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Implementation of digital money in Europe and Uzbekistan

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a. Introduction

Over the last few years, digitalization has taken place in almost every spheres of the world, including monetary systems. As time passes, it is steadily taking over the traditional cash-based method of payment. This research paper will analyze the features of digital payments and will compare EU digital monetary system with that of Uzbekistan. What is Digital Money itself? Digital money (or digital currency) is a means of payment that exists in purely electronic form. Digital money cannot be physically touched like a dollar bill or coin. Invoicing and submission are done through an online system. A well-known form of digital money is the cryptocurrency Bitcoin. Digital money can also represent fiat currencies such as dollars and euros. Digital money is exchanged using technologies such as smartphones, credit cards, and online cryptocurrency exchanges. In some cases, ATMs can be used to convert to physical cash. A variant of digital money already exists in today's society in the form of cash in online bank accounts. This money can be sent to or received from others. It can also be used for online transactions. Digital money is similar in concept and usage to cash in that it becomes the unit and medium of everyday transactions. But not cash. For example, dollars in an online bank account are not digital money because they become physical when withdrawn from an ATM. Digital money is different from cash because it improves upon the process for monetary transactions.

For example, the technological rails of digital money can make currency transfers across borders easier and faster as compared to standard money. This form of money also streamlines the process for monetary policy implementation for central banks. The use of cryptography in some forms of digital money makes transactions involving them tamper-proof and censorship-resistant, meaning they cannot be controlled by governments or private agencies.

a.a Aim and objectives

The aim of this research paper is supplement the reader with the relevant information regarding the implementation of digital currency in Europe and Uzbekistan. It will cast light on the following objectives:

1. To make the reader understand what is digital money indeed.
2. To analyze the strengths and weaknesses of digital methods of payment in European.
3. To provide information about the ongoing European projects, such as Digital Euro creation, to improve digital monetary system.
4. To explain Uzbekistan's policies with regard to electronic means of payment and future scheme that it wants to undertake towards currency digitalization.
5. To provide advice on the adoption of some features of EU digital payment system by Uzbekistan in order to make a difference in the area.

b. Digital money in Europe

Digital money, also referred to as electronic money or e-money, is becoming more and more well-liked in Europe as a quick and safe method of exchange. Digital

money comes in many forms, including e-wallets like PayPal, Apple Pay, and Google Wallet, as well as coins like Bitcoin and Ethereum.

The use of digital currency is spreading throughout Europe. The use of electronic payments has considerably increased recently, with cards accounting for 79% of all point-of-sale transactions in the euro area in 2019, according to a study by the European Central Bank. The research also revealed a decline in the use of cash in many nations, with some retailers refusing to take it at all.

Europe has been aggressively promoting the use of digital currency, and there have been a number of recent initiatives targeted at improving the accessibility and security of electronic payments for both businesses and consumers. Here are a few of Europe's most recent efforts in the area of digital currency:

1. The Digital Finance Strategy of the European Union: The European Commission unveiled a new Digital Finance Strategy in September 2020 with the intention of developing a more innovative and competitive financial industry in Europe. In order to encourage the use of digital payments, the plan calls for the introduction of a digital version of the euro as well as the development of a European payment gateway and a framework for digital identity.
2. The Digital Euro Project of the European Central Bank: The European Central Bank stated in October 2020 that it was looking into the potential of introducing a digital form of the euro. The Digital Euro Project is still in its early phases, but if it proceeds, it may offer consumers and companies in Europe a safe and effective method to conduct computerized payments.
3. The European Payments Initiative: In July 2020, a collection of 16 European institutions revealed that they were working together on a brand-new payment system. (EPI). With the help of the EPI, customers and companies in Europe will be able to swiftly and easily make cross-border transfers.

While Europe has made strides in encouraging the use of digital money, there are still some issues that must be resolved to guarantee its broad adoption. Here are some current difficulties encountered when introducing digital currency in Europe:

Security worries: Security is one of the greatest issues with digital currency. The dangers of hacking, fraud, and identity theft still exist even though computerized payments are usually thought to be more secure than conventional payment methods. Strong cybercrime safeguards must be implemented as a result to secure customers and companies.

Regulatory challenges: Digital money is a relatively new technology and requires clear and consistent regulation to ensure its safe and efficient use. However, there is currently no harmonized regulation of digital money across Europe, which can lead to confusion and uncertainty among users and businesses.

Infrastructure challenges: Another challenge of digital money is the need for a robust and reliable infrastructure to support its use. These include the need for high-speed internet connections, secure servers, and other technical resources capable of processing high volumes of electronic transactions.

Consumer Acceptance: Finally, Europe needs consumers to be more accepting of digital money. Electronic payments are becoming more prevalent, but many people still prefer cash or traditional payment methods. This could complicate the transition of businesses to digital payments and slow the growth of the digital money market.

c. Digital money in Uzbekistan

According to Mamarizo Nurmuratov, work has begun on the introduction of SupTech technology. It will be built on the basis of the banking data warehouse at

the Main Informatization Center of the Central Bank. Payment organizations and operators will also be connected here.

Today, digital technologies are rapidly entering all sectors of our economy. The development of electronic commerce, the formation of a competitive environment for payment service providers can be helped by reducing their costs of retail payments, introducing new and easy-to-use means of payment, with which you can pay without intermediary services of financial institutions, the Central Bank reports.

The adoption of the Law of the Republic of Uzbekistan “On Payments and Payment Systems” has created the legal basis for the issuance, use and redemption of electronic money.

Based on this Law, the Central Bank has developed the “Rules for the Issue and Circulation of Electronic Money in the Republic of Uzbekistan”, registered by the Ministry of Justice on 29 April 2020 (registration No. 3231).

When developing the document, world practice was studied with the aim of organizing the activities of the electronic money system, the circulation of electronic money, risk management and ensuring security in the electronic money system.

The rules explain the basic concepts of an electronic money system, including “exchange transaction”, “single-issue and multi-issue electronic money system”, “prepaid card”, “electronic money system agent”, “electronic wallet” and others.

In accordance with the rules, the subjects of the electronic money system are the issuing bank, operator and agents of the electronic money system, owners of electronic money, as well as banks, individual entrepreneurs and legal entities that have concluded an agreement with the operator of the electronic money system. The operator of the electronic money system can be a bank and (or) a payment institution that has an appropriate license. The settlement bank of the electronic money system

may be the issuer or another bank that has concluded an agreement with the operator of the electronic money system. Before starting its activities, the issuer sends a notification to the Central Bank of the Republic of Uzbekistan on the start of activities for the issuance and sale of electronic money in a specific form and attaches an agreement with the operator to it, as well as samples of contracts concluded with entities of the electronic money system. This regulatory document determines that the operator ensures the execution of transactions in the electronic money system in accordance with the rules of the electronic money system. The operator determines the rules of the electronic money system in accordance with the contract with the issuer. The rules of the electronic money system must be agreed with the issuer in a single-issue electronic money system and with all issuers in a multi-issue system.

Electronic Money Issue

According to the document, the issuance of electronic money is carried out by the issuer within the money received from an individual or agent in accordance with the rules of the electronic money system and the agreement on the issue, use and redemption of electronic money.

Electronic money is issued by the issuer after the provision of cash or non-cash funds by an individual. Accounting of funds is carried out by the issuer in a special settlement account opened with a settlement bank. The sale of electronic money to an individual and an agent is carried out by depositing electronic money purchased from the issuer into an electronic wallet formed by an electronic money system for each owner. Based on a contract with the issuer or operator, an agent of the electronic money system can purchase electronic money from individuals who own electronic money at nominal value for the purpose of further sale or redemption. It should be emphasized that the issue of electronic money on the territory of the Republic of Uzbekistan is carried out only in national currency. When issuing electronic money,

the issuer and agent of the electronic money system issues to the owner a receipt or other document on paper and (or) in electronic form, confirming the fact of sale and acquisition by the owner of electronic money.

Using electronic money

According to the rules, electronic money is used by its owner, an individual, in order to make payments and other transactions on the conditions defined by the rules of the electronic money system and not contradicting the legislation of the Republic of Uzbekistan, by transferring electronic money from the owner to another member of the electronic money system. It was also determined that the exchange of electronic money denominated in foreign currency issued by a non-resident of the Republic of Uzbekistan is carried out by the issuer in the presence of an agreement with this subject. Electronic money can be used to purchase goods, works and services from an individual entrepreneur and legal entity. The issuer or operator forms special electronic wallets for individual entrepreneurs and legal entities. These e-wallets are used only for accepting electronic money for goods sold, work or services provided for the purpose of further repayment in nominal value. It is forbidden to re-sell electronic money on special wallets of individual entrepreneurs and legal entities.

Redemption of electronic money

The issuing bank is required to redeem the electronic money presented by its owner by exchange for cash or by transferring non-cash money to the owner's bank account in accordance with the rules of this system and the agreement on the issue, use and redemption of electronic money concluded between the issuer and the owner. The issuer issues a receipt on the operation to redeem electronic money to the owner of electronic money on paper or in electronic form. It should be noted that upon termination of the activity on issuing electronic money, the issuer informs the Central Bank of the Republic of Uzbekistan in a certain form about it in thirty days

and publishes an announcement about it on its official website, also informs owners and other entities of the electronic money system about the termination of their activities by means of a message in the media, including electronic media. If, after the expiration of the deadlines set by the issuer, no calls have been received from the owners of electronic money, the outstanding electronic money in the electronic wallets of the owners is forcibly repaid. In order to receive forcibly canceled electronic money of individuals, the issuer is presented with an identity document or information containing a code value that is previously sent by the issuer to the address, including the electronic address, of each owner of electronic money. At the same time, the document describes in detail the mandatory measures taken by the operator and the issuer to ensure security and risk management in the electronic money system. It is planned to create conditions in the republic for the development of electronic commerce by expanding the market for payment services, introducing modern tools and procedures for selling goods (services) via the Internet, expanding the geography and increasing sales of goods and services of local business entities. The formation of modern payment instruments in the payment services market will help optimize the costs of electronic money system entities: individuals and business entities. In addition, as a result of the exchange of electronic money denominated in foreign currency by an issuer that has signed an agreement with a non-resident of the Republic of Uzbekistan, conditions will be created for integrating the national electronic money system into a foreign electronic money system. The creation and implementation of an electronic money system is a new system process that allows providing bank customers with yet another tool for managing their money. In this process, the "Rules for the issuance and circulation of electronic money in the territory of the Republic of Uzbekistan" serve as the legal basis.

d. What can be adopted from EU digital monetary system

d. Uzbekistan could benefit from the European digital money system in several ways to improve its own digital money system. First of all, best practices and expertise: The European digital currency system has evolved over the years, accumulating a wealth of expertise and best practices. Uzbekistan could benefit from this experience by learning from the European system and incorporating some of its best practices into its own digital money system. And the another way is improved interoperability: The European digital currency system was designed with interoperability in mind. This means that different payment systems can communicate seamlessly with each other. By adopting some of the standards and protocols used in European systems, Uzbekistan can improve the interoperability of its own digital money system and facilitate communication between different payment systems. Enhanced security: European digital money systems are designed with security in mind, with a strong focus on preventing fraud and protecting user data. By adopting some of the security measures used in European systems, Uzbekistan could improve the security of its own digital money system, reduce the risk of fraud and increase user confidence. Greater acceptability: The European digital money system is widespread across Europe, making it easier for people to use digital money for transactions. By adopting some of the same standards and protocols used in European systems, Uzbekistan could increase acceptance of its own digital money system and make it more convenient for its people.

e.

Conclusion

In this research, the concept of digital currency was explained and relevant information was provided. Starting with Europe, paper mentioned how EU digital monetary system is functioning and its goal to create Digital Euro in the following

decade with an intention of making it an accessible means of payments in all countries of Eurozone. In addition, Both EU and Uzbekistan's steps towards digitalization of their currency was analyzed. Overall, the European system of digital money can offer several potential benefits to Uzbekistan to improve its own digital money system, including access to best practices and expertise, improved interoperability, increased security, and greater acceptance. As such, it may be worthwhile for Uzbekistan to explore opportunities to adopt some of the standards and protocols used in the European system to improve its own digital money system.

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