

HISTORICAL DEVELOPMENT STAGES AND RECENT TRENDS IN THE FIGHT AGAINST CORRUPTION IN THE BANKING SECTOR

M.R.Rasulov

Independent researcher at the Academy of Law Enforcement

Abstract. Based on the analysis, the article examines the historical stages of the development of the fight against corruption in the banking industry and the latest trends.

Key words: bank, money, credit, currency, loan, deposit, bribery, corruption, corporate corruption, law, commercial bank, investment bank, credit insider, currency manipulation, market manipulation, gifts and hospitality.

The banking sector, one of the pillars of the modern economy, has been closely linked to issues of trust and integrity since its establishment. Problems related to corruption within banks have a history as ancient as the banks themselves.

In earlier times, the barter system, which involved exchanging goods for goods, was considered an effective system for early communities. However, once people began to travel from city to city to exchange their goods for specific items, the barter system proved to be inadequate.

To address this issue, various sizes and metal coins were minted to back trade with valuable securities. However, the coins had to be kept in a safe place, as ancient homes did not have iron safes.

The concept of banking dates back to ancient Mesopotamia, around the 2000s BCE, where temples and palaces engaged in financial activities such as providing credit services and holding deposits [1]. During this period, instances of corruption were rare, but the centralization of wealth and resources created opportunities for embezzlement and bribery. In this sense, the emergence of corruption in banks can also be traced back to this era.

The first documented instance of corruption in a bank occurred in ancient Greece, when, in the 4th century BCE, the famous banker and politician from Athens, Pasion, was accused of embezzling public funds. Originally a slave, Pasion gained freedom and wealth through his banking services, but was later accused of misusing clients' deposits for personal gain [2].

As banking practices developed, the complexity of corrupt activities also evolved. The Roman Empire, with its vast trade networks and sophisticated financial systems, also faced corruption related to banking. Roman bankers, known as "Argentarii," were an integral part of the economy, dealing with deposits, loans, and currency exchange [3].

In the empire, wealthy individuals stored coins and jewelry in the basements of temples. Why specifically temples? Because, aside from armed guards (which were absent in some temples), priests and temple workers were present, and considering that temples were considered the homes of ancient gods, they were regarded as safe places.

Historical records from Greece, Rome, Egypt, and Babylon show that temples not only stored money securely but also provided loans. It can also be noted that cities, which often operated as financial centers, were primarily targeted for plunder during times of war. During this period, the ease of exchanging coins and carrying them led the wealthy to lend money at interest to those in need, while temples typically dealt with large loans, including those granted to various countries.

According to ancient sources, argentarii (money lenders) were accused of manipulating currency values and engaging in fraudulent activities. The Roman government recognized the harmful impact of such practices on the economy and public trust and enacted laws to regulate banking operations and curb corruption. The first example of such legislation was the "Lex Julia de Peculatu," adopted by Julius Caesar in 59 BC. This law was part of the Julian Laws aimed at reforming and

strengthening the legal system of the Roman Republic. It can be considered the first law specifically aimed at combating corruption in a metaphorical sense. The law reflected the initial efforts to institutionalize financial integrity and prevent financial misconduct.

The scope and coverage of the law extended to all Roman magistrates and public officials, including provincial governors. It was focused on regulating legal relations concerning state property, such as money, land, buildings, and other assets.

For the first time, the law provided legal definitions for the following:

- Peculatus referred to the embezzlement or theft of state funds or property by a public official.
- The law also addressed crimes related to corruption and bribery, aiming to limit the broad negative effects of corruption.

The "Lex Julia de Peculatu" was instrumental in stabilizing the Roman state by addressing systemic issues related to corruption and mismanagement. It was part of the comprehensive efforts aimed at strengthening the state. By establishing specific legal norms and strict penalties for violations, the law was designed to restore public trust in the integrity of the Roman government.

Additionally, according to the law, Julius Caesar allowed bankers to confiscate the debtor's land instead of receiving credit payments. This was because in Ancient Rome... "... in the empire, land was inviolable and could not be seized. The reason for this decision was the negative impact on the country's economic situation due to the unpaid, non-performing loans that had been passed down from generation to generation."

For your information: What is the function of the economy? The word "economy" comes from the Latin word "Economia" and is considered the study of scarcity. There is no economy in a country unless there is scarcity. Of course, there is no real reason to interpret this concept metaphorically, because wherever excessive money is circulated, the economy in that place tends to decline.

For example, when Mansa Musa (the ancient King of Mali) passed through Egypt, he caused the Egyptian economy to collapse. This happened because he gave gold to every poor person he met along the way. As we emphasized earlier, the function of the economy is to maintain scarcity. The king eliminated scarcity in Egypt, leading to the downfall of Egypt's economy. This is because the flow of money ceased. Typically, money is directed from the rich to the poor, and from the poor to the rich. This is the broad function necessary for the existence of an economy [7].

In the Middle Ages, Catholic Church banks and the financial services of the Knights Templar were in operation. Small business entities competing with them were often associated with usury [8].

This led to the most common form of corporate corruption, which resulted in the strengthening of monopolies.

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

Catholic Church banks played a significant role in the financial operations of the Catholic Church, managing and distributing its vast wealth. These banks were crucial in financing various church activities, including the construction of cathedrals, supporting the Crusades, and aiding charitable work.

The financial strength of Catholic Church banks began to solidify around the 12th century. The Church accumulated substantial wealth from land holdings across... Europe through donations and rents. These funds were managed by skilled clergy in accounting and finance, ensuring the efficient allocation of resources where they were most needed. These banks offered various financial services similar to modern banking, particularly lending to monarchs and nobles. Additionally, they engaged in currency exchange, storing deposits that included cash and valuables.

The financial power of Catholic Church banks allowed them to exert considerable influence over European politics. Loans to monarchs often had political implications, allowing the Church to secure its interests in various sectors. During periods like the Crusades, when large sums of money were required to fund military expeditions, these financial resources were vital.

The Knights Templar, a medieval Christian military order founded in the early 12th century, became famous for their martial prowess and distinctive white mantles adorned with a red cross. However, their contribution to the banking sector was as notable as their name.

Initially established to protect pilgrims traveling to Jerusalem, the Templars accumulated significant wealth over time through donations, lands acquired in wars, and military spoils. This wealth allowed them to establish a network of Templar preceptories across Europe and the Near East, which played a central role in their financial operations. The Knights Templar introduced several innovations related to banking activities that would serve as the foundation for modern financial systems:

- "Letters of Credit" – One of their most important contributions was the development of a simple form of banking by utilizing letters of credit. Pilgrims and Crusaders traveling in Europe... Tampliye preceptorlariga[10] "Equivalent money in Jerusalem" "They could have taken them, which would reduce the risk of carrying large sums of money over long distances.

Loans and deposits - The Templars often used their fortified headquarters to securely store valuables." They were used as a source of joy. Their financial abilities and reliability made them trusted financiers throughout the Christian world. However, this rise did not last long, as in 1307, King Philip IV of France, who owed a large sum of money to the Templars, organized their arrest and the confiscation of their wealth, driven by envy of their riches. Although they were dispersed, the financial practices they developed continued to influence the growth of banking in Europe for centuries.

Pope Gregory VII (1073-1085) initiated the Gregorian reforms aimed at eliminating simony (the buying and selling of church offices) and reducing the financial difficulties of clergy members. One of the goals of these reforms was to prevent corruption by addressing the financial struggles of church officials.

For reference, according to Maslow's hierarchy of needs, a person's physiological needs are the top priority. If a person's basic needs are not met, they cannot focus on other matters.

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

The Camera Apostolica or Apostolic Camera was a crucial institution in managing the church's finances. It was responsible for collecting revenues and controlling expenditures, with appointed officials ensuring transparency and accountability.

The Templars, under a strict hierarchical structure, operated with rigid rules governing their conduct. Despite each of them taking vows of poverty, chastity, and obedience, the system continued to deteriorate. High-ranking officials regularly audited the financial operations of lower commanders. The practice of submitting annual reports to the central structure was already in place at that time. The Catholic Church banks and the Knights Templar's administrative reforms against corruption required a combination of strict hierarchical control and regular audits. It is important to note that these measures not only showed some success in fighting corruption within the system but also contributed to the development of social relations in the banking sector that needed regulation.

By the late Middle Ages, European kings began to recognize banks as an essential economic resource, and from time to time, governments began borrowing money to address gaps in the royal treasury (sometimes based on the king's conditions, which were the most detrimental for bank operations).

During the Middle Ages and the Renaissance, Italian city-states such as Florence, Venice, and Genoa emerged as banking powers. The Medici Bank, founded in the 15th century, is often praised for its well-thought-out banking practices, but it was not immune to corruption. The bank's founder, Giovanni di Bicci de' Medici, and his heirs occasionally became involved in bribery and unethical financial practices to secure political and economic advantages.

One of the largest corruption scandals of the Middle Ages dates back to the 14th century. The Bardi and Peruzzi banks, among the largest and most influential of their time, provided large loans to European monarchs, including King Edward III of England. When Edward failed to repay his debts, the banks faced an economic crisis, leading to accusations of poor management and corruption. This was caused by the economic chain being pressured by external factors (including royal interference). It faced a decline. This crisis had a widespread impact on the European economy and highlighted the risks of unchecked banking practices.

Such easy financing led kings to engage in gross extravagance, particularly expensive wars and arms races with neighboring kingdoms. An example of this is in 1557, when King Philip II of Spain, due to his reckless wars, declared his bankruptcy "The kingdom became so deeply indebted that it went down in history as the first bankrupt country in the world. The reason was that the borrower took out loans far beyond their capacity, which turned into non-performing loans, with 40% of the GDP directed towards debt.

In 1776, with the emergence of economist Adam Smith's 'invisible hand' theory, banking activities were well developed in the United Kingdom of Great Britain." According to theory, the concept of self-regulating economies emerged, and governments that understood this in time began to create a free and competitive environment for banks.

In this context, modern banks began to emerge, and it is important to note that although banks have taken various forms since ancient times, their core business practices have remained largely unchanged.

The nuances of the business model may have evolved throughout history, but the objectives of a bank are still to provide loans and protect depositors' funds.

Today, we can learn about the widely recognized types of modern banks from the following table.

No	Type of bank"	"Main function"	"Main services"	"Service object"
1.	"Retail Banks"	"Banks providing financial services to individuals"	"Banks engaged in deposit services, loans, debit and credit cards, and ATM operations"	"Individuals and small businesses"
2.	"Commercial banks"	"Banks intended for commercial purposes"	Loans, money management, credit products, equipment financing, trade financing, real estate-related activities, currency services."	"Small and medium-sized businesses"

3.	Investitsiya banklari	"Banks engaged in investment activities"	Securities trading, management of securities and bonds, corporate finance, and asset management.	Large corporations and institutional investors.
4.	Universal Banks	Banks engaged in retail, commercial, and investment activities.	The activities of commercial and investment banks.	"Individuals and business entities"
5.	Credit Unions	Non-governmental financial organizations owned by members.	Services similar to retail and commercial banks, but only for citizens within a specific region.	Local citizens.
6.	Challenger Banks	New banks that challenge traditional banking models by offering innovative products and services.	Savings and investment accounts, mobile banking activities.	Individuals and businesses seeking convenience and remote banking services.
7.	Neobanks	Fully online digital banks.	Various currency deposits, mobile banking activities.	Individuals and businesses.

Based on the operational direction and structure of these banks, the corruption risks in them may vary. Corruption in the banking sector manifests in various forms, ranging from fraud by high-level officials to daily operational activities.

These include:

1. Fraud related to lending activities:

a) Unreal (phantom) loans - loans granted to non-existent borrowers or business entities controlled by bank employees.

b) Bribery cases - bank officials accepting material and non-material bribes to approve loans that do not meet the bank's criteria.

c) Insider loans - loans granted to insiders, such as executives, board members, or their relatives, without proper scrutiny.

2. Money laundering cases - concealing the origin of illegally obtained funds. 3. Embezzlement Or misappropriation – the embezzlement or misappropriation of bank funds (mostly these funds belong to another person) through misuse or misapplication. 4. Market Manipulation: a) Insider Trading - Bank employees or individuals with access to confidential information using that knowledge to buy or sell securities for personal gain. "They use confidential information to illegally sell stocks for personal gain.

b) Reporting illegal information about major changes in the financial market – selling information about financial instruments or exchange rates for a fee.

5. Bribery and other corrupt actions:

a) Payments for contracts: Bank officials accepting bribes in exchange for entering into contracts for goods, services, or consultancy.

b) Gifts and hospitality – lavish gifts or hospitality offered to influence bank decisions."Furthermore, we can mention cases of providing false information, money laundering (AML), deliberate non-compliance with anti-money laundering (AML) and counter-financing of terrorism (CFT) regulations, conflicts of interest, and investment fraud.

Corruption in the banking sector undermines trust, disrupts economic stability, and can lead to significant financial losses. Large banks, due to their significant financial capabilities and influence, are more likely to engage in corrupt practices. However, they also have the resources and opportunities to implement advanced anti-corruption measures.

Based on this, the measures aimed at combating and preventing corruption in the banking sector can be categorized as follows. Specifically:

Implementing advanced technologies in the sector:

a) Artificial Intelligence - Large banks like HSBC and JPMorgan Chase use Artificial Intelligence (AI) and Machine Learning (ML) to detect and prevent corrupt activities. These technologies analyze large transaction data to identify unusual signs that may indicate fraud or money laundering. For instance, JPMorgan Chase uses ML algorithms to track transactions in real-time and detect suspicious activities.

b) Blockchain technology - An advanced data database mechanism that allows for transparent data exchange within business networks. HSBC has been using blockchain technology to finance trade.

Strengthening compliance with regulatory and legal documents:

Establishing policies related to Know Your Customer (KYC), Anti-Money Laundering (AML), and Anti-Bribery and Corruption (ABC). These documents must specify the actions for which accountability measures will be applied, who will apply them, guarantees for whistleblower rights, protection orders, incentives, and other similar matters."

As an example, Deutsche Bank places major focus on KYC, AML, and ABC rules, conducting strict KYC procedures to carefully verify the identity of its clients. Additionally, the bank has advanced AML and ABC systems to monitor and report suspicious activities. Regular updates and employee training on regulatory and legal document changes ensure that banks comply with requirements and actively work to prevent corruption practices.

3. Internal audits and information dissemination programs:

Internal audits are crucial in detecting and eliminating potential corruption. For example, Citibank conducts regular and random audits to ensure compliance with internal and external rules. Whistleblower programs supported by legal protection ensure the rights of those reporting corruption are protected.

Recently, HSBC has implemented concrete actions aimed at strengthening compliance services to prevent corruption, including strict internal controls, comprehensive employee training, and policies of zero tolerance for unethical behavior. The key components of this policy are:

- KYC (Know Your Customer): Conducting thorough checks on clients to prevent illegal activities.

- Regular Audits and Assessments: Performing frequent internal and external audits to identify and address vulnerabilities.

- Employee Training: Providing continuous education to all employees on anti-corruption and ethical standards."Fight Against Corruption in the Banking Sector" "The approach requires a multifaceted strategy that integrates innovative solutions such as technology, compliance monitoring, transparency, collaboration, and blockchain surveillance. As discussed above, large banks like JPMorgan Chase, HSBC, Deutsche Bank, Citibank, and Santander use advanced strategies to protect their operations and maintain public trust. By continuing innovation and collaboration, these institutions can effectively fight corruption and create a more stable and transparent financial system.

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

- Ensuring the independence of the bank;
- Adopting a clear policy against corruption and an action plan for its implementation, considering existing resources."
- Ensuring the priority of the principle of personal example demonstrating adherence to ethical principles by the leader;
- Training employees to have a zero-tolerance attitude towards corruption;
- Ensuring openness and transparency;
- Ensuring the rule of law;
- Ensuring accountability to customers;
- Managing corruption risks;
- Protecting the rights of whistleblowers and ensuring their freedoms;
- Preventing conflicts of interest;
- Implementing recruitment processes based on the principles of meritocracy;
- Regular rotation of employees;
- Declaration of assets and income;
- Digitizing decision-making processes, etc.

In conclusion, the history of banking is intrinsically linked to corruption cases from ancient Mesopotamia, Greece, and Rome, to medieval Italy. Only by understanding the root causes and history of the issue can we 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 Here is the translation of your list into English:
 [1]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>