

# Financial Innovation In The Context Of The Development Of The Digital Economy

Usmonov Parviz Shavkatovich

Teacher of the Department of Finance, Samarkand Institute of Economics and Service, Samarkand, Uzbekistan

**Abstract:** *Financial innovation, financial and digital technologies are transforming lifestyles, work, consumption, production of goods and services. In an increasingly competitive environment, the Internet offers opportunities to improve business and benefit from lower production costs. By using information and communication technologies (ICT), small and medium-sized enterprises are gaining access to global markets that were once the prerogative of only large corporations. Digital platforms are changing the economics of doing business by lowering the cost of international interactions and transactions. Fintech's growth raises questions for financial authorities regarding the expansion of the regulatory and supervisory perimeter, compliance of new types of digital financial services with existing rules, identification, assessment, reduction and monitoring of the risks of financial innovation. Digital globalization is changing value chains, creating new hubs, transforming economic activity. In this context, policymakers need to find the right balance between harnessing the benefits of openness and mitigating the risks that are emerging in the digital world at an unprecedented rate. How big the digital economy will be in the medium and long term remains a question, but there is no doubt that it will grow at a significant rate.*

**Keywords**—digital economy, financial innovation, information and communication technologies (ICT), financial regulation.

## 1. INTRODUCTION

Today, it can be said with full responsibility that, in general, the economies of developed countries have embarked on an innovative path of development. This process, global in its essence, has significantly affected the banking sector as well. First of all, this concerns both the area of application (object) of innovations, and the factors contributing to their implementation in the economy as a whole. Since new banking technologies appear to be innovations that are part of a more powerful process that has embraced the entire world economy, it becomes necessary to turn to some general theoretical issues that form the basis for analyzing changes in the banking sector abroad and in Uzbekistan. The development of the economy has always been based on the introduction of new technologies, but over a long period this process was extremely slow. In the context of the modern technological revolution, when most developed countries are moving to a post-industrial society, economic development has acquired a qualitatively new character.

## 2. MAIN PART

The advent of the digital era has triggered fundamental shifts in the global economy, with numerous technological and financial innovations and a redefinition of the frontiers of global trade. Against the background of the rapid development of digital technologies (and financial innovations) over the previous 15 years, the share of the information and communication technology (ICT) industry in the global economy increased to 3% (from 1.3%) and continues to grow.

This kind of significant changes became possible in many respects due to the development of technological

entrepreneurship through the creation of a favorable climate through the efforts of the state and the private sector. Developing countries are trying to take advantage of the best practices accumulated by leading industrialized countries, which want to obtain a similar economic effect, contributing to the development of international dialogue on regulatory issues and the introduction of innovations.

Countries with resource-dependent economies want to increase their own share of participation in the rapidly developing digital economy, are trying to change the structural economy and create a favorable climate for the development of competitive technology entrepreneurship. States that have failed to create the necessary favorable climate for the development of digitalization, as well as carry out large-scale reforms in education and management, may hopelessly lag behind, given the importance of creating an ecosystem and attracting interest from investors.

The importance of the development of the digital economy in the medium and long term is emphasized at the level of top officials and in Uzbekistan, which (among other things) is evidenced by the regulatory legal acts adopted by the government. One of these initiatives is the Digital Uzbekistan Program, aimed at implementing the Strategy for the Development of the Information Society in 2030.

In accordance with the Digital Economy Program, end-to-end digital technologies are determined that are necessary to create conditions for the development of the country's digital economy: neuron technology and artificial intelligence; big data; distributed ledgers; quantum technologies; new production technologies; industrial internet; components of robotics, technologies of virtual and augmented reality, etc.

Fintech is undergoing radical changes that affect infrastructure (associated with increased levels of automation), openness and customer focus. The development

of technologies such as big data, cloud services, artificial intelligence, new analytical tools, etc., contribute to the transition of the quality of customer service to a higher level.

The implementation of financial innovations provides financial market participants with various opportunities (for example, reducing costs, speeding up the exchange of information, increasing the efficiency of data processing, customizing services, etc.). Technological innovations increase the efficiency of the financial market, form consumer preferences, and lower the cost for new companies to enter the market. Fintech is putting competitive pressure on traditional business models of financial institutions, eliminating the need to attract additional intermediaries, stimulating the emergence of new ways of providing financial services. To date, the volume of services provided using Fintech is still much less than the volume of traditional financial transactions, but the growth rate of Fintech is incomparably greater. The intensive growth of technology creates favorable conditions for the emergence of a large number of fintech companies. Financial institutions often prefer to build cooperation with fintech companies, not perceiving them as potential competitors.

Global digital companies have also entered the competition, which in the medium term could radically transform the financial market landscape. Companies such as Google, Apple, Facebook, Amazon, Alibaba and others have embarked on a full-scale expansion in the financial services market, including Uzbekistan. Taking into account the trends in the standardization of financial products, conditions are being created for platform solutions for the delivery of financial products that can lead to the dominance of suppliers (distributors) over primary manufacturers. In this kind of model, efficiency becomes a key factor, that is, low total costs that directly affect the consumer properties of the product (including ease of delivery, etc.). Here, the competitive advantages of large technology companies can manifest themselves, which can be able to monetize the accumulated arrays of consumer data. If implemented, this model can radically change the competitive environment of the financial market. On the other hand, it will force traditional financial institutions to transform.

The economic, social and infrastructural risks of the Fintech market development are closely interrelated, therefore, the strengthening of one or another barrier leads to the emergence of intergroup risks: socio-economic, socio-infrastructural or infrastructural-economic. Despite the presence of an impressive number of risk factors, it is important to note that most of them are not exclusive to the fintech market. It is also important to note that currently the share of fintech companies in the total market of financial institutions does not exceed 5%. Moreover, fintech companies are interested in improving the climate in the financial market.

The main challenges for the national financial market in the medium term may be:

- cyber risks that pose a threat to consumers and the system, creating threats to financial stability (including the global level);

- the use of machine learning and artificial intelligence is associated with the interpretation and verification of data from quantitative models of financial market participants, which can lead to incorrect decisions and an increase in the level of risks to financial stability;

- fast processes of introducing financial innovations (less than three months), relatively slow procedures for changing the regulatory environment (at least a year), blurring the established boundaries of the financial market, increasing complexity and fragmentation of the structure of the financial market create risks of the traditional regulatory system;

- problems associated with regulatory arbitration due to the extraterritorial nature of financial services;

- ensuring the protection of consumer rights in the extraterritorial provision of services (due to the admission of organizations);

- risks associated with financial stability due to increased volatility in the global financial and commodity markets and the movement of speculative capital;

- strategic risk due to failure to achieve the goals of digitalization of the financial market and the digital economy as a whole;

- the growth of financial innovation risks and, in particular, cyber risks.

Actions to eliminate these calls can be:

- the use of big data contributes to the attraction and retention of consumers of financial services, the formation of a healthy competitive environment, and counteraction to financial fraud, but it also carries risks;

- remote identification helps to solve the problems of physical accessibility of financial services and transformation of business models of financial market participants. It is important to ensure effective protection of personal data;

- the use of AI technology in the provision of financial services will contribute to the development of modern effective supervisory approaches to the interaction of a machine with a machine (M2M);

- creation and further development of digital financial infrastructure;

- development of effective cybersecurity standards;

- creation of an environment for the development of financial technologies;

- supervision of M2M, validation of programs and algorithms;

- development of consumer protection for high-tech financial services;
- increasing the level of cooperation with regulators of foreign countries, including in IT issues;
- work in the direction of convergence of national regulatory regimes.
- introduction of advanced world standards and practices in the national financial market;
- market harmonization with partner states with the possibility of creating supranational financial bodies (institutions);
- expansion beyond the national borders of the financial market with the creation of new growth opportunities (requires efforts to harmonize).

The role of world financial centers is growing, the processes of cross-border consolidation of exchanges, OTC systems, settlement and clearing and depository organizations, as well as other participants in the global financial infrastructure are intensifying.

### 3. CONCLUSION

The obvious task is to achieve a common vision of legal problems arising from the use of financial innovations, including Fintech, an agreed position on the subjects and approaches of government regulation. An understanding should be formulated regarding the advisability of resolving issues at the international and national levels, at the legislative level and at the level of self-regulation, as well as the scale of the necessary legislative changes (where point changes in legislation are sufficient). It is advisable to involve civil society and the business community in the development of regulatory measures in the field of digitalization of the financial market. Progress can be achieved in the case of a competent and systematic approach on the part of the state regarding the legal regulation of IT, where it can assume the functions of optimization, synchronization and security. Given the low level of trust in the market between business entities and the underdevelopment of the practice of horizontal communications, regulatory norms should consolidate the significant conditions and principles for the implementation of IT legal relations, as well as contribute to building horizontal ties, developing self-regulation and increasing trust among participants in the digital economy. The main factor hindering the development of the Uzbek Fintech is regulatory uncertainty, which significantly limits the inflow of financial capital, reducing the multiplier that determines the cost of the organization (reinvesting capital is even more difficult).

In today's realities of the development of financial innovations (including financial technologies), in the context of financial and digital globalization, state and transnational regulation comes to the fore. The future of financial technology is not solely determined by advances in

technology. It is very important for Uzbekistan to make up the gap in this area in accordance with the further course of development of digitalization of the national financial market.

### 4. REFERENCES

- [1] Filippov D.I. (2019) Finansovye innovatsii v usloviyakh razvitiya tsifrovoy ekonomiki [Financial innovations in terms of development of digital economy]. Kreativnaya ekonomika. 13. (8). – 1503-1520. doi: 10.18334/ce.13.8.40881
- [2] Myers, Stewart C.; Nicholas S. Majluf (1984). "Corporate financing and investment decisions when firms have information that investors do not have". *Journal of Financial Economics*. 13 (2): 187–221. doi:10.1016/0304-405X(84)90023-0.
- [3] Dilmurod, R., & Akhror, A. (2020). Research On The Study And Practical Implementation Of Blockchain Technologies In The Republic Of Uzbekistan. *International Journal Of Discourse On Innovation, Integration And Education*, 1(5), 12-15.
- [4] Рахматов, Д. Р. (2020). Зарубежный опыт цифровой трансформации бизнес-процессов в развивающейся экономике Узбекистана: проблемы, недостатки, противоречия. in *Цифровизация и её влияние на жизнь современного общества* (pp. 186-197).
- [5] Lundvall B.-A. *National Systems of Innovation. Towards a Theory of Innovation and Interactive Learning*. L., 1992.