

## DIGITAL BANKING, ITS ADVANTAGES AND DISADVANTAGES

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### 1. Abstract.

*The process of digitalization of the banking sector of Uzbekistan in modern conditions of economic development is considered. Digitalization of the banking sector in Uzbekistan is necessary now days. Banking sector of Uzbekistan cannot "live" apart from the world banking system. In the modern economy, digitalization has permeated into all spheres, directions and the banking system is no exception. The article provides the elements of the legislative framework of Uzbekistan, which regulates the digital economy and contributes to its development, and underlines the main advantages and disadvantages of digital banking.*

**2. Keywords:** data digitization, digital banking, big data, block chain, mining, smart contracts, banking sector, online communication, digital platform

### 3. Body.

#### – Introduction.

The digital revolution in the banking sector was already in full swing, and the coronavirus pandemic, self-isolation and the transition to a universal “remote” pushed financial institutions to an even faster transformation.

Today it is impossible to imagine the banking industry without Data Digitization. As you know, it is the process by which manual or physical records such as images, text, video and audio are transformed into digital forms. This is of overriding importance when projects need directions based on facilities already installed and the implementing agency needs to find the opportunities for expansion.

It is not news for a long time that many clients are ready to replace personal visits to bank offices with online communication. For several years, the largest banks have been introducing products and services that can be obtained remotely, convenient online solutions, Internet and mobile banking into their product lines, and many people actively use them in everyday life.

The terms "online banking" and "digital banking" are often used interchangeably, but there are significant differences between them. Online banking indicates a simpler online experience - private access to information such as account balances and superficial information. Digital banking goes beyond just checking your account balance online. Digital banking provides all banking services online through online portals and banking applications so that customers can do everything from transferring funds to paying bills and applying for credit cards.

Consumer preferences have rapidly shifted in favor of online and mobile devices, but many financial institutions find it difficult to adapt their banking operations to online channels and small screens of mobile devices. Unfortunately, banks can no longer wait and are starting to invest in digital transformation as customers increasingly move from banking to digital functions such as bill payments, mobile payments and loan applications.

The main purpose of our article is to study the importance of researches in the field of digital banking, in our case we will talk about digitalization of the banking sector, and we would like to discuss the state of the regulatory framework of Uzbekistan, which will be necessary for the effectiveness of this process.

Our research objectives were:

- To study the scientific resources and the opinions of individual scientists in the field of the use of digital technologies in a bank system;
- Highlight the main advantages and disadvantages of digital banking;

- To study the readiness of the regulatory framework of the Republic of Uzbekistan in areas of the digital economy;
- To make conclusions on the completed work and intend the useful proposals.

Today, the main problem on the way of development of digital banking in Uzbekistan is the impossibility, according to the legislation of the Republic of Uzbekistan, to start servicing clients without their physical identification. In addition, the issue of security and protection of personal data remains acute when using the applications of financial organizations, when it is not so much easy for use that is why it is important for users, but the understanding that their funds are reliably protected. Both of these problems can be solved in the near future due to the development of biometric technologies in the field of digital identification. Even today, banks have made great strides in the verification of their customers, which has had a positive impact on the procedures for providing the necessary financial services.

By acquiring the loyalty of a customer who becomes a real client of the bank and uses many financial instruments, a bank can offer more banking service packages and get higher income from per client. Banks are acquiring a new role as a financial portal role that allows customers to use the bank's products and services without bureaucracy, cutting the time of the operation, and reducing the dependence on human factor.

#### – Methodology.

The importance of choosing best research methodology will give us the path to help us succeed. Proper choice of research methodology helps in achieving the success and overall quality of our study and its documentation. Furthermore, becoming familiar with the research methods used by an area of study provides us to understand it more effectively.

When choosing a methodology, we managed by three key aspects:

- what is the most rational choice for our research;
- what methods we intend to use in collecting data;
- what practical questions we need to find answers.

Referring to the task of our research we set to show the benefits of digitalization of the economy and the readiness of the legislative and regulatory framework of Uzbekistan, we came to the conclusion that we should use the methods of the empirical and theoretical level, namely the methods of study and generalization, analysis and synthesis, observation. The data was collected in the framework of other published investigations related to the study of the legislative and regulatory framework of Uzbekistan.

#### – Results.

Recent years have proven the importance of digitalization in all areas of the banking business. The digital sales channel allows banks to build a different product economy, expand the boundaries of communication with the clients. Nowadays products and services are being developed to encourage customers to operate online and use the maximum possible number of additional services.

A significant role in the transition of our country to the "digit" was also played by the steps of the state in this direction - the active development of the infrastructure of NFC payments, the system of fast payments, the launch of the financial marketplace, the prospects for the introduction of the digital money, and so on. The entire financial system is being digitized.

At the same time, digitalization implies not only efficient and high-quality financial management, but also the development of technologies, equipment, and software. Digital and technological progress is closely linked, and the growing popularity of remote service opportunities in the financial sector will contribute to the rise of the IT segment.

So, digital banking means the complete digitization of banks and all their activities, programs and functions. This concerns not only the digitization of banking services and its products - the interface that customers can scan, but also the automation of internal processes. Digital banking allows the integration of new technologies in to every phase in banking that goes far beyond web or mobile banking. Banking that is done through the digital platform without any paperwork is referred to as digital banking. Digital banking means the existence of banking services online.

Digital banking is a full transformation into a digital environment for both customers and employees. Hoffman Thomas in 1999 says that digital banking relies on big data, analytics and uses all innovations to improve the quality of customer services. A bank can be digital if all of its instruments, from product extension to customer services, have been digitized.

The main advantages of digital banking:

- Easy set up - creating an account with an applicant bank is a simple and paperless process. Most accounts can also be fully set up from a mobile device.
- Lower fees - with lower transaction costs, challenger banks can charge competitive prices for their services.
- Wider Financial Inclusion - Branchless banks have lower operating costs and can therefore afford to accept clients who cannot access traditional financial services due to a lack of credit history or poor credit ratings.
- Focus on security. Traditional banks are notorious for being slow to adjust to the demand for more flexible yet secure banking services. Not only the digital banks are easy to use, many of them are security-focused and respond quickly to the latest security threats.
- Additional Features - In addition to providing digital bank accounts, many banking apps offer their customers built-in payment, budgeting, and savings tools.

The main disadvantages of digital banking:

- Despite the active development of IT technologies, the depth of implementation of remote banking services is still insufficient among the population. Financial institutions in digital format often offer a traditional set of services. And far from everyone uses them: there is still a huge layer of bank customers in Uzbekistan who withdraw all the money from the card in cash on the day of their salary or prefer to visit bank branches to open savings products.
- The task of banks today, among other things, is to change people's thinking by guaranteeing the security of transactions or offering preferences, for example, when registering products remotely.
- Failure to comply with the necessary security rules when using the Internet Bank can be fraught with financial losses. In this regard, it is necessary when conducting any financial transactions online.
- The digitalization of banking processes involves a large amount of investment, which is not always affordable for small regional financial institutions. Major industry players can afford to hire the best IT specialists, buy and implement advanced technologies, and even create departments that train developers specifically for solving banking problems. Therefore, large financial institutions may start to push out small players even more strongly.
- The transition to digital business processes in a bank complicates access to financial services for less advanced clients.
- Today, most technologies are much more complex than ATM software, so banks have to think about creating simple interfaces and clear instructions - and wait until customers get used to new, digital banking standards.

A digital bank should be completely focused on the clients' lifestyle, on their ways of communicating with their bank. It is necessary to make the financial service of the clients' needs a part of everyday life. This is the so-called Life-Time-Banking, that is, interaction in various life situations to recognize client activity (through services customized by the client) and accompany clients' daily financial needs as they arise and the clients' needs. It should be so that the clients do not have to fill out numerous forms in order to receive any banking service. They have already been identified, and they already inside the bank, which means they can receive the service they want and need. No matter how soon, bank branches will disappear. This will happen not because new technologies emerge in society, but because these technologies can satisfy their needs.

In Uzbekistan, Presidential Decree No. 3832 of July 03, 2018 "On measures to develop the digital economy in the Republic of Uzbekistan" was adopted, which defines the most important task for the further development of the digital economy. The Decree provides for the adoption of the Law "On the Digital Economy and Blockchain Technologies", which provides for provision of retail services, improvement of remote banking services through the active use of innovative banking instruments.

**– Conclusions.**

The study demonstrates how banks can use digital banking to improve customer experience, acquisition, retention, learning and the level of meeting the various needs of customers as well and improve financial performance by improving profitability, cost savings, return on assets, cost-to-income ratio, revenue and sales growth.

The importance of Internet in banking to increase many people use Internet as their main channel in contacts with their bank. This poses both possibilities and threats to the bank and having loyal customers become more important. To enhance clients understanding of customer loyalty in an Internet banking context a banking sector should have interviews and construct a questionnaire, based on a theoretical ground, consisting of some concepts related to loyalty.

During this research, we've come to the conclusion that the main trend in the development of the banking sector of Uzbekistan at the present stage, in our opinion, is the formation of a holistic concept of digital banking. We single out the following organizational stages:

1. Creation of digital channels of interaction (Internet banking, mobile banking).
2. Widespread introduction of digital products (obtaining access passwords online, data in electronic form).
3. Full digitalization of all operations (Big Data, Android Pay).
4. Building a client-centric model based on the use of artificial intelligence.

The study informs about consumer attitudes towards digital banks, who need to consider ways to increase profits. It highlights upward trend in investment in innovative digitalization technologies. This shows how innovations in civilization enable banks to implement value-added services, differentiate products, increase sales, increase the competitiveness of banks and enable them to respond to growing customer needs through digital devices.

The new bank should be a 21st century bank focused on mobility, sociality and interactivity. A digital bank should enable individual financial services through a mobile application that works online 24/7. The new digital bank should ensure maximum security of banking with the help of identification using all new types of secure customer identification. Offered applications should know clients, easily identify them, and simply provide them with a personal online space in which they activate the services clients need. Modern digital bank has to build relationships with a client by mutual benefit cooperation.

In the context of digitalization, it is appropriate to note that in recent years it has become modern to create ecosystems that allow the bank customers, being on the same site, to receive diverse offers: from managing personal finances to ordering food, buying movie tickets, etc. In the future, this trend will develop. Also, in our opinion, it is up-to-date to raise the financial literacy of the population, to ensure that consumers of digital banking products do not become victims of financial or cyber-crimes.

The new digital bank should make customer-interests, responsiveness, modernity, transparency and honesty the main distinguishing features of its brand. It should be an open bank with the best mobile application, which also develops along with the needs of the bank's customers. None of the above is given so easily and does not happen so quickly, but in today's rapidly changing world with the fast development of technology and crazy competition, there is simply no other way to achieve success.

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