard, the improvement of the architecture of the banking system of our republic is directly based on the tasks defined in the "Banking System Reform Strategy of the Republic of Uzbekistan"[5] in cooperation with three international financial institutions (IMK, ETTB and OTB) and foreign consulting companies such as KPMG, PWC Ernst&Young and McKinsey. is inextricably linked with the processes of transformation and preparation for privatization of state-owned banks.

According to the information of the Central Bank of the Republic of Uzbekistan, the number of commercial banks operating in the republic in 2021 increased by 1 ("BANK APELSIN") and reached 33 as of January 1, 2022. 12 of them are state-owned banks, 16 are private banks, and 5 are banks with foreign bank capital.

As of January 1, 2022, the number of commercial bank branches was 860, the number of mini-banks was 158, the number of banking service offices was 1,086, and the number of 24/7 branches was 2,287. [12]

By the end of 2021, a total of 64.6 trillion won by banks as a result of taking measures to ensure profitability indicators at an acceptable level by providing active retail banking services with effective use of assets in our republic and optimizing costs. soums of income, 73% of which was interest income and 27% non-interest income. The share of interest income in total income decreased from 76% at the end of 2020 to 73% at the end of 2021.

As a result of the automation of banking business processes and the provision of services through digital channels, with the widespread introduction of modern information technologies in banks, microloans are issued, deposits are attracted, exchange services are implemented with the population, and a significant part of utility payments is carried out through mobile applications.

In particular, in 2021, net non-interest income will increase to 49 percent or 4 trillion. increased to 12.3 trillion soums. to soums, its share in total revenues increased from 24 percent at the end of 2020 to 27 percent at the end of 2021.

As a result, the operational efficiency indicator in the banking system was 38 percent during the year, and was kept at an acceptable level (50 percent) according to international practice. (Figure 1).

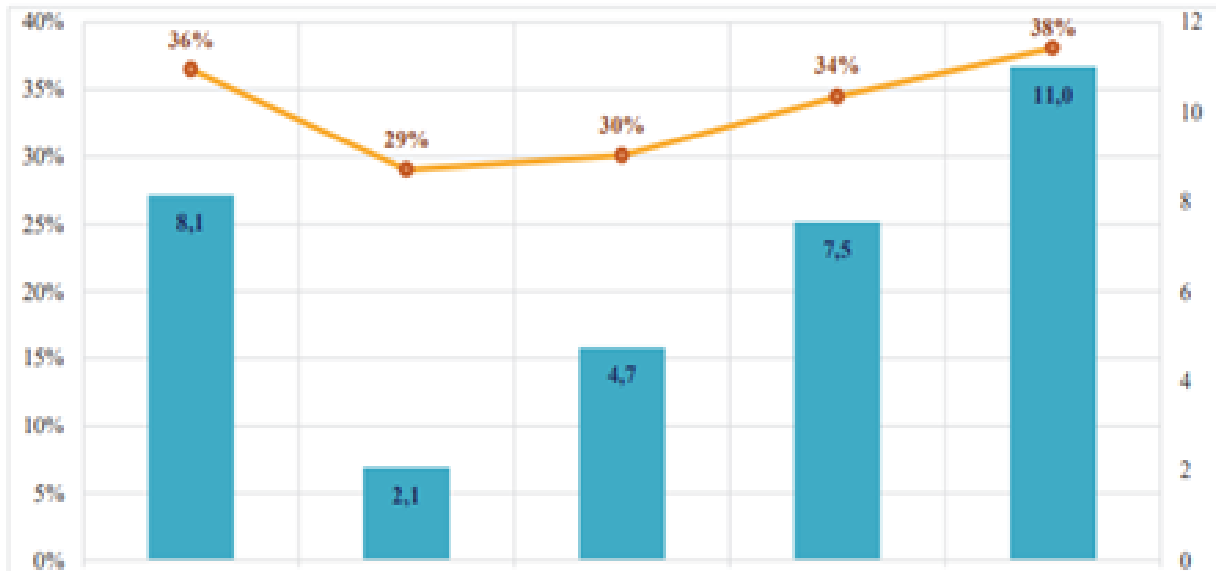


Figure 1. Dynamics of operational efficiency index (CIR)[12]

As a result of taking measures to gradually form reserves for problem loans in order to mitigate the negative impact of credit risks on their financial stability, during 2021 banks will have 3.2 trillion. Soum revenues are directed to the formation of reserves against possible losses.

As a result, the total net profit of banks is 3.9 trillion. amounting to soums, decreased by 21% compared to 2020. In turn, the indicator of profitability of assets, which evaluates the efficiency of the use of assets by banks, decreased from 2.2 percent in 2020 to 1.3 percent in the reporting year (Figure 2).



Figure 2. Banking system return on assets (ROA) dynamics [12]

Also, the indicator of return on capital in the banking system decreased to 6.1 percent in 2021 from 10.2 percent in 2020.

In 2021, the total assets of commercial banks will grow by 22% and reach 444.9 trillion as of January 1, 2022. amounting to soums, 71% of the assets were accounted for by credit deposits.

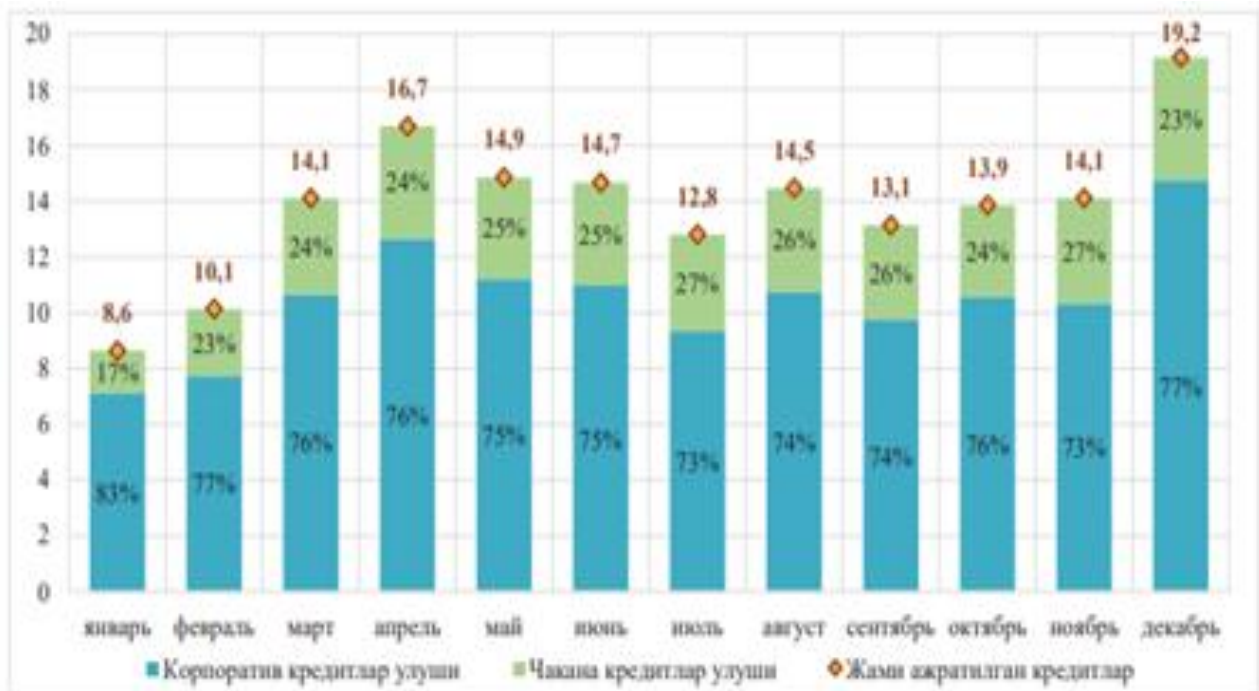


Figure 3. Loans allocated by banks in 2021, trillion. in sum. [12]

In 2021, 166.7 trillion will be allocated by banks to meet the economy's demand for credit and provide financial support to business entities. in the amount of soums or 28% more loans compared to the set target indicator for lending (130 trillion soums).

76 percent of these loans (126 trillion soums) were allocated to corporate customers and 24 percent (41 trillion soums) to the population (Figure 3).

In turn, "Pre-collection" (0), "Soft-collection" (1-30), "Hardcollection" (30+), "Legal-collection" are used to improve the efficiency of the work of collecting loans from debtors in banks and return financial resources to bank circulation. As a result of the use of modern approach methods such as (90+), the return rate of loans has increased from 59 percent to 71 percent in 2021, the growth rate of loan investments has been formed within the nominal GDP growth rate (18 percent).

As we noted, in the "Strategy for the reform of the banking system of the Republic of Uzbekistan" [5] special attention is paid to the organization of modern corporate management by banks. In particular, on the basis of the recommendations of the Basel Committee on Banking Supervision, the organizational structures of bank management have been revised and effective, based on new requirements aimed at clearly defining the distribution of powers of management bodies in banks, increasing the transparency of bank management, and preventing potential risks and conflicts of interest during bank management. special committees were established under the banks' councils to establish control.

"Key performance indicators" (KPI) were developed and put into practice in 10 state-owned banks in order to evaluate the quality and effectiveness of executive bodies' activities in banks.

The work of attracting independent members with foreign experience in the field of banking and finance to bank councils has been developed, and by the end of 2021, the number of independent members involved in the councils of state-owned banks will reach 26, including 4 people at Ipoteka-bank, Asaka bank and Xalq bank, Sanoatkurilishbank, Qishloq kirilish bank and Turon bank made up 3 people, Mikrokreditbank and Milliy bank 2 people and Agrobank 1 person.[12]

Based on the approved transformation "roadmaps" for each state-owned bank, the implementation of measures aimed at changing the business models of banks continues, in particular, bank customers are divided into three segments, such as retail customers, small business sector customers and corporate customers, and the demand of each segment is continued. and works are

being carried out aimed at organizing services in accordance with their needs.

In addition, work aimed at introducing a modern risk-management system in banks has been accelerated, underwriting and scoring systems for loan allocation have been introduced in order to ensure that loan applications from business entities and residents are reviewed in a short period of time without excessive bureaucratic obstacles..

In the underwriting system, decisions on loans of small value (up to 3 billion soums) are made independently by a group of underwriters without the intervention of "officials" who work directly with the client, and loan documents are reviewed within 2 to 24 hours, depending on the purpose and amount of the loan.

In order to ensure the efficiency of this process, the financial incentive of the group of underwriters is based on the number and quality of the reviewed projects. In the scoring system, the customer's creditworthiness is quickly analyzed based on the information received from the Tax Committee and the credit bureau, and this system allows to distinguish overdraft credit and microloan online through a mobile application.

Therefore, the acceleration of the transformation processes, the provision of high-quality, fast and convenient financial services by banks to the population and bank customers, and the reduction of bank operational costs.

Conclusions and suggestions.

In conclusion, we believe that it is permissible to pay special attention to the following issues in order to improve the architecture of the banking system in the process of transformation in Uzbekistan:

1. Change the working method of banks, developing their own strategy focused on customers;
2. Critical study of problematic loans in the bank's credit portfolio, in this regard, analysis of the financial situation of the bank's clients in remote areas, individual approach to each client;
3. Further improvement of the introduction of innovative new types of online provision of high-quality banking services to the population while developing information technologies and communication;
4. Digital banking to save time and costs in the implementation of financial services through mobile and online platforms, to ensure the safety of personal data, to increase the speed and quality of service;
5. Allocate funds to replenish the working capital of economic entities whose financial situation has worsened during the pandemic, and thereby restore jobs, take measures aimed at reducing poverty in our republic;
6. To create an effective mechanism to fight against corruption in the banking system.
7. Evaluating and monitoring the performance of employees in the banking system through the KPI system, motivating them materially and morally or vice versa;
8. Study and deep analysis of programs and projects financing down to the lower layers;

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