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Digital financial services beyond banking. Which Uzbek bank are ready to implement?

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Introduction

Since world has faced dramatic changes through a few decades in terms of digitalization, each field hasn't been left unchanged. Digitalization has already affected almost every aspect of human life. So the banking sector also has not been left unchanged. To develop security at the same time to lessen the process in banking.

During COVID 19 world faced many challenges, which led to significant changes worldwide by digitalizing main activities. Digitalization as a whole means the adaptation of a system, that converts analog data to digital data through the introduction of digital technologies. In turn, digitalization has helped to some sectors, such as e-commerce, to flourish.

EU has already started implementing digital lifestyle to its citizens, but the significant transformation to it due to the pandemic. EU is aiming to lessen the costs, waste of time and make better conditions for its citizens. Digitalization of the banking system is one of the examples that can be a solution to this. While Uzbekistan also started to change the traditional serving system to a digital format. And made goals until 2030, by expanding IT parks and etc. Even after these reforms, it could yet to achieve the advanced fin-tech to its banking system. To make it precise we are going to analyze "What are the advantages of EU?" which can be implemented to Uzbekistan.

Consumer behavior has been moving towards digital services for the last few decades. Even before Covid-19 pandemic that was clear that banks started to move away from traditional branch-based banking towards online banking services. The pandemic accelerated this process.

In the European banking sector, there was observed a 23 % increase in the use of digital banking services, in the start of the pandemic. In some ways, it is the result of how well banks are managed to convince customers that online services can be convenient and effective. According to recent surveys, European people broadly approve improving digital banking services as they are easy to use, fast and can be delivered via websites or applications. As evidence, 87 % of people who started to use digital services during the pandemic, continue to use online banking, even after the problematic situation with the virus is resolved. Even though digitalization also has its own risks, supervisors and specialist have been trying to mitigate them.

If we look at the data presented above, we can see that nowadays digital financial services are getting a lot of attention and developing intensely. We can see that the demand for such services is increasing day by day not only in Europe, but also in the whole world, including Uzbekistan. The purpose of this research is to study the European experience in the field of digital financial services and conclude how it can be applied in Uzbekistan. For this, we studied the services offered by BNP

Paribas, one of the leading European banks, as well as Veepee and Wise platforms, and gave ideas about which advantages can be implemented in Uzbekistan.

Europe experience in digital financial services

In general, customers' behavior shows that the digital way of living is mostly liked system, not only companies' or government's preferences. It can be seen in the example of digital financial services in the EU during the pandemic, such as Zalando (retailer of shoes, Germany), Veepee (retailer of home, sports appliances, toys, clothes and etc., France), and so on. Nowadays the term digital service means ease as well as not time-consuming. It is obvious from retailer companies, which are providing digital financial services to population in EU digitalization impacted to the financial field as well. More in detail about the digital world in the EU, Banks are also not exception to this started implementation of branchless banks or banks equipped to serve digitally. Improvements in banking is one of the achievements of EU. BNP Paribas is one example to this. The bank is positive to implement digital service as well traditional, *"We are developing more and more extra-financial services, while remaining mobilized for our core business. We are doing so for two reasons: our customers' consumption behavior is evolving, and we must keep up with these trends. Besides, we must stand out from our competitors, neobanks in particular."*

Moreover, digital banking, ATM and cards has started to be well used after 2000s and that was the civilization in digitalization. When we think of Fintech we understand of online banking and online payments. As much as we go in depth of digitalization of EU as much we get interested to it. Because there to many types of service which make our job much flexible, like "WISE Bank" exchanging currency is much comfortable with the app. So that you spend time to find branches of banks to exchange. Another app for transitions is Revolut. The best thing about Revolut is that it promises to carry out your transfers instantly, regardless of currency and destination.

Uzbekistan experience in digital financial services

Today developing digital banking in the banking sector is one of the key factors in economic growth. Therefore, Uzbekistan also set developing digital financial services in the country as one of its primary goals. In this regard, the President signed The Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025, on May 12, 2020. In this strategy, creating the necessary conditions for the wide introduction of modern information and communication technologies,

automating business processes of commercial banks and expanding remote banking services were identified priority tasks. In order to complete these tasks, it's planned to implement following measures:

- Expanding the volume and coverage of remote banking services, including contactless payments;
- Widespread use of the scoring system, remote identification and credit conveyor;
- Strengthening the information security of banking information and systems;
- Widespread introduction of new concepts and technologies in the banking sector (FinTech, digital banking).

Over past three years, effective work has been carried out to improve digital banking and introduce remote banking services. As a result, the use of digital technologies to offer Internet and mobile banking to customers is increasing.

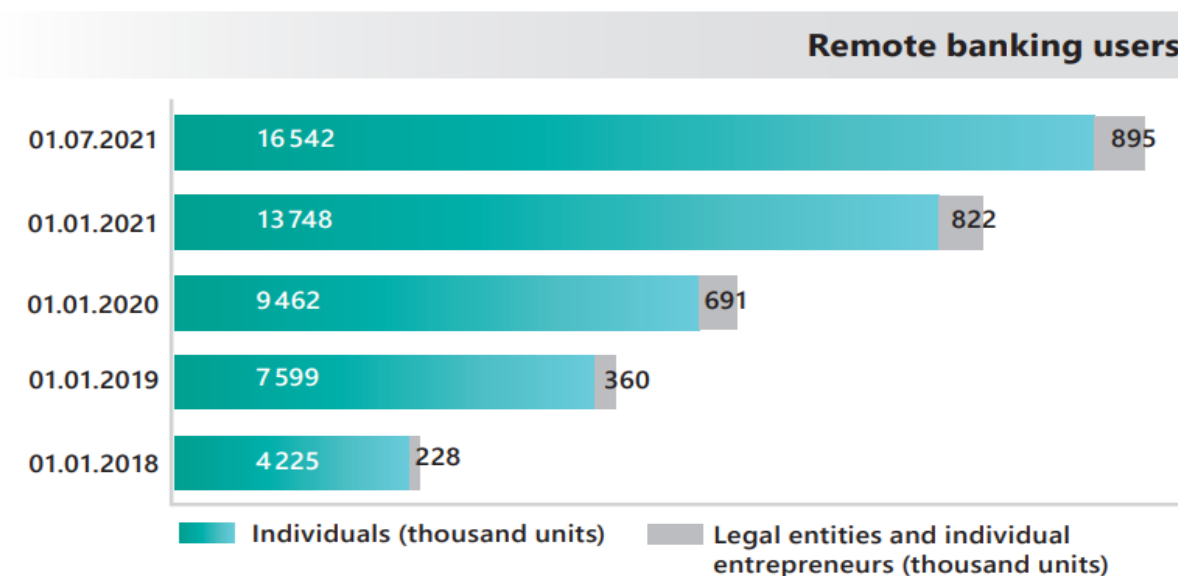
With the adaption of the Law of the Republic of Uzbekistan “On Payments and Payment Systems”, the service infrastructure of payment system operators working in the country has increased dramatically. 28 payment organizations, that are specialized in the provision of digital financial services, are registered in the country. The HUMO retail payment system which was created with the aim of developing contactless payments fully complies with international standards and formed a competitive environment in the field of banking cards.

Nowadays, all basic banking services, including as payment processing, card blocking and unblocking, microloan (credit) application, online deposit operations, and online conversion, are available for people through bank mobile applications.

Additionally, a system for issuing bank cards based on an online application sent through bank mobile applications (websites), followed by the necessary identification when a bank card is delivered to the client at his/her residence address, was introduced for the convenience of users during the lockdown.

As a result, for the 1st half of 2021, number of users of remote service systems increased by 5.5 million and equaled to 17.4 million users.

Figure 1



In 2020, the Central Bank launched another interbank payment system “Instant Payments System”. It allowed customers of commercial banks to make payments 24/7 via remote service systems. The “Instant Payments System” introduced a new feature that allows transferring budget and tax payments to the Treasury of the Ministry of Finance, as well as making payments from loan accounts in 24/7 mode.

To expand contactless payment technology, as well as the convenience of the population, the HumoPay program in mobile applications improved, in turn, it made possible to make payments at retail outlets and provide paid services without using a bank card.

Furthermore, in 2020, the Central Bank started QR-online instant payments, which created an opportunity to make payments for goods and services from the funds on banking card without directly using banking cards. Till now, more than 75 thousand business entities are provided with QR-codes (stickers) of the QR-online information system.

With the increased level of digital financial services in Uzbekistan, the next step is planned to create and implement a remote customer identification system, which will aid in further development, the training of qualified personnel in the field of information security, including cybersecurity in banks, as well as the development of skills and abilities to use payment infrastructure in remote locations, especially in rural areas, and the development of digital financial services and a more secure financial system overall.

Comparison of digital financial services in EU and Uzbekistan

Digital financial services in Europe Union

Going in depth of current digital position of EU, we can say that most of it is banks are digitalized, as beyond banking. “Beyond banking” means being more than traditional banking. As platformisation made a huge impact to customer behavior. Non-traditional banking can be served in two ways:

- Through the "bank-as-a-platform" model: these are deals co-designed with partners (primarily start-ups) and distributed through our distribution networks, branches, or mobile applications. BNP Paribas serves as the "base" in this situation.
- Using the "bank-as-a-service" approach, BNP Paribas creates the products but distributes them through our partners' distribution channels and smartphone app.

This is how BNP Paribas thinks about “Beyond Banking”, They prefer to be in touch with their customers rather than being neobank. They consider being there for their customer service is something in a different level. Now even customers feel better by using non-traditional banking. This the way EU banks consider to serve their customers. Except serving BNP Paribas takes care about climate too, they act according SDG. As we all know whole world is working on Ecofriendly life style, so the EU, it can be clear by the actions of BNP Paribas:

11%

REDUCTION IN ENERGY CONSUMPTION COMPARED TO 2019
(AVERAGE KWH/FULL TIME EMPLOYEE)

46%

REDUCED BUSINESS TRAVEL COMPARED TO 2019 (AVERAGE KM/FULL
TIME EMPLOYEE)

23%

OVERALL REDUCTION IN GHG EMISSIONS COMPARED TO 2019 (T CO2
EQ/FULL TIME EMPLOYEE)

In addition they are trying and buying low emission digitalization tools, so that tools should be eco-friendly. Beyond that they are working on new projects to develop Beyond banking system rather than traditional one.

While there are to mane types of digital financial services, as it was stated above Zalanda, Veepee are examples to that. Making business by transacting money online

within customers and suppliers. Especially Veepee is making a great business in a massive type of products, from home appliances to sport appliances. In order to have a qualitative transaction people also need app to transact the money, exchange the currency so that it could be comfortable to trade with retailing companies. “WISE Bank” is a great example to this this app offers to its users ease money exchange and digital service, as well Revoult this app also makes the transaction better and reliable.

Beyond banking is widely spread in to different fields, it is nor only about online transactions of money, it is all about housing, health, mobility, shopping and etc. Which made live of vast number of people much more flexible and comfortable to live.

Digital financial services in Uzbekistan

Aloqabank: Aloqabank offers internet-banking for legal entities with faster and improved customer services. It allows people to manage their bank-account via Internet, and it is convenient to use, for complete use of Internet-banking, you only need a computer with Internet access and Microsoft Internet Explorer.

This service provides opportunities such as:

- sending all types of finance documents to the bank;
- obtaining records and documents on all accounts in the bank within any time period;
- tracking all stages of payment document processing in the bank in real-time mode;
- obtaining operative messages on errors;
- carrying out a review and printing of income and outcome payment documents.

Aloqabank also has a mobile application called “Zoomrad”, with a wide range of features:

- Manage any Bank card;
- Transfer payments for more than 300 services;
- Online conversion from any Bank payment plastic card;
- Online deposits;
- Online microloan;
- Receive international money transfer to a plastic card;
- Transfer money from card to card;
- Payments for the loan;
- Payment monitoring;
- Exchange rate;

Customers can connect Uzcard, UnionPay, Humo and Viza cards to this application.

There is also application called Payme in Uzbekistan. It is one of the most popular payment system in the country with wide range of digital services. Most of them are related to the payment systems: customers can transfer money from card to card, pay utility bills (such as electricity, gas) or insurance services, internet providers. Customers can even make payments to educational and healthcare institutions, online retailing systems, airway and railway tickets, games and social networks. Furthermore, people can use Payme to pay loans to 27 banks in the country. It also offers a “online wallet”. Moreover, Payme has charity system, that allows people to make charity to over 150 institutions.

Uzum market. Uzum market is a new online retailing company, where people can order goods via application or website. It offers 19 different types of goods from technologies to food products. Uzum market also has branches, where people can go and buy the products they need. In online shopping, delivery cost extra money and takes some time, so physical branches also can be convenient for some customers.

How to implement EU experience in Uzbek banks

Based on the information given above, it can be seen that digital financial services beyond banking are now highly demanded, and companies are also trying their best to meet the demand. We talked about digital services in both, Europe Union and Uzbek organizations, and we can say that EU organizations are more advanced in this sphere than the ones in Uzbekistan, at least a little bit. Therefore, we will try to give our ideas about how to implement the EU experience in Uzbek banks, based on our observations. First, if we compare Aloqabank and BNP Paribas bank, they can both offer internet banking services through their mobile application. BNP Paribas started to play a partnership role by offering a “value proposition” in sectors such as healthcare, housing and mobility that goes beyond conventional banking. BNP Paribas has other financial services as well: they roll out beyond banking services such as “My business assistant”, “My carbon footprint”, etc. So how Aloqabank can implement these services? For instance, by introducing innovative financial management for their business customers, they can offer a service like “My business account”. Aloqabank can also offer services beyond the conventional banking system by offering a “value proposition” in areas such as housing, healthcare, etc. In addition, BNP Paribas has a platform called Agronomist, that helps people to carry out farm management. Considering the attention to developing the agriculture industry in Uzbekistan, this kind of platform can be very popular in the country, if banks are able to implement it.

We take Aloqabank as an example, which can be ready to implement EU experience in digital financial services beyond banking. However, it does not mean other banks in Uzbekistan do not have the facility to do that. Many other banks, especially, those which can offer financial services via apps or websites, also can implement digital financial services beyond banking by learning the Europe experience. Moreover, as we mentioned above BNP Paribas takes into consideration about climate change, too. They try to work eco-friendly and achieve SDG goals in the process. Unfortunately, in Uzbekistan, it is not the case with some banks yet. But we believe, in the near future, they also will start taking care of the environment.

In the case, of Payme and Uzum market, based on our research we do not consider that they are behind Europe in terms of digital services. Perhaps in other features they may be a lagging behind. For example, online platforms like Veepee and Wise are considered international, but we can't say that about Payme and Uzum market yet. We hope that they will achieve it also in the coming future.

Conclusion

To summarize, in this paper we have explored the growing demand for digital services among people and how organizations are responding to it. As a result of this demand, banks started offering digital services in addition to banking services. Such services are especially developed in EU banks. We also researched the banks in Uzbekistan and compared them with European banks. In general, although the digital banking services in both, the EU and Uzbekistan, are now quite developed, we have seen that EU banks have a slight advantage in some aspects, and we have given our conclusions on how to apply the advanced experience in Europe to Uzbek banks.

In addition to banking, we have studied and compared some companies that can offer digital financial services in the EU and Uzbekistan, such as Payme and Wise.

Literature review

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