

# IMPROVING THE CORPORATE GOVERNANCE SYSTEM IN COMMERCIAL BANKS OF UZBEKISTAN USING DIGITAL TECHNOLOGIES BASED ON INTERNATIONAL PRINCIPLES

*Mirpulatova Luiza Mansurovna*

*Researcher*

*Banking and Finance Academy of the Republic of Uzbekistan*

*Luizamirpulatova94@gmail.com*

## **Abstract**

The article discusses the issues and prospects for the formation of a digital transformation of commercial banks in Uzbekistan. In this paper, the author presents materials on the current state of the corporate governance system in commercial banks, briefly analyzes the corporate governance of the banking system of the Republic of Uzbekistan, and makes proposals for improving the methods of corporate governance of commercial banks by using digital technologies based on international principles.

**Keywords:** digital banking, banking sector, online communication, digital platform, corporate governance, banking system

Banks are vital institutions in any society as they make a significant contribution to the development of the economy through business development. Banks also contribute to the development of savings plans and are, among other things, instruments of the government's monetary strategy.

According to the Law "On Banks and Banking Activities", the Bank is a credit institution that has the exclusive right to carry out the following banking operations in aggregate: attraction of funds from individuals and legal entities to deposits, placement of these funds on its own behalf and at its own expense on a repayment basis, payment, urgency, opening and maintaining bank accounts of individuals and legal entities. By their nature, banks are designed to perform many special functions. Such as: carrying out settlement and cash transactions, investing, lending, storing money and other funds and managing them, i.e. those services that are necessary in the life of every citizen.

The banking system plays an important role in modern economic relations. It is banks that accumulate money, the accumulation of which is the main condition for expanded reproduction and the development of consumption.

The most important part of the financial system is the Uzbek banking sector, therefore, the Government of the Republic of Uzbekistan has created the necessary legal and other conditions for the formation of a modern, highly developed and competitive banking sector in Uzbekistan, which meets the interests of the domestic economy and provides the population and organizations with a high level of banking services.

State regulation of the banking system is a complex and multifaceted phenomenon, the basis of which is objective, real-life social relations between the state, society, consumers of banking services and economic institutions that make up the banking system. The need to attract the attention of the state to the processes taking place in the banking system follows from the essence of the activities of banks and

their leading positions in the financial market. A high level of financial interdependence, confidence in easily withdrawn funds, a multiple excess of assets over equity capital always threatens the bank with a loss of liquidity and a solvency crisis. It should be noted that if one bank has problems, then they may turn out to be problems of the entire banking system, since the bankruptcy of a bank as a result of the confiscation of attracted banking resources can cause a chain reaction throughout the entire banking system.

With the rapid and competitive evolution of such service-oriented offerings, the future of all commercial banks suddenly looks much more open. Digitally empowered banks of all sizes can compete and win more effectively in commercial banking, becoming indispensable financial and digital transformation partners for their customers.

The banking system is, first of all, a system of commercial banks. Therefore, the financial stability indicators of each bank should be considered in order to assess the stability of the entire banking system, in which banks are its generic elements. This approach is usually used in the framework of ensuring the stability of the banking system. The essence of this approach is that the aggregate indicators of all banks can be considered as a sufficient characteristic of the entire banking system

One of the effective ways to increase the stability and reliability of the banking system is to further improve the corporate governance system in commercial banks, which allows creating the necessary prerequisites for an adequate assessment of risks and increasing the transparency of commercial banks.

Today, corporate governance has become a hot topic for most researches. Corporate governance currently plays a key role in the country's economic development. In this regard, in this article, we mainly consider the concept of corporate governance and proposals for improving it in commercial banks of Uzbekistan by using digital technologies based on international principles.

As the President of Uzbekistan Shavkat Mirziyoyev emphasized: “A reliable and stable banking and financial system plays an important role in the development of the economy. Without increasing the confidence in it of the population and business entities, we will not be able to completely free ourselves from the "shadow" economy. In the implementation of the tasks set for the development of the banking system in 2018, the main attention should be paid to ensuring fruitful and mutually beneficial cooperation between banks and business entities” [1].

One of the effective ways to increase the stability and reliability of the banking system is to further improve the corporate governance system in commercial banks, which allows creating the necessary prerequisites for an adequate assessment of risks and increasing the transparency of commercial banks. Commercial banks are actively implementing the basic principles of corporate governance in the banking management system, but there are still a number of unresolved problems that require additional study of issues of increasing the role of corporate governance in the banking system.

Based on our research's findings, it seems that there is a significant and positive relationship between corporate governance and bank performance. Particularly, the study pointed that it was concluded that corporate governance is very critical for

enhancing bank performance. Additionally, commercial banks should pay more attention to all principles of corporate governance.

The banking system of the Republic of Uzbekistan is represented by 30 commercial banks. The commercial banks operating in our country can be divided into four categories according to the capital structure. Compared to the size of the economy and the population of Uzbekistan, the total number of banks is relatively small and the structure of their assets does not provide a true competitive environment, as it is highly concentrated: at the beginning of 2023, the 3 largest state-owned banks accounted for 54.9% of total assets.

It is known that in recent years the banking and financial sector in Uzbekistan has been gradually reformed, a number of measures have been taken, and as a result, the necessary legal conditions have been created for conducting an advanced banking business and strengthening the competitive environment. In particular, the Law “On the Central Bank of the Republic of Uzbekistan”, “On Banks and Banking”, “On Currency Regulation” and “On Payments and Payment Systems” were adopted, which comply with international standards and create an attractive legal environment for foreign investment in financial sector [2].

At the same time, an analysis of the current situation in the banking sector shows the existence of a number of systemic problems that hinder the development of the banking sector in accordance with economic transformations and the needs of society, such as a high share of state presence in the banking sector, insufficient quality of management and risk management in banks with the participation of the state, low level of financial intermediation in the economy.

The Decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025" was an important step towards resolving these issues [3]. Additional steps need to be taken to increase the popularity of the financial services provided by banks today, expand the access of banks to regions and ensure the provision of the same type of services in all localities. It is no coincidence that the head of state held a meeting on the implementation of the strategy for reforming the banking system and accelerating the transformation of commercial banks in the country. It should be noted that today 15% of total banking assets belong to private banks, and 85% - to banks with a direct or indirect state share.

In this regard, systemic restructuring in the banking and financial sector, the introduction of modern market mechanisms in this area is becoming an integral part of a broad campaign to reform and revitalize the Uzbek economy, carried out by the Government of the Republic of Uzbekistan under the leadership of the President of Uzbekistan Shavkat Mirziyoyev. In his message to the Oliy Majlis on December 28, 2018, the President noted, that “The main problem in the banking system today is that 83 percent of the capital of banks belongs to the state. This hinders healthy competition in the banking sector and negatively affects the quality of services provided...” In turn, the President called for a gradual reduction in the share of state-owned banks due to the influx of private and foreign capital into the banking system” [4].

In fact, digital transformation is becoming the mainstream of global economic development, providing benefits to both consumers and businesses adapting to

technological change. Uzbekistan, like many other countries, is currently developing a digital economy strategy to support sustainable economic growth and increase labor productivity.

In a broad sense, digital transformation means a change associated with the application of digital technologies in all aspects of human society, it is seen as a key trend that is penetrating many industrial and social spheres. Digital transformation strategies often focus on the transformation of products, processes and organizational aspects through innovative technologies, they create new opportunities to attract customers and meet their needs.

The high potential of digital transformation in terms of promoting economic growth and social prosperity makes the digital economy a key development priority in both developed and developing countries, promoted by the international community.

Today, the world is undergoing significant changes in the banking sector, caused by the influence of information technology. Modern services provide customers with more and more opportunities every day. Previously topical banking issues regarding maintaining liquidity at the required level, fluctuations in interest rates, etc. no longer arouse such heated discussion.

The main trend in banking should be the transition to the virtual space. Growth in demand to perform the maximum number of banking transactions in online services, regardless of the location of the client, causes this trend. Using digital technologies in the banking sector is a natural process in the age of the widespread introduction of high technologies and Internet provision. The banking sector is undergoing radical changes both in the provision of its services and in the expansion of its client base and the unification of all banks and their partners into a single financial system.

To date, the digital revolution in the banking sector has led to the fact that the largest credit institutions are implementing online solutions, artificial intelligence, creating marketplaces and entire ecosystems that are easy to use, fast in service, carry a huge flow of information and, most importantly, already a third of Uzbek people actively use them. Digitalization has become a strategic priority for the global banking industry. Following global trends, banks of the Republic of Uzbekistan are increasingly beginning to master technologies such as API or artificial intelligence, and mobile banking is becoming a mandatory minimum for any “decent” commercial bank.

The relevance of the research topic lies in the fact that in modern economic conditions there is a total digitalization of the economic activities of subjects. The banking sector, and the activities of financial organizations in general, have found themselves in the center of global changes, the transition to a completely new plane of relationships with customers, the banking community and the state.

The Platformization of the Banking Industry is one of the trends in IT banking in 2023. Thus, through the introduction of marketplace platforms, customers will be able to access various financial services and products in real time, and all participants in the transaction will be collected on the platform for registering financial transactions in a single register. Opportunity implementation of instant transfers through the use of social networks, instant messengers, QR-code will be provided by the fast payment platform.

Thus, the active use of digital technologies provides the banking sector of our country with a stable competitive position in the market not only due to economies of scale, but also by increasing the satisfaction of broad customer needs.

Also, in the words of the President of Uzbekistan Shavkat Mirziyoyev, along with the transition to a digital economy, the commercial banks of Uzbekistan have accelerated the introduction of new types of digital and remote banking services in order to create convenience for consumers. An electronic queue, a call center, biometric identification of individuals by fingerprints and Face ID, making payments using QR technology, accepting payments via a smartphone using the “One touch” system and 3D security have been introduced, and a DIG ID device (customer identification system by Face ID technology) system and software [5].

As we know, each commercial bank of the Republic of Uzbekistan has its own Corporate Governance Code, which contains recommendations that the Bank follows voluntarily, demonstrating its commitment to honest and transparent business conduct. This document is a set of recommendations on key areas for the efficient organization of the work of the Bank's management bodies. It was noted, that the system of corporate governance in commercial banks of Uzbekistan is the system by which banks are directed and controlled. Boards of directors are responsible for the governance of their banks. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place [6].

We came to conclusion that the corporate governance practices are essential to achieving and maintaining the public trust and confidence in the banking system, as a result they are critical to the proper functioning of the banking sector and economy as a whole.

The relevance of our study is also due to the fact that the introduction of scientific achievements and inventions in the organization of banking services ensures the continuous improvement of banking products and applied consumer service technologies. A special need for the development of scientific research on this issue appears in the context of the financial crisis, when leading financial institutions experience problems with liquidity and outflow of customers, there are reductions in funding for innovation and investment projects and a narrowing of innovation and investment activities in general. Therefore, in modern conditions, the problem of a detailed study of the role and place of innovative technologies in the total set of operations of commercial banks, the reasons for the emergence and development of new products and services, as well as their impact on profitability and liquidity of banks is particularly relevant.

It should be noted that the further implementation and development of digital transformation processes in the banking sector of Uzbekistan will significantly improve the efficiency of banks, stimulate the use of new technological solutions, and create new improved processes in the offered banking products and services. These transformations in the banking sector can contribute to the overall development of information technology and ensure sustainable economic growth in other sectors of the economy.

The main vectors for the development of the digital transformation of the banking sector of Uzbekistan are the biometric identification of customers, the creation

and operation of digital banks, the development and application of artificial intelligence and machine learning. The use of the indicated directions helps to improve the information processing process, increase the level of security, minimize financial risks, reduce operating costs in banks, and optimize proper customer service in real time [7].

Thus, given the entry of Uzbekistan into the ranks of advanced countries in the development of banking technologies, it should be noted the importance of further development of IT banking to increase competitiveness, attractiveness and minimize costs through business automation [8].

In conclusion, we can say that the formation of a modern banking system, increasing the investment attractiveness of banks and the introduction of new standards of banking services will help in the implementation of comprehensive transformations in the banking system. In addition, it plays an important role in the development of the country's economy, support for entrepreneurship and strengthening the positions of the banking system of Uzbekistan in international ratings.

### **References**

1. Resolution of the President of the Republic of Uzbekistan dated July 03, 2018, No. 3832 "On measures for the development of the digital economy in the Republic of Uzbekistan".
2. Decree of the President of the Republic of Uzbekistan dated January 09, 2018 No.5296 "On measures to radically improve the activities of the central bank of the Republic of Uzbekistan"
3. Decree of the President of the Republic of Uzbekistan on "Strategy for reforming the banking system of the Republic of Uzbekistan in 2020–2025". No. UP-5992 dated 12 May 2020.
4. Resolution of the President of the Republic of Uzbekistan dated November 21, 2018, N PP-4022 "On measures to further modernize the digital infrastructure in order to develop the digital economy".
5. Decree of the President of the Republic of Uzbekistan dated October 05, 2020 No. 5296 "On Approval of the Strategy" Digital Uzbekistan-2030 "and Measures for its Effective Implementation". 6.Regulation on corporate governance in commercial banks. "The importance of management and corporate governance in shaping the digital economy of Uzbekistan". Registered under No. 3254 by the Ministry of Justice of the Republic of Uzbekistan on June 30, 2020. [www.cbu.uz](http://www.cbu.uz)
7. Temirov A. Ways to improve Corporate Governance in Commercial Banks of the Republic of Uzbekistan. <https://tsue.scienceweb.uz/index.php/archive/article.2020>.
8. Umarkhojaeva M. Features of corporate governance in commercial banks of the republic of Uzbekistan. <https://journal.tsue.uz/index.php/archive/article.2022>.