Historical Stages of Development and Recent Trends of Combating Corruption in The Banking Sector

M.R. Rasulov
Independent Researcher of The Academy of Law Enforcement
Uzbekistan

Abstract. **In this paper has been researched historical stages of development and recent trends of combating corruption in the banking sector.**

***Keywords*:** banks, law, combating corruption, economy, financial services, finance.

1. INTRODUCTION

The banking sector, which is one of the pillars of the modern economy, has been closely connected with issues of trust and honesty since its inception. Problems related to corruption in banks have a history as old as banks. In earlier times, the barter system of exchanging goods for goods was considered a system that worked very well for early communities. As soon as people started traveling from city to city to exchange their goods for others, the barter system became obsolete.In order to overcome this problem, coins of different sizes and metals were minted to provide trade with valuable securities.[1]

However, the coins had to be kept in a safe place, although the old houses did not have iron safes. The concept of banking dates back to ancient Mesopotamia, around 2000 BC, where temples and palaces were involved in providing financial services such as lending and deposit. In this period, facts about corrupt situations are rare, but centralized ownership of wealth and resources creates opportunities for embezzlement and bribery. In the same sense, it is no exaggeration to say that the stage of emergence of corruption in banks also corresponds to this period.

2. LITERATURE REVIEW

The first documented example of bank corruption occurred in ancient Greece, when in the 4th century BC, the famous banker and politician Pasion of Athens was accused of embezzling public funds. Originally a slave, Pasion gains freedom and wealth through his banking, but is accused of misappropriating customer deposits for personal gain.[2]

With the development of banking practices, the complexity of corrupt activities also changed. The Ancient Roman Empire, which had extensive trade networks and developed financial systems, also faced corruption in banking. In ancient Rome, Roman bankers, known as Argentarii, were an integral part of the economy and handled deposits, loans, and currency exchange.

Wealthy people in the empire kept coins and jewelry in temple basements. Why a temple? The reason was that apart from armed guards (which some temples did not have), there were priests and temple workers there, and considering that it was considered the home of the gods of antiquity, they were safe.

According to historical records from Greece, Rome, Egypt, and Babylon, temples not only kept money safe, but also made loans. The fact that synagogues often functioned as financial centers of their cities can be seen from the fact that they were the first object of looting during wars.

During this period, coins were easy to exchange and carry, so the rich gave money to people in need in exchange for interest, and temples usually handled large amounts of debt, including debts owed to various countries.

According to ancient sources, the argentarii were accused of manipulating currency values and engaging in fraudulent activities. Recognizing the harmful effects of such practices on the economy and public confidence, the Roman government enacted laws to regulate banking operations and curb corruption. An early example of such laws was the Lex Julia de Peculatu enacted by Julius Caesar in 59 BC, which was part of the Julian Laws aimed at reforming and strengthening the legal system of the Roman Republic. It is no exaggeration to say that this law is the first law aimed at fighting corruption in a figurative sense. That's because it aims to prevent embezzlement and financial misconduct, reflecting early attempts to institutionalize financial integrity. The scope and scope of the law included all Roman magistrates and state officials, including provincial governors. It is aimed at regulating legal relations, which include money, land, buildings and other assets considered state property.[3]

For the first time, legal definitions were formed for the following:

- Embezzlement (peculatus) means embezzlement or theft of state funds or property by a public official.

- The law also addresses offenses related to crimes such as corruption and bribery, and aims to limit the widespread negative effects of corruption. [4]

The Lex Julia de Peculatu was part of Julius Caesar's comprehensive effort to stabilize and strengthen the Roman state by addressing systemic problems of corruption and misrule. By establishing clear legal norms and strict penalties for infractions, the law was designed to restore public confidence in the integrity of the Roman government.

Also, according to the law, Julius Caesar allowed the bankers to seize the debtor's land instead of loan payments. The reason is that in the Ancient Roman Empire, land was inviolable and could not be taken away. The reason for such a decision was the negative impact on the economic situation of the country due to the inheritance of uncollected, problematic loans from generation to generation.[5]

For information. What is the function of the economy? The word economy comes from the Latin word "Economia" and is the study of scarcity. A country does not have an economy when it does not have a deficit. Of course, we do not have real reasons to understand this concept in a figurative sense, because if there is an excess of money in circulation, the economy will decline there.

Example - Mensa Musa (King of Ancient Mali) bankrupted the Egyptian economy when he passed through Egypt. Because he offers gold to every poor person he meets on his way. We emphasized the function of the economy above. The king brought Egypt's economy into recession by ending the deficit. Because the cash flow did not materialize. Typically, money goes to those who are rich, to the poor, and to those who are poor, to the rich. This is a large-scale function necessary for the existence of the economy. [6]

In the Middle Ages, the financial services of Catholic Church banks and the Knights Templar existed, and small businesses that competed with them were generally accused of usury.

This led to the rise of monopoly, the most common form of corporate corruption.

During the Middle Ages, the financial landscape of Europe was significantly shaped by the unique and powerful institutions of the Banks of the Catholic Church and the Knights Templar. These organizations not only played a decisive role in the religious and military spheres, but also laid the foundation for many financial practices that influenced the development of modern banking systems.

The banks of the Catholic Church, mainly the financial operations of the Catholic Church, played an important role in the management and distribution of the great wealth of the Catholic Church. These banks were essential for supporting various church activities, including the construction of cathedrals, financing crusades, and charitable activities.[7]

The financial potential of the banks of the Catholic Church began to strengthen around the 12th century. The Church amassed great wealth through donations and rents from land holdings throughout Europe. These funds were managed by qualified clerical staff in accounting and finance, ensuring that resources were efficiently channeled to where they were most needed. These banks offered a variety of financial services similar to modern banking, particularly lending to monarchs and nobility. In addition, they were engaged in currency exchange, storage of deposits, including cash and valuables.

The financial power of the banks of the Catholic Church gave it considerable influence over European politics. Loans to monarchs often had political orientations, allowing the church to secure its interests in various areas. This financial instrument was very important during times like the Crusades, when large sums of money were needed to finance military expeditions.

The Knights Templar, a medieval Christian military order founded in the early 12th century, made history for their martial prowess and distinctive white mantles decorated with a red cross[9]. However, their contribution to the banking industry is as famous as their name.

The Templars were originally founded to protect pilgrims traveling to Jerusalem. Over time, they amassed great wealth through donations, land acquired in wars, and spoils of war. This wealth was used to help them establish a network of Templar preceptories (regional headquarters) across Europe and the Middle East, which played a key role in their financial operations.

The Knights Templar provided updates on several banking activities that form the basis of modern financial systems:

- Letters of credit - one of their most important contributions was the development of a simple form of banking involving letters of credit. Pilgrims and Crusaders could deposit money with Templar preceptors[10] in Europe and receive the equivalent in Jerusalem, reducing the risk of transporting large sums of money over long distances.

- Loans and Deposits - The Templars often used their fortified residence as a safe place to store valuables. Their financial abilities and reliability made them trusted financiers throughout Christendom.

However, this rise did not last long, because in 1307, King Philip IV of France became heavily indebted to the Templars, and therefore, envious of their wealth, arranged for their arrest and confiscation of their property. Despite their disbandment, the financial practices they developed continued to influence the growth of banking in Europe for centuries.

Gregory VII (1073-1085) of the Roman Catholic Church initiated the Gregorian reforms aimed at eliminating simony (the buying and selling of church offices) and reducing the financial burden of church officials. One of the goals of these reforms was to prevent corruption by eliminating the financial difficulties of church officials.

3. ANAYSIS AND RESULTS

According to Maslow's pyramid, human physiological needs come first. If a person's primary needs are not met, he will not think about other issues.

Later, the Fourth Lateran Council (1215), convened by Innocent III of the Catholic Church, included measures to further regulate church finances, ensure proper use of funds, and reduce opportunities for theft. took

The Camera Apostolica, or Apostolic Camera, was a decisive institution in the administration of church finances. It is responsible for revenue collection and expenditure control, and appointed officials to ensure transparency and accountability.

The Templars, on the other hand, operated under a strict hierarchical structure with strict rules governing their behavior. Despite each of the Knights Templar's vows of poverty, chastity, and obedience, the system continued to crumble. Hierarchically higher officials regularly audited subordinate commands and their financial transactions. The practice of sending annual reports to the central structure existed even in those days.

Anti-corruption administrative reforms by the Catholic Church banks and the Knights Templar required a combination of strict hierarchical control and regular inspections. It should be noted that these measures not only showed some results in the fight against corruption within the system, but also contributed to the development of social relations that should be regulated in the banking sector. [8]

By the advanced Middle Ages, European kings began to see the role of banks as a necessary resource for the economy, and from time to time governments, in order to eliminate severe gaps in the royal treasury (sometimes on the terms of the kings - the most important for the functioning of the banks) harmful factor) they started borrowing.

During the Middle Ages and the Renaissance, Italian city-states such as Florence, Venice, and Genoa emerged as banking powers. Founded in the 15th century, the Medici bank is often praised for its sound banking practices, but it was not immune to corruption. The bank's founder, Giovanni di Bicci de' Medici, and his successors occasionally engaged in bribery and unethical financial practices to secure political and economic advantages. One of the biggest corruption scandals of the Middle Ages dates back to the 14th century. The Banks of Bardi and Peruzzi were the largest and most influential banks of their time and provided large amounts of loans to European monarchs, including King Edward III of England. When Edward defaulted on his loans, the banks faced an economic crisis that led to accusations of poor management and corruption. The reason is that the economic chain has collapsed as a result of external pressure (king intervention). This crisis had a far-reaching impact on the European economy and highlighted the dangers of unregulated banking. Such easy funding led kings to lavish extravagances, particularly costly wars and arms races with neighboring kingdoms. For example, in 1557, King Philip II of Spain "managed" to plunge his kingdom into so much debt due to his reckless wars that he became the first bankrupt country in the world. The reason was that loans were taken beyond the capacity of the borrower and became problem loans, i.e. 40% of GDP was allocated to loans. In 1776, when the economist Adam Smith came up with his "invisible hand" theory, banking was well developed in the United Kingdom of Great Britain. Based on the theory, the vision of self-regulating economies emerged, and governments that understood this in time worked to create a free, competitive environment for banks. At the same time, modern banks began to emerge, and it is interesting to note that although banks have taken on different forms since the time of the ancient world, their basic business practices have not changed much. History may have changed the finer points of the business model, but a bank's goals are still to make loans and protect depositors' money. Today, we can find out the types of modern banks recognized by the general public from the table below.

Table-1 Types of modern banks

Bank type	Main function	Basic services	Service object
Retail banks	Banks that provide financial services to individuals	Banks dealing with bank deposits, loans, debit and credit cards and ATMs	Individuals and small businesses

Commercial banks	Commercial banks	Loans, cash management, loan products, equipment lending, trade finance, real estate, currency services	Small and medium business
Investment banks	Banks engaged in investment activities	Stock trading, stock and bond management, corporate finance and asset management	Large corporations and institutional investors
Universal banks	Banks engaged in retail, commercial and investment activities	Activities of commercial and investment banks	Individuals and business entities
Credit unions	Member-owned and non-member financial associations	Services similar to retail and commercial banks, but only for citizens in a certain area	Local citizens
Challenger banks	New banks that challenge traditional banking models by offering innovative products and services	Savings and investment accounts, mobile banking	Individuals and businesses looking for convenience and remote banking
Neobanks	Fully online digital banks	Deposits in different currencies, mobile banking	Individuals and enterprises

Below we will consider the possibility that corruption risks in these banks may be different depending on the direction of activity and structure of these banks.

Corruption in the banking sector manifests itself in various forms, from the frauds of high-level executives to day-to-day operational activities.

They are:

1. Cases of fraud related to lending activities: a) Non-real (phantom) loans - loans given to borrowers who do not actually exist or to business entities controlled by employees of the same bank.

b) Cases of bribery - taking material and immaterial bribes by bank officials for approving loans that do not meet credit criteria.

c) Insider lending - Loans to insiders such as executives, board members or their relatives without due diligence.

2. Cases of money laundering - hiding the origin of illegally obtained money.

3. Embezzlement or embezzlement - embezzlement or embezzlement of bank funds (mainly these funds belong to another person).

4. Manipulation of the market: a) Insider Trading - bank employees use confidential information to illegally sell shares for personal gain.

b) Illegal reporting of major changes in the financial market - selling financial instruments or exchange rate information for a certain fee.

5. Bribery and other corrupt actions: a) Payments for contracts: taking bribes of bank officials in exchange for concluding contracts for goods, services or advice.

b) Gifts and hospitality – lavish gifts or hospitality activities offered to influence bank decisions.[12]

In addition, we can cite cases of misrepresentation, money laundering (AML) and terrorist financing (CFT), conflict of interest, and investment fraud.

Corruption in the banking sector undermines trust, undermines economic stability and can lead to huge financial losses. Large banks are more prone to corrupt practices due to their greater financial power and influence. However, they also have the resources and capacity to implement advanced anti-corruption measures.

Based on this, we can divide the measures aimed at fighting and preventing corruption in the banking sector into the following types. In particular,

1. Introduction of advanced technologies in the field:

a) Artificial Intelligence – Big banks like HSBC and JPMorgan Chase are using Artificial Intelligence (AI) and Machine Learning (ML) to detect and prevent corrupt activities. These technologies analyze large amounts of transaction data to detect unusual signs that may indicate fraud or money laundering. For example, JPMorgan Chase uses ML algorithms to track transactions in real time and identify suspicious activity. [11]

b) Blockchain technology is an advanced database mechanism that enables transparent information exchange in a business network.

HSBC is using blockchain technology for trade finance.

2. Strengthen compliance with regulatory and legal documents:

Establishing Know Your Customer (KYC) and Anti-Money Laundering (AML) and Anti-Bribery and Corruption (ABC) policies. These documents should regulate the measures of responsibility for what actions, by whom, guarantees of the rights of whistleblowers, protection warrants, incentives and other similar relations.

For example, KYC, AML and ABC regulations are the focus of Deutsche Bank, which implements strict KYC processes to thoroughly verify the identity of its customers. In addition, the bank has advanced AML and ABC systems to monitor and report suspicious activity. In addition, constant updates and training of employees on changes to regulatory and legal documents will ensure that banks are compliant and proactive in preventing corrupt practices.

3. Internal audit and whistleblower programs:

Internal audit is very important in detecting and eliminating potential corruption. For example, Citibank conducts regular and random audits to ensure compliance with internal and external regulations. Whistleblowers' rights are protected through whistleblower programs supported by legal protections.

Recently, HSBC has taken concrete practical measures to strengthen its compliance services to prevent corruption, including strict internal controls, extensive employee training and a zero-tolerance policy on unethical behavior.

The main components of this policy are:

- KYC (Know Your Customer): full verification of customers to prevent illegal activities;
- Regular audits and assessments: conduct frequent internal and external audits to identify and address weaknesses;
- Employee training: includes continuous education on anti-corruption and ethical standards for all employees.

The fight against corruption in the banking sector requires a multifaceted approach that combines innovative solutions such as technology, compliance monitoring, transparency, collaboration and blockchain monitoring.

4. CONCLUSIONS AND RECOMMENDATIONS

We have seen above that major banks such as JPMorgan Chase, HSBC, Deutsche Bank, Citibank and Santander use advanced strategies to protect their operations and maintain public trust. By continuing to innovate and collaborate, these institutions can effectively fight corruption and create a more stable and transparent financial system.

Based on the above, we will systematize measures aimed at preventing corruption in the banking system:

- Ensuring the independence of the bank;
- Accepting the anti-corruption policy and the program of specific measures aimed at its implementation, taking into account the available resources;
- Ensuring the priority of the principle of a personal example, which shows loyalty to moral principles by the leader;
- Educating employees in an uncompromising attitude against corruption;
- Ensuring openness and transparency;
- Ensuring the rule of law;
- Ensuring accountability to clients;
- Corruption risk management;
- Protection of the rights and freedom of whistleblowers;
- Avoiding conflicts of interest;
- Implementation of recruitment processes based on the principles of meritocracy;
- Permanent rotation of employees;
- Property and income declaration;
- Digitization of decision-making processes, etc.

In short, the history of banking is inextricably linked with cases of corruption from ancient Mesopotamia, Greece and Rome to medieval Italy. If we know the root cause and history of the problem, we will be able to prevent it.

REFERENCES

[1]. Naik, Jimuta and Naik, Jimuta, Beginning of the Early Banking Industry in Mesopotamia Civilization from 8th Century B.C.E. (January 10, 2014). Available at SSRN: https://ssrn.com/abstract=2377309 or http://dx.doi.org/10.2139/ssrn.2377309
[2]. https://en.wikipedia.org/wiki/Pasion
[3]. https://study.com/academy/lesson/ancient-roman-economy-trade-imports.html#:~:text=The%20argentarii%20were%20private%20citizens,transactions%20in%20books%20called%20codices.
[4]. https://www.investopedia.com/articles/07/banking.asp
[5]. https://www.lsd.law/define/lex-julia
[6]. World History Encyclopedia. “Caesar as Dictator: His Impact on the City of Rome.”
[7]. https://ru.wikipedia.org/wiki/
[8]. World History Encyclopedia. "Knights Templar."
[9]. World History Encyclopedia. "Knights Templar."
[10]. https://ru.wikipedia.org/wiki/
[11]. https://www.simplypsychology.org/maslow.html
[12]. https://www.britannica.com/event/Lateran-Council-Fourth-1215