

METHODOLOGY OF EXPANDING THE DIVERSIFICATION OF BANKING ACTIVITIES IN THE CONDITIONS OF DIGITALIZATION

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ABSTRACT

The presented article analyzes the theoretical and methodological bases of diversification of banks in the context of digitalization and integration. The need, advantages and disadvantages of digitalization in the activities of Uzbek banks were also discussed, and directions for diversification of banking activities in the context of integration were proposed.

KEYWORDS: *digitization in the economy, diversification of activities, information technology, electronic money, e-commerce, banking, digitization, integration.*

INTRODUCTION

At the stage of informatization of society, the quantitative and qualitative parameters of supply and demand of the modern market change significantly, and at the same time, the importance and role of diversification increases significantly. This trend is well observed in the banking services market, where, on the one hand, participants are subjected to competitive pressure, which forces them to qualitatively and quantitatively change the volume and structure of the offer, and on the other hand, banking activities are constantly associated with high risk, all this dictates a high need to diversify banking activity.

Today, diversification plays a significant role in the banking business, because diversification is one of the methods of banking risk management, through it dispersion is provided, and in addition, diversification is one of the methods for expanding the sources of income for the bank.

Diversification should be understood as the most important area of activity for banks. Diversification activities are carried out in two directions: penetration into types of business that go beyond the banking sector, and expanding the range of banking products and services offered. Modern banks as complex financial institutions operate in various sectors of the financial market and the economy as a whole.

There are several reasons for banks to diversify. The main one is a decrease in the interest margin as a result of tougher competition in the traditional banking sector. It is assumed that in the future the usual deposit and lending activities of banks will shrink due to the expansion of the practice of attracting resources through the securities market. Another major reason is the need to reduce risk. Indeed, large diversified financial institutions can reduce risk by

spreading investments in different (non-financial) sectors and adopt better risk management systems.

Currently, the most functional are retail and credit banks. The presence of a diversified structure of assets and liabilities of retail banks contributes to their prompt adaptation to changes in the financial market conditions and ensures the stability of income. A wide range of financial services for partners and clients creates a steady demand and confidence in the bank.

Diversification of financial activities involves the use of alternative opportunities for generating income from various financial transactions - short-term financial investments, the formation of a loan portfolio, the implementation of real investment, the formation of a portfolio of long-term financial investments. Thus, the degree of risk of loss is reduced and distributed among all types of activities and portfolios of assets. In particular, the diversification of the foreign exchange portfolio provides for the choice to conduct foreign economic transactions in several types of currencies, which reduces losses on foreign exchange risk, both for the bank and for the bank's client.

If we consider the diversification of the loan portfolio, then it provides for a variety of industries and investment objects and is aimed at reducing the degree of credit risk. Usually diversification of the loan portfolio is carried out together with the limitation of credit operations by establishing differentiated credit limits. Diversification of a portfolio of securities is used by analogy with the diversification of a loan portfolio and allows you to reduce the risk of the portfolio without reducing its level of profitability.

It is also purposeful to consider the diversification of real investment of banks, which provides for the inclusion in banking practice of an investment program of various investment projects with an alternative industry and regional focus, which reduces the overall investment banking risk of the program.

An analysis of domestic experience allows us to observe that the practice of using the diversification method in banking has made significant progress, which is explained by growing competition in the banking sector and the use of new technologies in the banking business.

Analysis of Thematic Literature

An analysis of the literature on the diversification of banking activities has shown that many economists see the diversification of banking activities as an effective tool for reducing banking risk and, at the same time, as a lever for maintaining a bank's competitive position in the market.

YES. Trifonov (2011) in the scientific article "The main directions of diversification of banking activities in a crisis" notes that "... there are several reasons that encourage banks to diversify. The main one is the need to reduce risks. Another major reason is the decline in interest margins as a result of increased competition in traditional banking."

A team of authors, consisting of Zhilkina A.N., Bondarovich E. P., Revzon O.A. (2021) in their joint scientific work "Financial Diversification of Banking Activity" revealed the essence of the trend of transformation of banking activity on the basis of financial diversification. The authors note that the client-oriented approach in the organization of banking services should play an important role in the diversification effect. Based on foreign experience, the importance of customer personification in banking ecosystems is substantiated.

Ovchinnikova O.P., Ovchinnikova N.E. (2017) in their work "Diversification of the activities of a commercial bank as a factor in ensuring sustainability" consider diversification as an important mechanism for keeping the bank's competitiveness afloat. The authors recommend improving diversification through innovative technologies and products.

The issues of methodology for diversifying the activities of banks from the point of view of an effective risk management tool are considered in the work of such Uzbek scientists as A.A. Azlarova (2021), B.T. Berdiyarov (2001), H.O. Rakhmatov (2012).

Summarizing the analysis of the studies of the above-mentioned authors, the diversification of banking activities as the main object of research is considered by many Russian authors, and naturally Russian practice is more affected, and as for the Uzbek authors, within the framework of their studies they touched on the topic of diversification to one degree or another. A distinctive feature of this study is that it substantiates the need for the formation of regulatory and methodological bases by banks in the conditions of Uzbekistan, regarding the diversification of banking activities.

Research Methodology

During the study of this scientific work in the field of the development of the digital economy in general, and in particular in the banking sector in the conditions of integration, conversations were held with scientists and representatives of this industry, their written and oral reviews were analyzed, an expert assessment was given, a systematic approach to economic events and processes, with the experience of the author, a comparative analysis was carried out, suggestions and recommendations were given.

Analysis and Results

Since 2010, the rapid penetration of the digital economy and its capabilities has led to the acceleration of services and payments, requiring the reorganization of commercial banks' business platforms.

Organizational approaches to diversification can be different. For example, a bank may create a new link in order to operate in another industry or acquire a share in the capital of an existing economic unit. Corporate transactions are carried out either with the acquisition of a part of the shares, or with the help of mergers and acquisitions. In the first case, the bank acquires a non-controlling stake in order to create a strategic alliance or makes a cross exchange of shares in the authorized capital of the bank and the company. In the future, this transaction leads to a merger-acquisition and the establishment of full control over the business unit. In modern economic conditions, this approach is dominant in the course of the diversification of banking activities. The Bank is gradually developing a new area of business, but may exit it in case of adverse events.

The diversification of banking activities in the investment and insurance business serves to penetrate into relatively close types of financial business and is justified by the possibility of obtaining additional income. This is achieved through the sharing of distribution channels of banking, investment and insurance products, as well as through cross-selling, when, for example, securities and insurance services are offered to bank customers. In addition, banks are attracted by the higher profitability of the investment and insurance business compared to the profitability of banks. In domestic conditions, this factor cannot yet be recognized as decisive. However, such a situation may develop in the future with the development of the securities market and the expansion of insurance operations. Another attractive side is getting access to temporarily free cash. Thus, in economically developed countries, the share of

deposit investments has decreased in contrast to investment investments and assets of insurance and pension funds.

The promotion of foreign banks to the insurance market is also justified by the fact that this financial sector is developing at a faster pace than the banking sector. The Bank has certain advantages when entering this close business in the form of a wide network of branches and branches, channels for the sale of services and large assets. Diversification activities are carried out through the creation by the bank of its own insurance company, a partnership exchange of shares, the formation of a joint business link, and the acquisition of an existing insurance company.

The entry of a commercial bank into the investment business involves obtaining a competitive advantage. It will be more significant if the bank cooperates with large corporate clients and has a positive business reputation. However, the investment business is distinguished by a number of features that the bank should take into account in its diversification strategy. So, the bank operates in its field with a certain degree of caution, the investment business, on the contrary, operates in the field of high-risk technologies. The bank's clientele is relatively stable, while the investment sector is undergoing a dynamic renewal of its client base. The banking business is set up for the process, and the investment business - for the final result. The remuneration of bank employees is based on a conservative system, as opposed to the commission approach to this issue in investment structures.

The theoretical substantiation of the advantages received by the bank when entering the investment and insurance business is understandable. But in practice, when carrying out diversification measures, a number of problems arise. Thus, the organization of cross-selling of banking, investment and insurance products seems to bring significant economies of scale. According to experts, the potential advantages of the scale of diversification are offset by significant organizational and managerial complications. The difference in the corporate culture of these financial institutions also plays a significant role.

The decision to implement a diversification strategy requires careful preparation and detailed analytical work from the bank. It is necessary to assess the future economies of scale from entering other areas of financial business and transaction technology.

Financial science and banking theory consider several types of bank diversification movement. For example, the diversification of assets is assessed as a change in their structure due to the placement of funds in new, non-traditional types of assets for the bank. In turn, the diversification of foreign exchange reserves is the expansion of foreign exchange assets of large enterprises, transnational corporations and transnational banks by including different currencies in their composition, which ultimately ensures the effectiveness of international settlements and protects the foreign economic activity of corporations from foreign exchange risks. Both are ways to reduce bank risks.

Domestic experience in banking diversification is specific and determined by a number of factors. First, unlike other states, the banking business of Uzbekistan is universal in nature. There are no legislative restrictions on the penetration of banks into other sectors of the financial business.

Until recently, the banks of the Republic of Uzbekistan did not consider the investment and insurance business as a diversification goal. Banks sought to interact with large corporate clients. This was due to the stability and volume of their cash flows and the need to replenish the bank's financial resources. The main mergers and acquisitions were carried out with

existing enterprises in the real sector of the economy. With the participation of commercial banks, large financial and industrial complexes were created.

In the banking sector, internal diversification occupies a significant place. Commercial banks, within the framework of the classification by types of business and market orientation, are differentiated into credit, settlement, market, banks for banks and retail banks. The latter have a diversified asset structure and are universal banking institutions. They are able to provide their clientele with a wide range of services.

In the banking sector, the priority issues are the application of new effective methods for controlling financial data, increasing the transparency of payments and settlements between entities, data protection, and further improving the methodology for expanding the integration of information exchange with other information systems.

Today, in the field of diversification of banking activities in the republic, an important place is occupied by digital transformation, which creates favorable conditions for increasing banking products and services. The essence of digital transformation boils down to the fact that bank structures are being transformed based on the use of digital technologies, a change in the target direction of activities that ensures the creation of new services and new market opportunities.

All over the world, digitalization is replacing existing business models in banks, and the market for mobile and contactless payments, P2P services, digital currencies, etc. is growing rapidly.

In modern Uzbekistan, the IT infrastructure of banks is characterized by low flexibility and complexity of integration with new solutions due to strict regulations and a high share of the state. This was also noted in the Decree of the President of the Republic of Uzbekistan “On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025”. In particular, it was noted: “At the same time, an analysis of the current situation in the banking sector shows a number of systemic problems that impede 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 management risks in banks with state participation, a low level of financial intermediation in the economy.”

In recent years, banks have created digital business units in their structure and strive to be in trend. They offer safe storage of deposits, transactions, acceptance at bank branches, use of a network of information kiosks and ATMs, issuance of loans, exchange services, etc. These services are provided mainly in branches, partly through Internet banking and mobile applications.

It is necessary to highlight the requirements for the work of the bank in the framework of ensuring the diversification of activities:

- Market-oriented and individualized structuring for different areas of activity with different requirements;
- Operational excellence, customer contact, product leadership, capital size, size advantage;
- "transparency" of costs and profits by market segments, products and customers;
- Quick and independent decisions, not subject to pressure from competitors;
- The ability to innovate, the development of the product range;

- Skilful risk taking thanks to an “entrepreneurial culture of free space” for ideas, innovations and actions while limiting risk in a timely and controlled manner;
- Cost-effective, reasonable and customer-satisfactory standardization of services;
- Individualization with high quality of service;
- High level of qualification of personnel and management;
- Rational allocation of capital;
- Meaningful and effective information and communication within and outside the organization.

CONCLUSION AND RECOMMENDATIONS

According to world scientists, the widespread use of diversification of banking activities in the context of digitalization and integration in various areas will lead to an increase in labor productivity, expansion of conveniences and opportunities, an increase in the quality of products and services, and economic growth.

Based on the analysis of the theoretical and methodological foundations of banking diversification, there is reason to draw the following conclusions and recommendations:

- At the present stage, business in commercial banks should be considered more broadly than just banking business, which should include business in the field of investment and insurance;
- Competition becomes a driving force for increased diversification in the banking sector;
- The transformation of banks has a positive effect on the development of the process of diversification of banking activities, in the context of digitalization, banks create new technical and informational opportunities to increase banking products and services;
- it is recommended to commercial banks to develop a policy of diversification of banking activities, both in terms of reducing banking risks, and in terms of increasing income based on the expansion of banking products and services.

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