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Ensuring the Stability of Uzbekistan's Payment System

Central Bank of Uzbekistan
Deputy Chairman Ilkhomjon
Abdugafarov describes the
progress made on modernising
the country's payment systems
and services

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Ensuring Stability of the Payment System in Uzbekistan



By *Ilkhomjon Abdugafarov, Deputy Chairman,
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Over the last decade, the [Central Bank of Uzbekistan](#) (CBU) has significantly modernized its payment systems and services to meet the preferences of businesses and consumers in the digital era. As in many jurisdictions across the globe, Uzbekistan's digital transformation has been accelerated by the Covid-19 pandemic, with new modes of mobile, online, and contactless payments now available throughout the country.

A number of new payments initiatives have recently been introduced, enabled by the 2020 passage of the Law of the Republic of Uzbekistan, "On Payments and Payment Systems." The adoption of this Law has introduced more efficient payment transactions and the widespread introduction of innovative technologies and ensures the effective, reliable and safe functioning of payment systems.

1. Ensuring Stability of Payment Systems

Over the past year and a half, the socio-economic situation in Uzbekistan made it necessary for CBU to strengthen its measures to further expand the infrastructure of the country's payment systems. Measures were also needed to improve payment systems' institutional and regulatory framework, ensure their smooth functioning and develop a competitive environment in the payment services market.

First, CBU established criteria for determining the significance of payment systems for effective risk management in the payment services market and for assessing and ensuring stability.

Per international best practice in banking systems, CBU continued its work to automate many banking services by introducing information and communication technologies for payment services, thereby expanding the range of remote banking services and creating favorable conditions for new participants to enter the payment services market.

Note that CBU placed the main emphasis on the following initiatives: expanding the coverage of contactless payments (QR codes, NFC, etc.); implementing the widespread use of an automated scoring system; introducing digital identification and credit conveyor; increasing information security (cybersecurity) of banking data and systems; and broadly introducing new concepts and technologies (i.e. fintech, digital banking) into the banking industry.

1.1. Improvement of Payment Systems

Improving legal framework for regulating payment systems

The development of a competitive environment in the payment services market—including penetration of new non-bank payment institutions and payment system operators into the market and the introduction of digital banking technologies—prompted the need for the creation and improvement of documents to

regulate activities in payment systems in accordance with international standards.

In particular, in the most recent reporting period, following the requirements of the Law "On Payments and Payment Systems" and international experience, the following documents were developed:

- "Rules for the issue and circulation of electronic money on the territory of the Republic of Uzbekistan";
- Internal Control Rules for Combating Money Laundering, Terrorist Financing and the Financing of the Proliferation of Weapons of Mass Destruction in Payment System Operators, Electronic Money System Operators and Payment Organizations;
- Regulation "On ensuring information security in payment systems of payment system operators and payment service providers";
- New edition of the Regulation "On cashless payments in the Republic of Uzbekistan."

Also, the criteria for the significance of payment systems have been determined and introduced into practice. The main criteria for determining the importance of payment systems are:

- the presence of more than two million active (crediting funds to the account at least once a month) users in the infrastructure of the payment system;
- the volume of payments made through the payment system in one year is more than 25 percent of the total volume of payments of this type;
- the volume of payments made through the payment system in one year is more than 12 trillion soums.

Development of the Central Bank's payment systems

Today, the Central Bank of Uzbekistan's [Interbank Payment System](#), the Clearing Settlement System and the Instant Payment System operate in the payment services market.

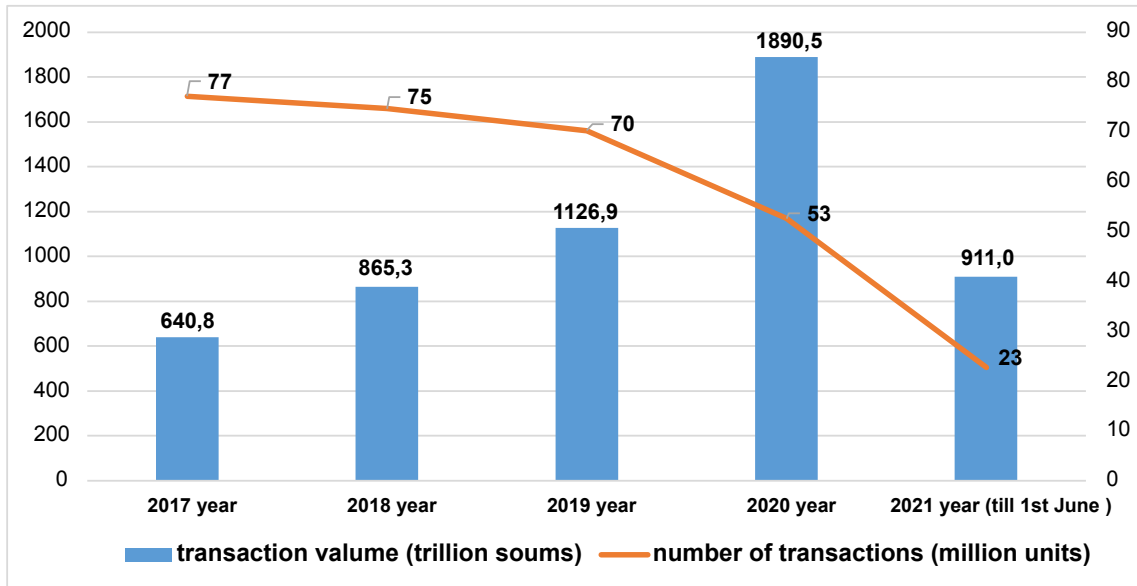
In the reporting period, CBU's Interbank Payment System worked steadily in close cooperation with other payment systems to ensure payments by banks and their clients were made in a specific mode.

In 2020, the volume of transactions carried out through the Interbank Payment System increased by 67.8 percent compared to 2019 and amounted to 1,890.5 trillion soums. In the first quarter of 2021, this figure amounted to 911 trillion soums. The increase in transaction volume is mainly due to the fact that the Central Bank has introduced short-term "Repo" and "Swap" monetary instruments, as well as deposit operations.

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Figure 1: Transactions carried out through the Interbank Payment System



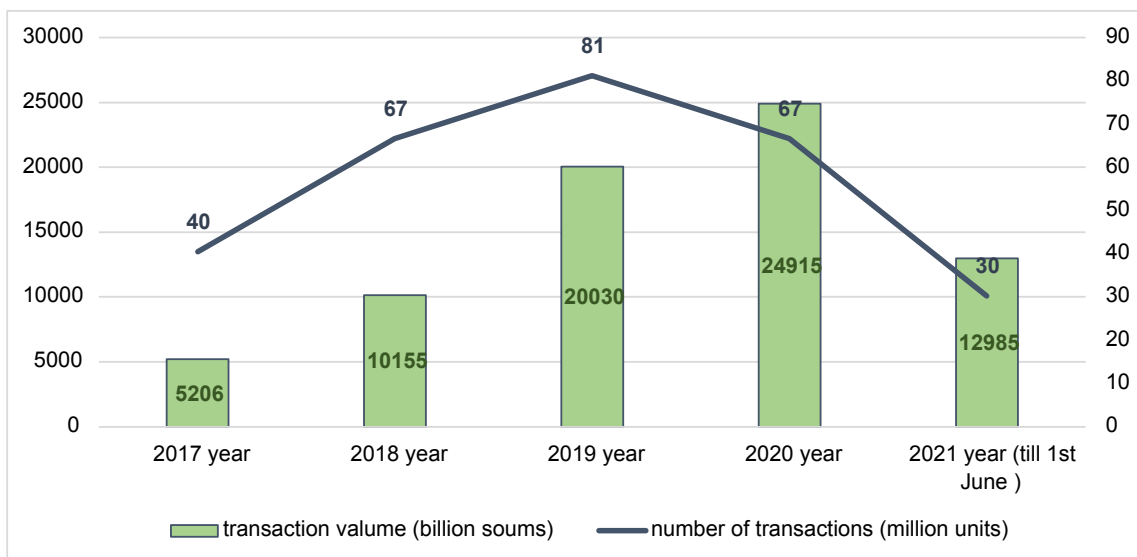
The number of transactions carried out through the Interbank Payment System in 2020 decreased by 24 percent (from 70 million units to 53 million units) compared to 2019. This was associated with a corresponding decrease in economic activity due to the pandemic, as well as the launch of the Instant Payment System. In the first quarter of 2021, the number of transactions was 23 million units.

In the reporting period, work continued to integrate the information systems of organizations (service providers) that accept payments to the Central Bank's Clearing System, which specializes in making payments in real time on a 24/7 basis. In par-

ticular, the number of organizations receiving payments through the Central Bank's Clearing System increased from 30 in 2019 to 40 in the first half of 2021. The Clearing System enables real-time payments of taxes and customs, state duties and fines, budget, passport duties, utilities, notaries and registry offices, and many more.

In 2020, the volume of payments made through the Central Bank's Clearing System of Settlements increased by almost 24 percent compared to 2019 and amounted to 25 trillion soums. In the first quarter of 2021, this figure reached 12 trillion soums.

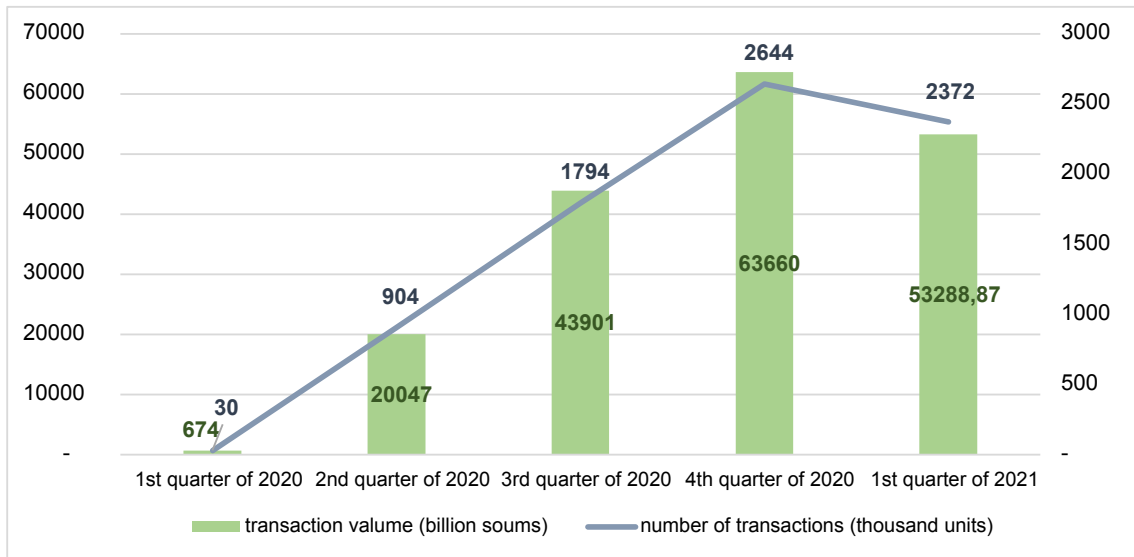
Figure 2: Transactions carried out through the Central Bank's Clearing System



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Figure 3: Transactions carried out through the Central Bank’s Instant Payment System, 2020



The launch of the Instant Payment System in February 2020 allowed legal entities and individual entrepreneurs who are clients of commercial banks to make payments 24/7 through remote service systems.

In September 2020, the Instant Payments System began to offer transfers of budget and tax payments to the Treasury of the Ministry of Finance and payments from loan accounts around the clock.

As a result, in 2020, approximately 5.4 million transactions totaling 128.3 trillion soums were carried out through the Instant Payment System. More than 232,000 transactions were payments to the budget in the amount of 2 trillion soums.

According to statistics, 82 percent (103.6 trillion soums) of all payments made through the Instant Payment System were made through 10 commercial banks.

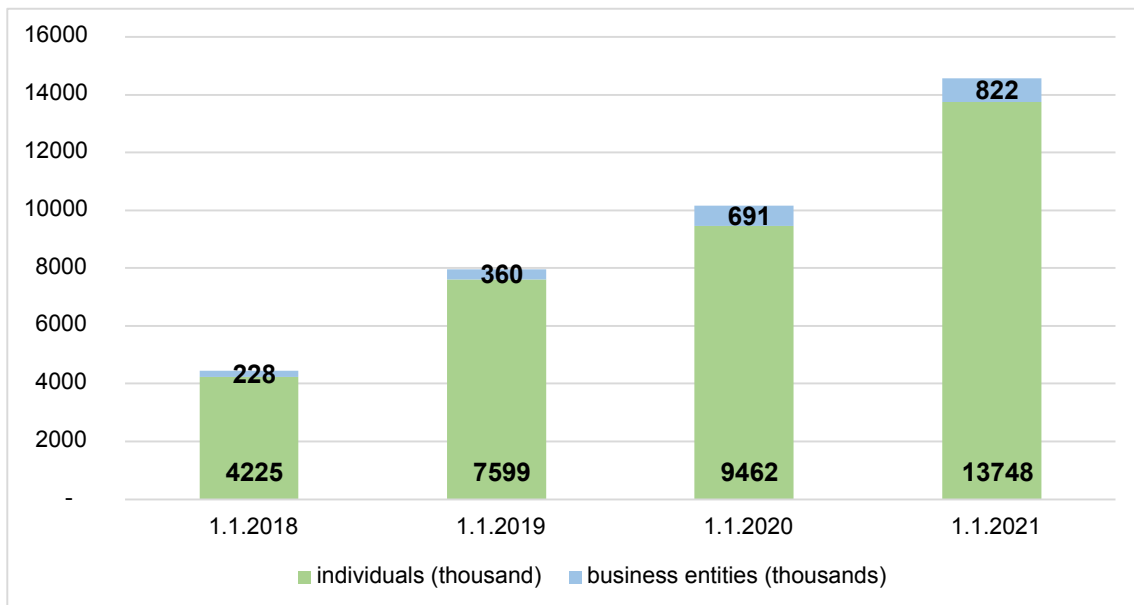
2. Development of Remote Banking Services and Modern Payment Services

In the reporting year, a large-scale initiative was carried out to develop and further increase the popularity of an essential area of the digital economy: [remote banking services](#). This initiative included modern technologies such as online and mobile banking.

In terms of financial education and literacy, commercial banks are constantly working (via the banks’ official websites and social networks) to promote the benefits of using remote customer service systems.

As of January 1, 2021, the number of users of remote service systems increased compared to the corresponding period of 2020 by 4.3 million or 43 percent and amounted to 14.5 million users.

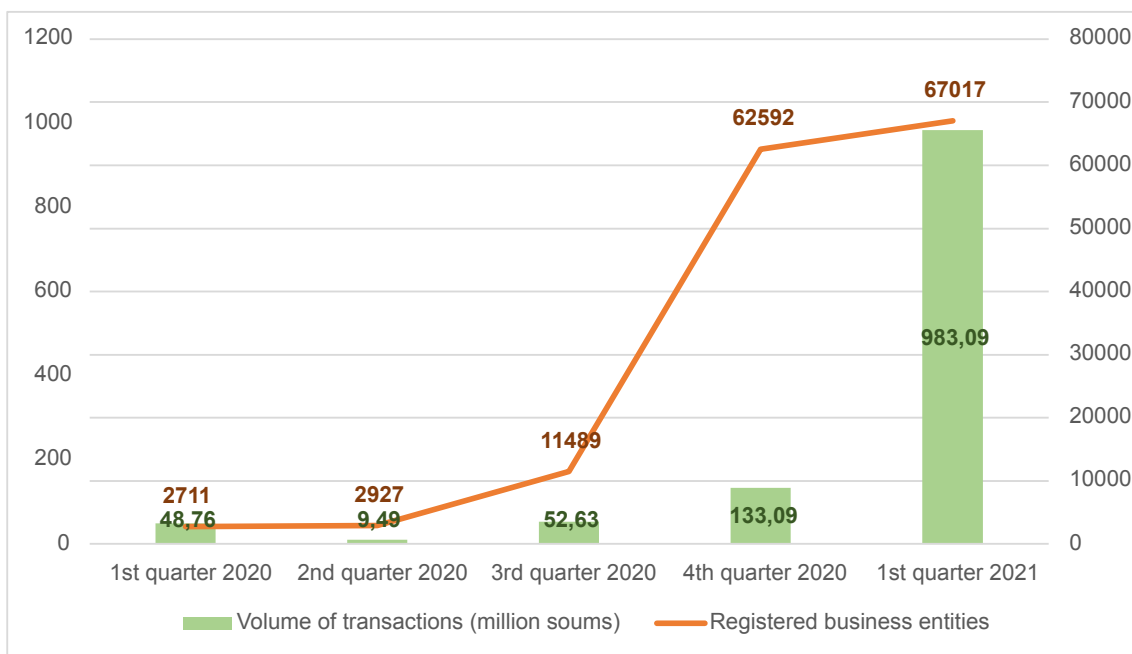
Figure 4: Remote banking service users



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Figure 5: The number of registered QR-online system customers and transactions carried out



Currently, all basic banking services for individuals have been introduced to the banks' mobile applications, including making payments, blocking (or unblocking) a bank card, obtaining a microloan (credit), operations with online deposits and performing online conversion.

In addition, in order to boost convenience during quarantine restrictions, a new mechanism for issuing bank cards was introduced based on an online application sent through the banks' mobile applications (websites), followed by presentation of the necessary identification when the card is delivered to the client.

In 2020, via mobile banking apps, bank customers carried out online conversion operations (13.6 trillion soums), repayment of loans (10.9 trillion soums), obtaining online microloans (5.8 trillion soums), and registration of online deposits (4.2 trillion soums), as well as other payments (budget, utilities, communications, etc.), in the amount of 1.6 trillion soums.

As part of the expansion of contactless payment technology and to create additional convenience for consumers, a service was recently implemented that allows card-free payments at retail outlets through the mobile-based [HumoPay program](#) (NFC system).

As part of Uzbekistan's commitment to provide innovative digital services to its citizens, the tap-to-phone system ("Onetouch") was also introduced. Onetouch allows business entities (including the self-employed and those providing delivery services) to receive payments via smartphone through the NFC system.

In addition, in March 2020, the Central Bank launched the standardized "QR-online" instant payment information system, which allows payments for goods and services using funds on a bank card without the need for a physical bank card and point-of-sale (POS) terminal.

To take advantage of this service, business entities must reach

out to commercial banks to receive a QR code that is generated based on existing bank details. Consumers can then make payments by scanning ("reading") this code using mobile applications when paying for goods and services.

As of July 1, 2021, QR-online provided almost 74 thousand business entities with QR codes (stickers). The launch of this system allows:

- quick payments for purchases and better quality services for customers, in addition to the installed POS terminal of business entities;
- drastically reduced operating costs for organizations operating in areas such as delivery and passenger transportation, and self-employed persons (freelancers), due to timely receipt of payments from customers via QR code without using payment terminals.

Trade and service entities were also given the opportunity to accept HUMO card payments for goods and services through an online cash register, the [Uzkassa](#).

To calculate services provided to the population by the Tashkent Metro and Toshshahartrankhizmat enterprises (metro and buses), transport system validators are now in place to accept contactless bank cards (HUMO).

In 2020, non-cash payments were made in the amount of 16.1 billion for metro services and 3.2 billion soums for Toshshahartrankhizmat.

2.1. Expanding retail payment systems infrastructure

In the reporting year, the Central Bank, together with commercial banks, payment operators and other stakeholders, formed a working group focused on increasing the volume of non-cash payments by further expanding the infrastructure of the National Payment Systems (HUMO and Uzcard).

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The working group regularly studies issues such as providing payment terminals to business entities in all regions of the republic, the availability of skills for their effective use, and how to provide businesses with practical assistance.

In particular, CBU monitors banks to ensure the full and timely provision of settlement terminals to business entities. Along with the complete satisfaction of existing requirements, the banks have formed sufficient reserves (as of January 1, 2021, the reserve of settlement terminals is 137 thousand units).

The number of terminals installed in the banking infrastructure, retail facilities and paid services in the regions increased by 43,000 units or 11 percent in 2020, and as of January 1, 2021, their total number reached 438,000 units. The total volume of transactions carried out through settlement terminals increased by 12.1 percent compared to 2019 and amounted to 90.4 trillion soums (transactions through trading terminals were at 81.0 trillion soums).

Note that in order to develop competition in the payment system market, measures have been taken to introduce the HUMO retail payment system, develop its functionality and infrastruc-

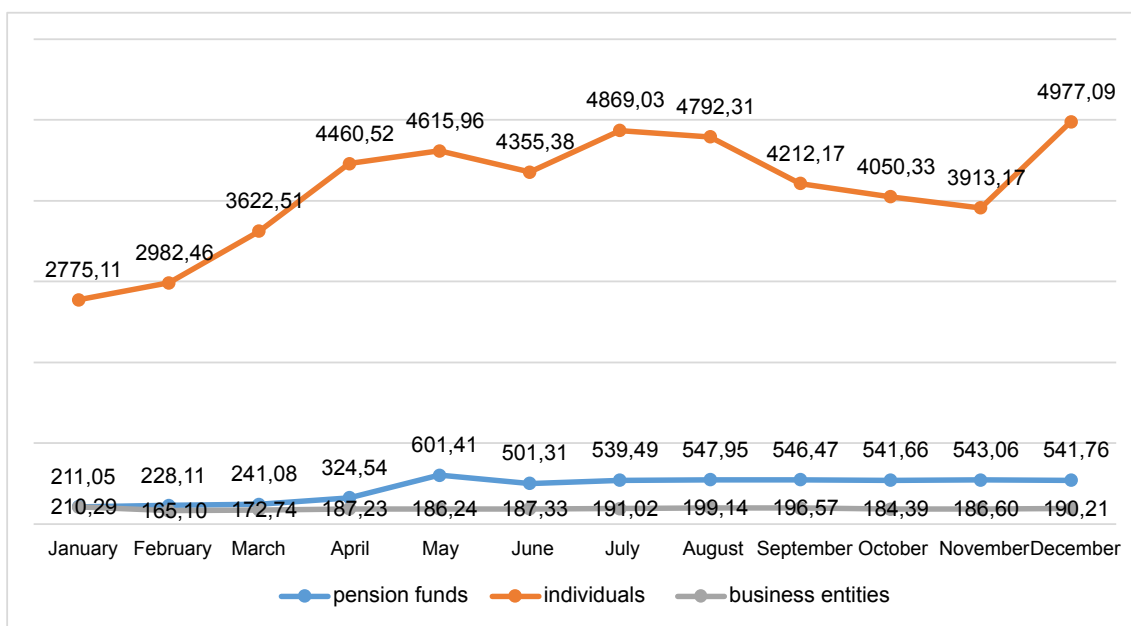
ture, and increase its popularity. As a result of the measures taken in 2020, the share of payments in the volume of transactions made through HUMO terminals increased from 3 percent to 15 percent.

In 2020, trade receipts through payment terminals in the service sector increased by 22.2 percent (9 percent of total receipts), in trade by 5.6 percent (60 percent of total receipts), and receipts from utility payments remained unchanged at the 2019 level (4 percent of the total).

In turn, as a result of the measures taken to develop non-cash means of payment and increase their volume in 2020, commercial banks issued 5.2 million units of bank cards to the population and business entities. Their total number increased by 25.4 percent compared to 2019, which amounted to 25.8 million units as of January 1, 2021.

The development of bank card infrastructure directly enhanced the convenience of bank cards as a method of payment. As of January 1, 2021, the balance of funds stored on individuals' bank cards increased by 79 percent compared to the beginning of 2020 and amounted to 4.9 trillion soums.

Figure 6: The balance of funds on customers' bank cards, in billion soums, 2020



As a result of cooperation with international payment systems (Visa, Mastercard and Unionpay), as of January 1, 2021, the number of issued Visa cards reached 598,000, Mastercard cards reached 39,000, and UnionPay cards reached 67,000. The balance of individuals' funds on international bank cards as of January 1, 2021 amounted to US \$160.2 million.

The integration of local payment systems with the international payment systems Visa, Mastercard, UnionPay and Mir was also carried out, creating conditions for users to pay for goods and services using a bank card without a conversion procedure.

Also, in 2020, to meet the needs of payment services users and to further expand the payment infrastructure in tourist areas, shopping malls, large markets and other facilities, banks installed 2,597 ATMs and self-service kiosks. Their total number

increased by 28.2 percent compared to the previous year and reached 11,800 units.

2.2. Activities of subjects of payment services market

To ensure the penetration of new participants and the development of competition in the payment services market, the Central Bank of Uzbekistan in 2020 granted [payment organization licenses](#) to 20 firms, including Click, Oson and Payme, etc.

Licenses giving the right to operate in the payment system were also granted to two legal entities, National Interbank Processing Center LLC and United Republican Processing Center LLC.

In the reporting period, more than 341 million transactions totaling 25.5 trillion soums were made through mobile apps offered by payment organizations.

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At the same time, 75 percent of all payments or 19.3 trillion soums were transferred from card to card (P2P) and 25 percent or 6.3 trillion soums were paid for goods (services, works).

Mobile payments made by the population through payment organizations amounted to 46 percent, government services at 14 percent and utility payments at 11 percent.

In 2020, new departmental regulatory documents were developed, approved and introduced into practice, regulating the procedure for carrying out non-cash payments in the Republic of Uzbekistan and the [rules for the circulation of electronic money](#).

The introduction of electronic money allows customers to make payments quickly and conveniently, based on modern technological solutions in the implementation of settlements.

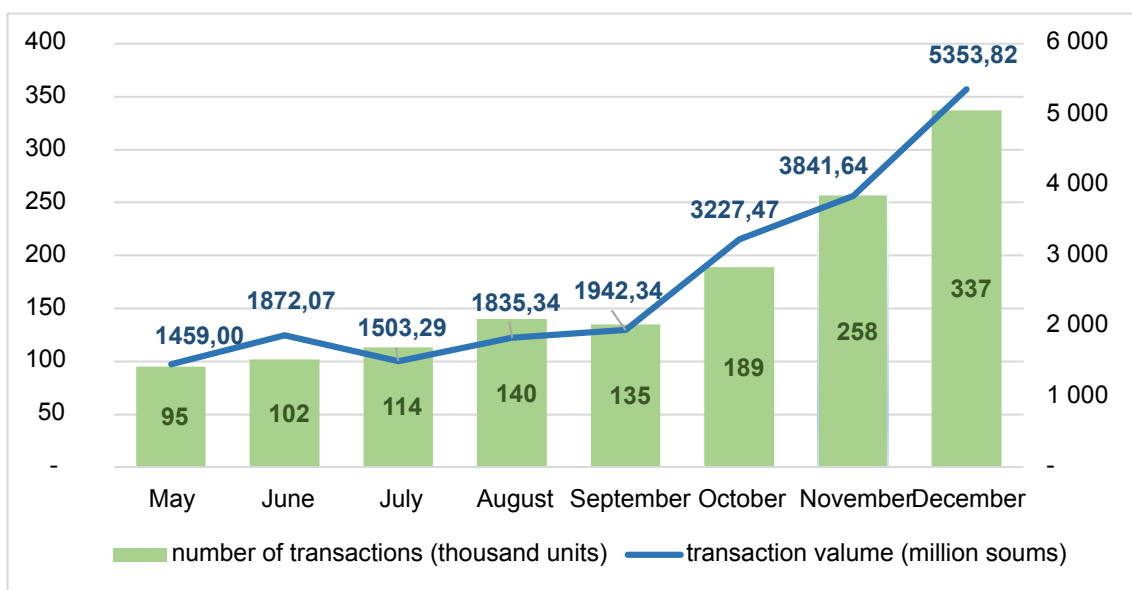
The creation of a legal framework for electronic money has led

to the emergence of licensed participants offering new innovative services in the payment services market. Electronic money initiatives offered through the payment organizations Oson, Click, E-CARD, Wooppay and Alifmobi were approved by the Central Bank and included in the [Register of Electronic Money Systems](#) (PDF).

The low cost of issuing electronic money, and the ability to make purchases directly on international internet trading platforms with electronic money, has increased the attractiveness and popularity of these services.

In particular, in 2020, about 1.5 million transactions totaling 22.3 billion soums were carried out with electronic money, of which 84 percent or 18.8 billion soums were transferred for purchases, while the remaining 16 percent or 3.5 billion soums were P2P transactions made between electronic wallets of individuals.

Figure 7: Payments made in electronic money systems, 2020



In addition, 1,521 thousand electronic wallets were opened in 2020. The balance of funds on these wallets reached about 7 billion soums as of January 1, 2021.

According to statistics, 74 percent of payments made through the electronic money system were transferred for services of mobile operators, 13 percent for Internet providers, and 5 percent for utilities, with the remainder going towards other services.

3. Next Steps

In the coming years, the Central Bank of Uzbekistan is committed to further expanding the range of non-cash payments available in the country, as well as ensuring the stability of payment systems, which is one of CBU's core strategic goals. Stay tuned for news related to financial inclusion and literacy, including CBU's ongoing work to organize remote and biometric identification of individuals and much more. 