



Supporting the development of remote identification in the Uzbek banking sector

May 2021

Overview

The government of Uzbekistan is keenly aware of the economic benefits of advancing the digitalisation of public and other services. To this end, the President tasked the Central Bank of Uzbekistan (CBU) with developing a remote identification system (RIS) for the country's banking system. This would not only help entrepreneurs to sustain activity during the Covid-19 crisis and recovery, but also streamline Uzbekistan's banking services and advance the modernisation of the sector. The EBRD hosted a webinar on best international practices to guide the CBU in its decision-making on RIS implementation, teaming up with one of the world's leading e-governance think tanks, Estonia's e-Governance Academy, to support the Uzbek authorities. The webinar enhanced the CBU's understanding of its options with regard to remote identification and, in particular, the models best suited to Uzbekistan's needs. The CBU has subsequently asked for further EBRD assistance in introducing the RIS and this is currently taking place as part of a separate project.

The benefits of advancing banking-sector digitalisation in Uzbekistan

Advancing digitalisation is one of Uzbekistan's key economic development objectives. The authorities have recognised the economic benefits of digitalisation in recent years, including them in the country's Development Strategy for 2017-21 and other policy documents. While much progress has been made on the digitalisation of services, including the adoption of an e-government law, the Covid-19 pandemic has highlighted certain weak spots in the current e-governance system. E-signature and e-identity, the cornerstones of any e-governance system, for example, are available to some extent, but not fully functional. For instance, Uzbekistan has no universal form of e-identity that is accepted by all state institutions. Most available options still require at least one visit to the institution in question to link the relevant form of identification to state databases. As reduced physical contact was required during the Covid-19 pandemic, the need to enhance the country's remote identification models by introducing a modern, universal system of e-identification became a priority for government.

In April 2020, the government tasked the CBU with testing and endorsing a remote user identification system for the banking system. Remote identification enables the provision of banking services by computer or phone, doing away with the need to visit a bank. Most banking operations in Uzbekistan still require a customer to be physically present. The few banks that use forms of remote identification (through specialised mobile applications, or apps, for instance) only offer these services for a limited number of operations, such as the transfer of funds between a user's own accounts. Even here, though, at least one visit to bank is required to authenticate the customer login. Moreover, the banks use apps that they have created themselves, presenting security concerns and doing little to further the development of the sector as a whole. Prompted by another Covid-19-induced lockdown in July 2020, the CBU approached the EBRD for assistance.

Introducing an RIS would help streamline Uzbekistan's banking services and support the overall modernisation of the sector and wider economy. The digitalisation of Uzbekistan's financial services needs improvement. According to MasterCard, cashless payments as a share of total payments in Uzbekistan stood at 47 per cent in 2018. This compares well with Kazakhstan (at 26 per cent) and Azerbaijan (36 per cent), but is significantly behind that of Russia (56 per cent) and China (69 per cent).¹ Moreover, the trend in cashless payments has been declining of late. Increasing the digitalisation of payments would help reduce cash usage inefficiencies, as electronic payments boost the

money supply in the financial system. This, in turn, increases capital allocation, which improves the financial inclusion of citizens and, eventually, access to credit. Furthermore, the development of the digital economy creates employment opportunities, particularly for micro, small and medium-sized enterprises, women entrepreneurs and other groups with limited access to financial services. Lastly, the visibility and traceability of payment flows goes a long way to reducing the shadow economy and corruption.

EBRD and e-Governance Academy step up their RIS support for Uzbekistan

The EBRD teamed up with Estonia's e-Governance Academy, a leading e-governance think tank, to support the Uzbek authorities. Estonia is a pioneer in the digitalisation of public services and probably the only country in the world where 99 per cent of public services are available online 24/7.² The only services not available electronically are marriage, divorce and real-estate transactions. As one of the most digitalised countries in the world, Estonia is also one of the world's leading innovators in digital identity, cyber-security, financial technology and banking information technology (IT) solutions. At the onset of the Covid-19 pandemic, the EBRD partnered with the e-Governance Academy to help the CBU understand best practices in remote identification in the banking sector and to develop recommendations on the options best suited to Uzbekistan's needs.

This initial engagement with the CBU led to enhanced cooperation. Experts from the EBRD and the e-Governance Academy organised an online seminar for key Uzbek government stakeholders to review Smart-ID, the new

generation of electronic identity solutions that utilise a user's mobile phone or other smart device for authentication and electronic signing. The experts then set out their recommendations for introducing such a tool in Uzbekistan. The webinar also laid the groundwork for more extensive engagement with the Uzbek authorities, who decided to turn the expert recommendations into concrete policy change. The EBRD is now engaged in follow-up assistance to develop an RIS for Uzbekistan.

The progress made on remote identification in Uzbekistan has important lessons for other countries. The Uzbek experience shows how remote identification can work for the benefit of banks and their clients. It also demonstrates the importance of drawing on best practice from more advanced countries, which, once tailored to local context and circumstances, decreases the time needed to create optimal solutions. With appropriate support, these benefits can be replicated in other countries.

¹ MasterCard internal data, 2020.

² See the [e-Estonia website](#) for more information.

Acknowledgements

This note was produced by Anastasia Rodina and Lola Bakieva of the EBRD's Governance and Political Affairs team, part of the Economics, Policy and Governance (EPG) Department. Valuable contributions were made by Jahan Shamsiev (Financial Institutions), Ana Kresic, Radu Cracan and Peter Sanfey (EPG).

© European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom
www.ebrd.com

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the copyright holder. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Terms and names used in this report to refer to geographical or other territories, political and economic groupings and units, do not constitute and should not be construed as constituting an express or implied position, endorsement, acceptance or expression of opinion by the European Bank for Reconstruction and Development or its members concerning the status of any country, territory, grouping and unit, or delimitation of its borders, or sovereignty.

The contents of this publication reflect the opinions of individual authors and do not necessarily reflect the views of the EBRD.

For more information on the EBRD's Covid-19 policy engagements, visit:
<https://www.ebrd.com/what-we-do/coronavirus/coronavirus-policy-response>