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## THE WAYS OF INCREASING THE EFFICIENCY OF CROSS- BORDER PAYMENTS IN UZBEKISTAN

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**ABSTRACT:** *In the process of globalization, the widespread penetration of digital technologies into the activities of economic entities leads to the emergence of improvements in payment instruments. The article analyzes the current state of development of cross-border payments with blockchain technologies, as well as measures to improve cross-border payments in the economy, provides relevant conclusions and proposals.*

**KEY WORDS:** *payment systems, cross-border payments, payment instruments, blockchain, Swift, stablecoin, digital currency, financial technologies, bank, settlements.*

### INTRODUCTION

Digital technologies affect all sectors of the economy, which will give an impulse to their new development. The Address of President of the Republic of Uzbekistan to the Oliy Majlis on December 29, 2020, indicated important directions for the development of our economy and the issue of accelerating the transformation of state-owned companies as part of the implementation of structural changes in the economy was highlighted as one of the important areas of our economy for the current year. As well as digitalization in the economy will be the most important direction in further development.

Payments are an important part of the banking and financial system. Therefore, the growing needs of the economy in making payments, the growing costs of cash flows that have passed through many payment systems, make it necessary to develop the payment technology market and constantly search for

innovative solutions. The process of globalization, which is actively developing in the world economy, along with the integration of financial markets and the formation of a single information space, impose special requirements on national payment systems. One of them is cross-border payments. Imagining the new financial architecture of Uzbekistan, we believe that one of the areas that should be improved in our economy by 2030 is the issue of improving the efficiency of cross-border payments.

Within FINTECH, the most important direction is the transition to blockchain – distributed Ledger technology, which is intended to reduce the cost and speed up financial flows and at the same time increase their transparency. Theoretically, the use of blockchain opens up wide opportunities for restructuring the existing architecture of the financial system. This article focuses on the tendency to increase competition in the market of cross-border interbank transfers.

### LITERATURE REVIEW.

In their study of payment systems, Avaïs Ahmed, Abdul Aziz, Muhammad Munib from foreign scientists noted that modern types of payments are "cash payments, check payments, credit transfers, clearing services, bank transfer services, payments through electronic wallets, debit cards and credit card payments"<sup>1</sup>. The electronic payment system is implemented in various e-Commerce categories, such as Business-to-Business (B2B), Business-to-Consumer (B2C), Consumer-to-Business (C2B), and Consumer-to-Consumer (C2C). P2P, which belongs to the C2C category of transactions, is relatively small due to its strict practicality.

McKinsey & Company experts Nunzio Digiaco, Olivier Denecker, Reinhard Höll, and Marc Niederkorn analyze the future of cross-border payments and they see several imperatives for success for today's cross-border leaders, and potential entrants: understand future revenue models, revisit client propositions, upgrade the engine room, explore collaborative solutions, establish a clear role in the value chain and, establish a partnership ecosystem<sup>2</sup>.

In the context of expanding integration relations between different countries of the world, new types of settlement and credit and information and financial relations are being formed that ensure the implementation of operations and transactions using digital platforms, digital technology standards and other information and communication approaches. Under these conditions, new types of legal relations are developing based on the legal regulation of the use of blockchain technologies in the field of cross-border payment services.

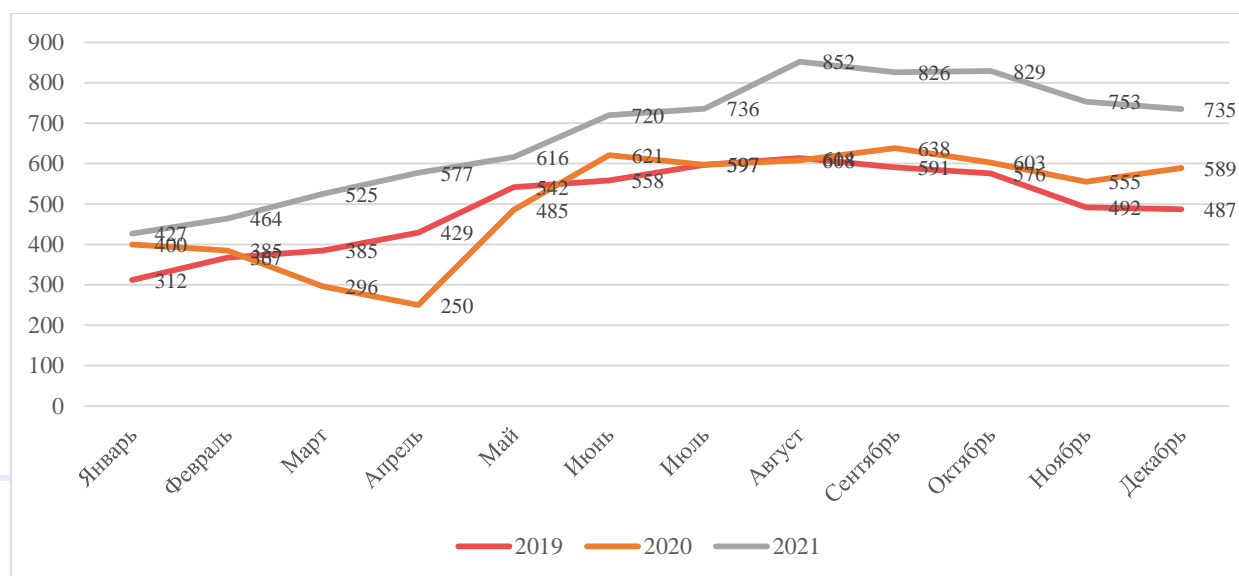
<sup>1</sup> Avaïs Ahmed, Abdul Aziz, Muhammad Muneeb, Electronic payment system: A complete guide, Journal of Multidisciplinary Sciences, 14 July 2019.

<sup>2</sup> Nunzio Digiaco, Olivier Denecker, Reinhard Höll, Marc Niederkorn «A vision for the future of cross-border payments» - Global Banking Practice October 2018 Copyright © McKinsey & Company.

## DISCUSSION

In recent years, the volume of cross-border payments around the world has been growing. Regardless of whether it is an individual or a large enterprise, users want to quickly and easily transfer their incoming cash flows from outside the country. Against this background, the use of digital assets as a competitor to banking services is gaining popularity.

In 2018, the total volume of cross-border payments in the world increased to 23.7 trillion US dollars due to increased global production and the impact of e-Commerce<sup>3</sup>.



**Figure 1. The volume of foreign currency inflows into the country through international money transfer systems in 2019-2021, bil of USD<sup>4</sup>**

According to the Central Bank of Uzbekistan, the volume of revenues through international money transfer systems for the 12 months of 2021 amounted to 8.1 billion US dollars, which is 34% more than in 2020 and 2019 (6.0 billion US dollars) (figure1).

According to the Central Bank of Uzbekistan, imports and exports are growing rapidly in Uzbekistan, which require development in the field of cross-border payments (figure 2).

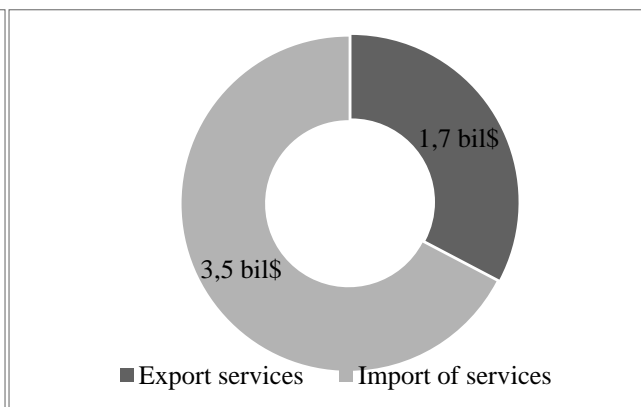
<sup>3</sup> Cross -border retail payments, February 2018, Bank for International Settlements.

<sup>4</sup> [https://cbu.uz/ru/press\\_center/reviews/584766/](https://cbu.uz/ru/press_center/reviews/584766/)

Foreign trade turnover in goods trade



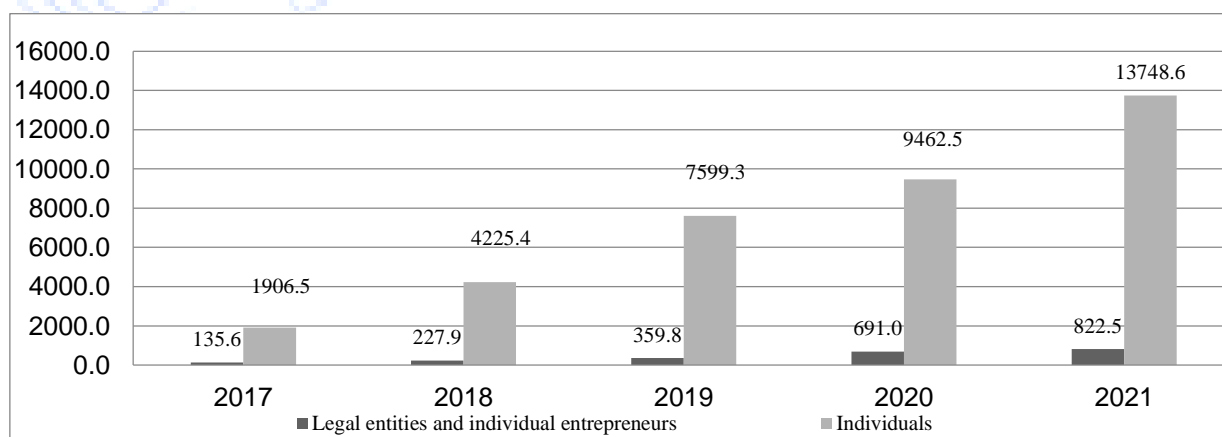
Foreign trade turnover for international services



**Figure 2. Foreign trade turnover for trade in goods and international services in Uzbekistan for 2020<sup>5</sup>**

Taking into account the fact that during 2020, the introduction of quarantine measures in the countries of net senders of money transfers was local in nature, as well as the formalization of cross-border cash flows of individuals due to restrictions on international travel, transfers to residents remained at the level of the corresponding period in 2019. In addition, the observed positive dynamics of world gold prices allowed to partially compensate for the decline in exports.

It should be emphasized that in recent years, the number of people using remote banking services has been increasing in the Republic (figure 3). This factor directly affects the increase in the ways of sending cross-border payments in a 24/7 environment. The latest trends in this area provide customers with tariffs with convenient and cheap commissions.



**Figure 3. Number of users of systems providing remote banking services (in the case of 1 January)<sup>6</sup>.**

<sup>5</sup> [Infographics on the balance of payments, international investment position and foreign debt of the Republic of Uzbekistan for 2020 — Review.uz](http://review.uz)

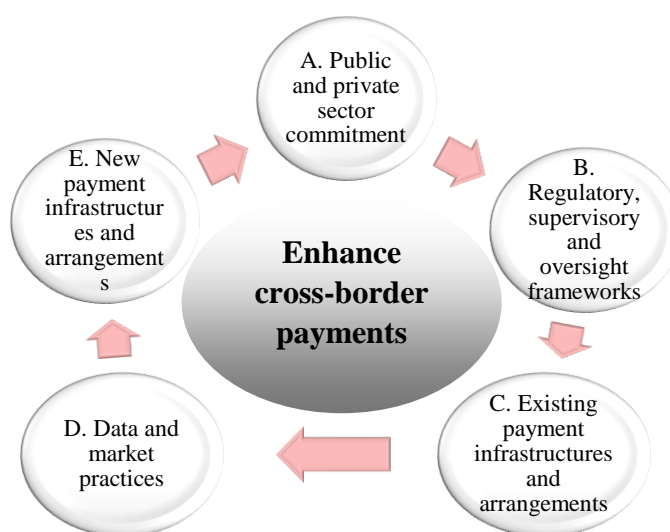
<sup>6</sup> <http://cbu.uz/uzc/platyehnye-sistemy/56618/>

For most organizations, private entrepreneurs, and government organizations, sending and receiving payments outside the country is an integral part of their business processes. Many organizations work with foreign clients and need to purchase goods from abroad, so such businesses will have to make cross-border payments. Similarly, individuals who work abroad and send money to their families also use cross-border payments. In e-Commerce, 15-20% of payments are made by cross-border payments. Currently, payment system operators face strong competition: customers are now looking for opportunities to make payments at maximum speed and in inexpensive convenient conditions. McKinsey estimates that while cross-border payments accounted for about six percent of global payments, intermediary banks and third parties involved in currency exchanges and other transactions generated up to \$ 200 billion in revenue a year from cross-border payment fees and other charges. This represents 27% of the revenue generated in the overall payment services sector<sup>7</sup>. Financial Stability Board cited five main challenges in order to improve cross-border payments: public and private sector commitment; regulatory, supervisory and oversight frameworks; existing payment infrastructures and arrangements; data and market practices; new payment infrastructures and arrangements (figure 4).

Until recently, banks were the leaders in the field of cross-border payments. Transactions were made between correspondent banks, if the sending bank and the receiving bank did not establish a bilateral correspondent relationship; several banks had to participate in the chain of these relationships.

In the last decade, the digital services of major technology companies such as Samsung Pay, Google Pay, Apple Pay and Transferwise have become competitors of banks in the field of cross-border payments. According to an analysis by analysts at Morgan Stanley, the volume of transactions through Apple Pay will reach \$ 190 billion in 2022 and \$ 304 billion in 2027. PayPal transactions are expected to reach \$ 431 billion in 2022 and \$ 579 billion in 2027. Such payment systems are essentially a production model of Bank correspondent operations.

<sup>7</sup> <https://hub.forklog.com/tsifrovye-aktivy-budushhee-transgranichnyh-platezhej/> - Цифровые активы — будущее трансграничных платежей, 02.04.2020, Garantex.



**Figure 4. Overview of the focus areas and associated building blocks<sup>8</sup>.**

For cross-border payments, the best option is considered stablecoins (mainly USDT, which are currently widely used) from digital money. The price of stablecoins is usually linked to one or more assets. This can be a national currency, cryptocurrency, stock index, or raw materials. For example, among the more common stablecoins, USDT is linked to the US dollar exchange rate and is output to the Ethereum, Bitcoin, Tron, and EOS blockchains. Such stablecoins are provided with the national currency.

We can observe an increase in the popularity of stablecoins on stock exchanges, for example, when the daily turnover of the Tether stablecoin is more than one and a half to two times more than the daily turnover of bitcoin. Because stablecoins are a convenient payment tool that helps save capital and quickly transfer funds.

A new approach to cross-border payments is the technology of a decentralized register or blockchain. These concepts relate to the new payment infrastructure, which suggests that payment systems based on this technology will make money transfers without a chain of intermediaries. This eliminates several crucial shortcomings in the banking system-the lack of dependence on multiple intermediaries and the discrepancy between the difference in working hours for the sender and recipient of funds transfers.

In Uzbekistan, as another of the fintech projects in the field of cross-border payments, we can specify the project with Paymo. In 2019 Paysend launches international online transfers Innovative service "Paysend" with the support of the partner bank in Uzbekistan JSIC "Ipoteka-Bank" and the technical integrator-PAYMO company, launches international online transfers to cards issued in Uzbekistan. With direct integration with international payment systems, as well as with local partner

<sup>8</sup> Enhancing cross-border payments: building blocks of a global roadmap – July 2020, Committee on Payments and Market Infrastructures.

banks around the world, Paysend allows to make transfers to Uzbekistan from Visa, MasterCard, MIR cards and from regular bank accounts.

In Uzbekistan, the activity of FINTECH companies still accounts for a very small share of the payment market, but the international integration of our economy requires rapid development. Therefore, cross-border payments based on blockchain technology are the future of cross-border payments in our country, further. Faster, cheaper, more transparent and more inclusive cross-border payment services would deliver widespread benefits for citizens and economies worldwide, supporting economic growth, international trade, global development and financial inclusion. While the economic ramifications of the Covid-19 pandemic undoubtedly also affected the payments landscape in the short term, it is important to maintain momentum to identify and take forward structural improvements in cross-border payment arrangements for the post-pandemic global economy.

### CONCLUSIONS

As issues that need to be done to increase the cross-border balance of payments, we suggest:

1. To increase cross-border payments, it is necessary to increase cooperation between the public and private sectors. At the same time, it is necessary to take into account the overlapping interests of users of public and payment services. Sufficient development of the regulatory framework will allow this area to develop effectively.
2. Improvement of the existing payment infrastructure and mechanisms to support the requirements of the cross-border payments market.
3. Improving the quality of data.
4. Explore the potential of new payment infrastructures and mechanisms. At the same time, the main attention should be paid to digital money and Central Bank stablecoins. At this point, we believe that our country should consider issues related to the introduction of digital money from the Central Bank and the liberalization of the circulation of stablecoins.

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