



Uzbekistan

Strengthening Consumer Protection and Financial System Resiliency

Relevant Pillars:

Pillar 1, Pillar 2

Relevant Cross-Cutting Themes:

Digital Financial Services, Gender

Select Targets:



55% of adults in the total adult population to be holding at least one bank account (50% of female)



3 financial consumer protection regulatory frameworks to be improved



32 principles or recommendations to comply with international standards

Targets

Challenge

The broad money in Uzbekistan accounts for just 21 percent of GDP, significantly below countries with similar income levels. About 25 percent of broad money is held in cash, and only 3 percent of the adult population has a bank savings account, reflecting a sizable shadow economy. Impediments include limited incentives for state-owned banks to mobilize deposits, damaged trust in banks and the financial system, and state-owned commercial banks relying heavily on foreign and state funding. Though Uzbekistan updated its payment system legislation several years ago, the financial sector's rapid growth has outpaced regulatory capabilities, posing severe risks to consumer funds and data. It is critical for the Central Bank to strengthen its oversight practices and adopt international standards for regulation and market infrastructure.



Solution

The program builds on prior successful World Bank advisory support in Uzbekistan's financial sector, aiming to enhance financial consumer protection and bolster financial sector resilience. Technical assistance over the program's four years focuses on strengthening the financial consumer protection framework, financial safety nets, crisis preparedness, and contingency planning, and improving payment system oversight and NPL resolution. The program will also address financial integrity by strengthening the AML/CFT regime.

The World Bank collaborates with both IFC and the IMF in support for the financial sector reforms of the country. IMF supports the Central Bank of Uzbekistan in establishing and operationalizing the Financial Stability Department, a synergetic initiative with F4D support for financial safety nets.

Progress and Next Steps

An assessment of the Central Bank's financial consumer protection framework was delivered, leading to a set of multi-pronged reforms recommendations. They include an expanded mandate to cover all financial service providers, enhanced laws and regulations in line with international standards, improved complaints management, and continuous capacity building for consumer protection staff. A roadmap will be developed to formalize the action plan to strengthen the Central Bank's consumer protection regime.

The Central Bank prepared the bank resolution and deposit insurance bills with support from the team, which are pending approval by the Parliament. While the draft laws are under review, the team has assisted the Central Bank in determining its target funding ratio and appropriate size of the deposit insurance coverage, and next will share an action plan to further operationalize the resolution framework.

The team provided support for implementation of the NPS, assisting the Central Bank in strengthening its legal, regulatory, and oversight framework. A capacity building workshop was delivered on NPS oversight for Central Bank staff and meetings were held to gain industry perspectives and assess opportunities to further improve the payment system. Based on the findings, the F4D team will prepare a report with recommendations for oversight of payment systems in Uzbekistan, and a framework for NPS oversight. Capacity building is scheduled to be delivered on the Committee on Payments and Market Infrastructures/International Organization of Securities Commissions Principles for Financial Market Infrastructure.

World Bank delivered a capacity building workshop on national payment system oversight for Central Bank staff and held follow-up meetings to gain industry perspectives and assess opportunities to further improve the payment system.



Challenges and Opportunities to Improve the National Payment System in Uzbekistan

1

The FPS features only a single use case for business-to-business transfers. Uptake is limited due to the lack of other use cases, such as person-to-person and person-to-merchant transfers. These capabilities need to be added to the NPS.

2

Person-to-person transfers are still based entirely on cards. Worldwide developments and innovations in payment services are not widely promoted in Uzbekistan.

3

Merchants are reluctant to use card acceptance, such as point-of-sale terminals, due to the high merchant discount fees and loopholes for tax evasion and fraud. Rather, merchants use the person-to-person channel for payments.

4

Due to an increase in fraud in digital payments, financial awareness campaigns are needed to educate customers about data privacy issues. Customers and businesses need to adhere to AML/CFT standards and submit suspicious transactions to the General Prosecutor's Office for remedial action.