

BANKING SECTOR TRANSFORMATION IN OUR COUNTRY IN THE CONTEXT OF COVID-19 CORONAVIRUS PANDEMIC

Urinov Komil

Karshi engineering and Economics Institute
Student of the Faculty of Economics

ABSTRACT

The article addresses the acceleration of the banking sector's transformation process in the context of the coronavirus pandemic, as well as the influence of the worldwide crisis triggered by COVID 19 on Uzbekistan's banking and financial system. The formulation and implementation of an effective client-oriented digital strategy for financial institutions is the foundation for banking sector change. The paper explores several methods for banking sector reform and generates the author's scientific and practical findings.

Keywords: banking system, digital transformation, digital technologies, financial institutions, digital economy, digital strategy.

INTRODUCTION

In the context of the COVID-19 coronavirus pandemic, there is an increasing need to accelerate the process of bank transformation in Uzbekistan's banking system. In this respect, special attention should be paid to the execution of the Presidential Decree "On the Banking Reform Strategy of the Republic of Uzbekistan for 2020-2025," which was issued on May 12 of this year.

In this respect, on July 6, this year, President Shavkat Mirziyoyev presided over a meeting to implement the Republic of Uzbekistan's banking sector reform strategy for 2020-2025 and expedite commercial bank transformation.

Today, one of the most discussed notions is the term transformation. So why? This concept's essence contains the solution to this question. Transformation is the unavoidable process of adjusting a global company to changing conditions and societal preferences. Specifically, why is such a shift required in banks, and how is it accomplished?

Examine the relevant literature. Uzbekistan's financial sector has done a lot in recent years to improve the quality and variety of banking services. However, globalization, overdevelopment of competitiveness, the need to further deepen the process of transformation of commercial banks, and the necessity to take financial services to a new level.

President Sh. M. Mirziyoev stated in his Address to the Oliy Majlis, "Beginning in 2020, each bank will conduct a large-scale restructuring program." In this regard, we shall devote special focus to strengthening our banks' capital, resource base, and income".

Various economists have defined digital transformation.

Foreign economists Ablyazov T. and Assault V., in particular, feel that the digital transformation process include enhancing existing business models as well as utilizing digital technology to improve job efficiency. This process entails the continuous introduction of new technology, which will result in the total digital transformation of the economy.

According to Russian economist Vadim Arkadevich Koshcheev, digital transformation is viewed as an improvement in practical ways of doing business that generates a new work environment in the financial industry.

L. S. According to Pirainen, digital transformation entails the broad use of innovative techniques of providing financial services.

Uzbek economists have also undertaken various studies on the evolution of digital transformation and the banking sector transformation process. "Digital business is viewed as the creation of new business models that blend the physical and digital worlds," says academician SS Gulomov.

Toshmatov Sh.A. Toshmatov, Ph.D. in Digital Economics The application of digital technology to the economy, to all activities connected to economic gain, has voiced its position that the economy might be dubbed digitalization or digital economy. He also explains that, while the digital economy and the innovative economy complement each other, the key difference is that in the digital economy, the high share of material resources in the traditional economy is replaced by digital technologies, whereas in the innovative economy, it is replaced by more intellectual wealth and ideas.

We think that the development of digital transformation in the banking industry should begin with a rigorous examination of client demands and an examination of current opportunities, followed by the development of a new creative customer-focused approach.

These are financial service users who are the driving force behind bank innovation because they influence demand for modern banking goods and services by expressing their wants.

The adoption of digital technology will strengthen the bonds between banks, the government, and potential clients.

Customers and businesses want to connect with banks faster, simpler, and cheaper, thus banks must be ready to offer the most contemporary services in the digital economy.

Research Methodology.

The study employed research methodologies such as analysis and synthesis, induction and deduction, statistics, and comparison. A brief summary of the research findings:

- Scientific perspectives of certain economists on the digital economy and the banking sector's development;
- Recommendations were made to speed up the financial sector's change in the face of the COVID 19 coronavirus epidemic. For example, a critical examination of issue loans during the pandemic time, an examination of the financial population of the bank's customers in remote places, and a personalized approach to each client;
- With the advancement of information technology and communication, the populace will be exposed to innovative new forms of online banking services.
- Saving time and money by implementing digital banking financial services via mobile and internet platforms, protecting personal data protection, and boosting service speed and quality.
- Allocate funding to restore the working capital of enterprises whose financial status has deteriorated due to the epidemic, consequently restoring jobs and reducing poverty in the country;
- Investigate and thoroughly examine lesser levels of financing for programs and initiatives;
- Evaluation and management of employees' actions in the banking system via the KPI system, their monetary and moral rewards, or vice versa;
- Establishment of an efficient anti-corruption framework in the financial system.

ANALYSIS AND RESULTS

Uzbekistan's financial system is evolving to meet the current demands of the digital economy. Business models and concepts for the growth of the banking industry are being developed and enhanced as a result of the digital revolution; in particular, since the introduction of Internet banking, creative ways have been utilized to display classic banking processes. As a result of this creative development, banks' competitiveness and sustainable operation, efficiency, and, most significantly, public confidence in banks are increasing.

Uzbekistan's financial sector has done a lot in recent years to improve the quality and variety of banking services. However, globalization, overdevelopment of competitiveness, the need to further deepen the process of transformation of commercial banks, and the necessity to take financial services to a new level.

Nowadays, the amount of commercial banking institutions is decreasing, and instead, the operations of banking service centers (branches) are expanding.

As a result, there is a greater requirement to provide numerous services to clients, including traditional deposit or credit operations online.

Table 1 Information on the number of credit institutions and banking infrastructure

1. Credit institutions, total.	104	121	148
Including:			
-Commercial banks, hence:	28	29	31
Banks with a state share	11	13	13
Other banks	17	16	17
-Nonbank credit institutions, hence	76	98	118
Microcredit organizations	30	37	57
Pawnshops	46	55	61
2. Branches of commercial banks, total	862	879	853
3. Banking Service Centers	980	1151	1093
4. 24/7 outlets		907	1097

According to the data in the table, the total number of credit institutions in Uzbekistan grew from 44 to 148 as of January 1, 2020. Non-bank credit institutions have also expanded in number, from 76 in 2018 to 118 by 2020. During the review period, the number of banking service centers (service offices and mini-banks) and 24-hour outlets expanded as well. These data are explained by the banking system's specific relevance in our economy, as well as the rising demand for financial services.

Today, there are 31 commercial banks, and when we look at the ownership structure, we find that 13 are state-owned.

The most pressing difficulty in modernizing the banking system is the transformation of the country's banking and business procedures. aimed at increasing private equity participation

In this respect, the President of the Republic of Uzbekistan's Resolution No. PP-4325 "On steps to restructure and reform state-owned companies and commercial banks with state participation in charter capital" ensures systemic engagement. The International Finance Corporation and the European Bank for Reconstruction and Development, in particular, began to join in the reform of Uzpromstroybank, Asaka Bank, and Alokabank in 2019.

Furthermore, loans from the Republic of Uzbekistan's Fund for Reconstruction and Development (SRDC) were transferred from bank balance sheets to the SDRC's balance sheet, and a direct lending mechanism was formed.

In addition, Uzpromstroybank issued \$ 300 million in Eurobonds on the London Stock Exchange in 2019 to widen their resource base and draw affordable and long-term resources from overseas financial markets.

The Central Bank regularly examines the dynamics of numerous quality indicators in addition to measuring the ratio of income and costs in determining the success of banking management.

The return on assets, which measures the efficiency with which banks use their assets, grew by 0.2 percentage points in the banking system during the reporting period to 2.2 percent.

In state-owned banks, this ratio was 1.8 percent, while in private and international banks, it was 4.8 percent. The fact that state-owned banks' return on assets is substantially lower than the average of private and international banks demonstrates that there are considerable discrepancies between state-owned banks' and other banks' financial management techniques.

Capital return is an indication of the efficiency with which banks utilise their capital, and it climbed from 15.8 percent in 2018 to 16.7 percent in the republic's banking system during the reporting year. The return on capital in state-owned banks was 13.7 percent, whereas it was 31.4 percent in private and international banks.

The comparatively low level of assets and return on capital of state-owned banks can be explained by the high proportion of small marginal loans in these banks' loan portfolios under government social programs and the relatively low proportion of high-yield commercial loans and retail banking services.

Today, the percentage of long-term loans in commercial banks' total loan portfolio has declined from 95 percent to 92 percent, but this ratio is still much higher than international standards (70 percent). Furthermore, while the dollarization rate has decreased from 48 percent of total bank loans to 58 percent of liabilities, it remains a significant percentage.

Today, the concentration risk associated with loans to the banking system's ten largest clients remains substantial, and as of January 1, 2020, such loans amounted for 35% of the overall banking loan portfolio, including their portion of foreign currency loans in the corporate loan portfolio.

Simultaneously, as of January 1, 2020, the total amount of problem loans in the banking sector was 43.2 trillion soums, 43 percent of which were unsatisfactory, 19 percent were suspect, and 38 percent were bad loans.

The proportion of non-performing loans in total loans is an indicator of loan portfolio quality, and a growth in this indicator will be a crucial element in future catastrophic losses and liquidity concerns. This proportion fell by 0.1 percentage point in the financial system at the end of 2019 compared to the previous year, reaching 1.5 percent on January 1, 2020.

The ratio of net non-performing loans to total capital in the banking sector fell from 1.6 percent to 2.7 percent on January 1, 2020.

The country's high lending rate in 2019 has increased liquidity risk in the banking system. As a result, the percentage of banks' highly liquid assets in total assets declined nearly thrice in the first half of 2019 compared to the beginning of 2018.

The Central Bank has established objective targets for commercial banks from July 2019 to July 1, 2020, to increase the percentage of highly liquid assets in total assets to 10% by raising the share of total assets by at least 1%.

Based on the findings of the preceding research, we argue that the primary purpose of banking reform is to teach commercial banks to work for the client. In this respect, the execution of reforms to change the banking system is dependent on modern, educated employees, and the important factor is that banking sector representatives have learned the efficacy and content of the ongoing banking system reforms.

The Action Strategy's paragraph 71 focuses on the implementation of digital transformation in all service sectors. Implementation of the "road map" for state-owned bank transformation beginning June 1, 2020, includes initiatives to improve the quality of financial services supplied to the public and enterprises and expand the variety of contemporary retail banking services.

To that aim, this year's fulfillment of the goals set for wide banking system reform, as well as the adoption of contemporary banking models, necessitates the employment of realistic and effective forms of collaboration between the Central Bank and commercial banks. In the event of a pandemic, this technique assists to strengthen and improve public trust in the financial system.

There is an increasing need for the use of digital technology in the economy, in all operations involving economic benefit.

Digital transformation is an unavoidable process in which the world's businesses adjust to the new conditions and benefits of the digital economic society, which is a tool for improving people's living standards via the introduction of digital technology.

A rise in customer demand is unavoidable throughout the transformation of banks, and as a result, poor quality of advanced innovative banking services in this respect may lead to a decline in bank customers' confidence in their bank. As a result, bank consumers are more likely to transfer banks or utilize alternative financial services. As a result, the transformation of banking operations by client demand, i.e. the development of new financial services via the use of current information and communication technologies of banking goods and services.

In this context, the redesign of commercial banks' organizational structures to bring them in line with worldwide norms, as well as the streamlining of lending criteria, are critical. Simultaneously, steps to revive business-oriented corporate governance and supervisory boards, as well as the provision of contemporary financial services, are required.

The current position in the country's banking industry reveals various structural flaws, such as a high degree of government interference, poor quality of management and risk management in state-owned banks, and a low level of financial intermediation in the economy.

To remedy this problem, it is mandated to register non-banking operations and establish training sessions at the Central Bank's Corporate Retraining Center to explain bank transformation, mainly for local bank workers. The majority of state-owned banks are supported by trust funds and offer preferential rates to state-owned firms and government projects. These loans are frequently restructured (extended or considered for alternative terms), which reduces bank efficiency and profitability.

As a result, initiatives are being planned to sell state-owned banks to international and domestic investors in order to limit the state's share and intervention in the banking sector.

In practice, investors with steady and strong economic potential - in the nation, area, or any firm in which they invest - make a decision to spend their assets in the project only when the investment project is persuaded of high economic efficiency. As a result, an in-depth examination of the quality and quantity of investment projects in the country's banking system is critical.

President Sh. has made a statement in this respect. Mirziyoyev met with the leaders of more than 30 foreign nations and international financial organizations in 2018 alone, and more than 180 bilateral agreements and treaties have been inked.

At the moment, six commercial banks in the country – Ipotekabank, Sanoatqurilishbank, Turonbank, Asakabank, Aloqabank, and Agrobank – have begun working with foreign financial institutions on financial diagnostics, long-term strategy formulation, and privatization.

President Mirziyoyev, on the other hand, stated that the transformation of other banks is insufficiently active, with special emphasis on the elimination of corruption in the banking system, and that the chairmen of all commercial banks should take strict measures to curb corruption and introduce effective control mechanisms. Criticized.

In the current context of the COVID 19 coronavirus pandemic, the issue of enhancing bank loan portfolios and project quality demands special attention. According to the results of the Central Bank's stress testing, the percentage of bad loans may climb several times, posing a major risk to the banking sector.

As a stakeholder on the supervisory board, the Ministry of Finance is currently responsible with increasing oversight over banks. There are 14 foreign independent experts on the supervisory board of state-owned banks,

and the Ministry of Finance hopes to boost the percentage of foreign independent experts on the supervisory board of state-owned banks to 30% by the end of the year.

The purpose is to properly manage any bank's business policy (credit policy, currency rate policy, etc.) and to develop a mechanism to avoid corruption by bank management.

In this regard, the Central Bank was instructed to develop specific measures to restore the financial capacity of each client in difficult circumstances following the registration of loan portfolios of all commercial banks based on a detailed analysis of problem loans by region and the development of an effective mechanism to maintain the quality of the loan portfolio.

It is proposed, in particular, to take systematic efforts to restore the operations of banks in each area and sector by giving cash to replenish working capital to firms in need of working capital that are experiencing financial difficulties as a result of the epidemic. The objective is to restore jobs, generate new jobs, and alleviate poverty in our country as a consequence.

Simultaneously, President Mirziyoyev stated at a meeting on July 6, 2020, on the implementation of the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025 and accelerating the transformation of commercial banks, with the goal of increasing the private sector's share of bank assets from 15% to 60%. opposed the continued large percentage of government-funded money in state-owned commercial banks, stating that banks should acquire financial resources on their own, without government help or backing.

Currently, Qishloq Qurilish Bank has 41 percent of such loans while Ipoteka Bank has 32 percent. Banks got over \$ 600 million in state-guaranteed loan lines last year, with the amount increasing to \$ 570 million this year. At the same time, the population's proportion of savings and time deposits in big banks is barely 5%. In this context, the Central Bank was directed to explore further suggestions to attract commercial bank deposits. To guarantee the fulfillment of the Presidential Decree "On the Strategy of Banking Reform in the Republic of Uzbekistan for 2020-2025," the following medium-term banking reforms are known:

- Sector restructuring - reform and privatization of banks;
- Improving the legislative framework by incorporating Basel Committee on Banking Supervision norms, International Financial Reporting Standards, and so on.
- Enhancement and growth of service quality through customer-oriented services, loan methods, and business process automation;
- Professional advancement.

Furthermore, the purpose of the Republic of Uzbekistan's banking system reform strategy by 2025 is to assure the completion of the following tasks:

Increase the percentage of non-state bank assets in overall banking system assets from 15 percent to 60 percent by 2025.

Increase the proportion of private-sector liabilities in total bank liabilities from 28 percent to 70 percent by the end of 2025.

By 2025, at least three key foreign investors with the required expertise, knowledge, and reputation must be attracted to at least three state-owned banks.

Increase non-bank credit institutions' share of overall lending from 0.35 percent to 4 percent by 2025.

Globally, each country is responding to the coronavirus pandemic in a unique way dependent on its capabilities and situation. It is difficult to establish which of the recommended paths is the most successful. As a result, our administration is developing realistic steps to address the crisis promptly and efficiently within our capabilities, while also watching global experience:

Shavkat Mirziyoyev, President of the Republic of Uzbekistan, praised the stable functioning of the banking system and the economy in the context of the coronavirus pandemic and emphasized the need for a critical

review of banks' project portfolios, given the emerging global economic crisis, to ensure that they are financially viable.

Banks were encouraged in this respect to prioritize the allocation of cash to small firms in order to create new jobs and self-employment at home.

- Given that work in the agricultural industry has not ceased, even throughout the quarantine period, commercial banks associated with the agricultural sector should now expand the number of new projects.
- The Central Bank has been directed to secure the distribution of 30 trillion dollars in working capital through banks in order to keep manufacturing businesses operating. It was emphasized that firms should be given with loans to pay salaries if necessary.
- Tasks have also been assigned to broaden the scope and reach of remote services. Conclusions and suggestions.

CONCLUSIONS

In general, the digitalization of the financial system will increase in the future decades, and effective management of the digital transformation in the banking industry will become an essential competitive advantage.

Despite the present challenges in our nation as a result of the pandemic and quarantine, no existing system has been shut down, and the financial system has increased the possibilities of completing internet transactions remotely.

As a result, it is now more vital than ever for banks to create creative strategies, as well as to broaden their resource base and enhance their level of capitalization, in order to provide new banking products based on IT technology. In world practice, global relations have led to the rapid development of financial technologies, the emergence of new P2P lending, online scoring, algorithmic trading, and similar services.

- In Uzbekistan, commercial banks collaborated with software developers to provide the potential of real-time banking operations for consumers via mobile applications.
- Given conclusion, in the current context of the COVID 19 coronavirus pandemic, special emphasis should be directed to speeding the banking sector's reform and the integration of the Uzbek banking system into global financial markets:
- Changing the way banks operate and adopting customer-centric strategies;
- A critical examination of issue loans during the pandemic, an examination of the financial population of the bank's clients in remote places, and a personalized approach to each client;
- With the advancement of information technology and communication, the introduction of creative new forms of online delivery of quality banking services to the populace;
- Saving time and money by implementing digital banking financial services through mobile and online platforms, ensuring the security of personal data, and improving the speed and quality of services;
- Allocating funds to replenish the working capital of economic entities whose financial situation has deteriorated due to the pandemic, thereby restoring jobs and taking measures to reduce poverty in the country;
- In-depth study and analysis of prog;

REFERENCES

1. Yakubova, Sh. Sh., Rashidov, R. I., Umarova, M. X., & Urinov, K. T. (2022). Ways of effective implementation of monetary policy in our country. *ISJ Theoretical & Applied Science*, 03 (107), 859-864. SoI: <http://s-oi.org/1.1/TAS03-107-64> Doi: <https://dx.doi.org/10.15863/TAS.2022.03.107.64>

2. Alikulov, A. T., Iskandarovich, R. R., & Komiljon, O. (2022). O‘ZBEKISTONDA TIJORAT BANKLARINING BARQAROR FAOLIYATINI AMALGA OSHIRISHDA RAQAMLI BANK HIZMATLARINI JORIY ETISH. Results of National Scientific Research, 1(2), 62-67.
3. Diyorova, M., & Komil, U. (2022). TYPES OF BANKING SYSTEM IN UZBEKISTAN. Conferencea, 462-466.
4. O‘g‘li, O. K. T. (2022). O‘ZBEKISTON RESPUBLIKASI HAMDA ASOSIY SAVDO-HAMKOR DAVLATLARNING MILLIY VALYUTASINING REAL ALMASHUNUV KURSI QADRSIZLANISHI VA MAMLAKATLARNING AQSH DOLLARIGA NISBATDAN DINAMIKASINI O‘ZGARISHI. Science and innovation, 1(A3), 75-78.
5. Komiljon, O. (2022). O‘ZBEKISTONDA BANK PLASTIK KARTALARI VA XALQARO TO‘LOVLAR TIZIMLARDAN FOYDALANISHNING ASOSIY TAMOYILLARI. Involta Scientific Journal, 1(7), 219-221.
6. Alikulov, A. T., & O‘rinov, K. (2022). O‘ZBEKISTONDA KAPITAL BOZORI RIVOJLANISHINING ISTIQBOLLARI. Oriental renaissance: Innovative, educational, natural and social sciences, 2(6), 690-695.
7. O‘rinov Komiljon Tolibjon o‘g‘li. (2022). UNIONPAY TO‘LOV TIZIMI KARTASINING ISTIQBOLLARI. American Journal of Technology and Applied Sciences, 3, 32–34. Retrieved from <https://americanjournal.org/index.php/ajtas/article/view/40>
8. Diyorova, M., & Komil, U. (2022). Basic Principles of Using Bank Plastic Cards and International Payment Systems in Uzbekistan. Texas Journal of Multidisciplinary Studies, 9, 159-161.
9. Urinov Komil. (2022). MANAGEMENT OF HUMAN RESOURCES IN THE BANK: ITS EXTENT AND COMPLICATIONS. International Engineering Journal For Research & Development, 7(4), 3. <https://doi.org/10.17605/OSF.IO/ZW762>
10. O‘rinov Komiljon Tolibjon o‘g‘li, & Mustafayeva Nozliya Xusniddin qizi. (2022, July 14). TA‘LIM TIZIMIDAGI YANGI ISLOHATLAR. International Conference on Developments in Education, Sciences and Humanities, CANADA. <https://doi.org/10.5281/zenodo.6831186>
11. Komil, U. (2022). Bank Accounting and Audit. Eurasian Scientific Herald, 10, 16-18.
12. "Chart of Accounts for Accounting in Commercial Banks of the Republic of Uzbekistan (new edition)" dated August 13, 2004 Registration No. 773-17.
13. 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” pf-5992-12.05.