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## BANKING FRAUDS AS A BARRIER FOR ECONOMIC DEVELOPMENT: IS FINANCIAL ACTIVITY UNDER RISKY?

**Abstract:** This article aims to not just briefly describe financial frauds of commerce but in modern economic development stage how small business expands in regions. The definition of fraud includes many illegal actions in various fields, including banking, mobile communications and modern information technologies. Despite the differences in technology, all these actions are united by a number of various features. As for the information age banking sectors is responsible for all payment and money transfer unexpected lots of frauds studied in current paper. Globally widespread chain of the financial frauds and online bank conspiracy effects in cost of social, economic and even in real business environment.

**Key words:** Commercial banks, bank frauds, investment, risk, credit growth.

**Language:** English

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### RESEARCH METHODOLOGY

In this paper work work authors studied concept of banking fraud and comparison analysis of various commercial bank management. In order to conduct study, we used qualitative methods with descriptive method analysis various theoretical approaches.

### INTRODUCTION

The specificity of fraud in the banking sector is in the sphere of public relations, which was the basis for the selection of such an act. Any process of learning is unthinkable without classifications and grouping of accumulated information. Various classifications of types of banking fraud in modern Russia are given, and their brief description is given. The author proposes to single out an independent

article in the Criminal Code of the Russian Federation, which would criminalize fraud in the banking sector and take into account the specifics of banking activities, as well as reveal all evaluative features used in the description of this crime.

According to the **Oxford** dictionary fraud is a criminal deception, use of false representations to gain unjust advantage, dishonest artifice of trick.

According to the **Webster** dictionary fraud is intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right.

In fact, it may be explained as dishonest behavior by which one person gains or tends to gain an advantage over another person. The gain may accrue to the person himself or to someone else.

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The aftermath of the great depression in 1930s in the USA saw enforcement of Glass-Steagall act (GSA) with an objective to reduce risks to financial system and tackle conflict of interests that exist in banking, by separating commercial banking functions from 'risky' investment banking functions. However over time, a series of dilutions gradually rendered GSA ineffective which was finally repealed in 1999.

With globalization, Kohler (2002) in his speech at a conference on humanizing the global economy stressed the need to increase transparency of financial structures as well as to raise the surveillance of international capital markets. In mid-1990's, World Bank laid out a well-defined strategy to combat different types of frauds and corruption, and jointly with the IMF created financial sector assessment program (FSAP), to assess, diagnose and address potential financial vulnerabilities. FSAP has undergone several transformations and wider acceptance over the years, since its inception in 1999[1].

Traces of the precursors of audit can be dated back to Antiquity, to ancient Babylon and Egypt, where archaeological finds have proven the existence of some justifying documents of commercial transactions that allowed for a rudimentary form of verification and accounting (Bogdan, A.M., 2005, pp. 8-9). And once the commercial trades blossomed during a period or another, the need to keep a record of transaction also emerged albeit at a primitive level. But with economic prosperity came also the temptation to deceit and manipulate others for self-profit. Control mechanisms were, therefore, developed by state institutions in order to verify and supervise the use of funds and the circuit of transactions, as was the case for example in ancient Rome, where the questers elected by the people were responsible of this role (Bogdan, A.M., 2005, p. 11).

During the Middle Ages, however, the interest to control financial documents and accounts and to verify the use or misuse of funds increased in Western Europe. The main objective was to discover those who eluded payment, appropriated funds, or misused money and property, and to defer them to justice. The three institutions that introduced as early as the 13th-14th centuries the idea of verifying accounts and hold the wrongdoers accountable were the state (represented by the reigning monarch), the Catholic Church, and the universities (especially those from Northern Italy), and employed functionaries or monks to keep the accounting of their respective structure (Le Goff, J., 1977).

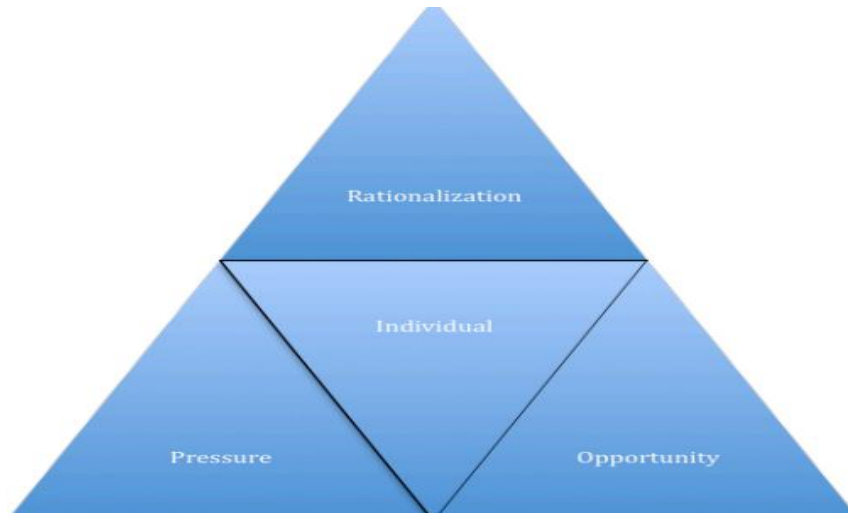
From the Modern Era on, the state was the main institution interesting in implementing and supervising the accounting system in order to prevent, detect, and punish any fraud committed, both in its structures and in the public sector. And as the economic organizations became more complex and powerful in society, they also started to employ the services of specialist functionaries or accountants with the aim of maximizing their profit and avoid losses or thefts by means of distorted or erroneous financial entries. The industrial revolution brought a quick economic development, but also an increased interest in the systems of capital, investment, and control of transactions (Lesourd, J.A., Gerard, C., 1986, vol. 1). But with the economic boom grew also people's desire to make money quickly by malicious or deceitful means, and therefore the public opinion became more aware from the 18th century about the existence of financial fraud and other fraudulent schemes meant to acquire trust, property, goods, or political power (Stratmann L., 2012, pp. 7-9, and all the cases discussed by the author) [2].

## RESULTS

The advantages of foreign ownership as a conduit for good banking practice is actively being weighed against the disadvantages associated with the international transmission of financial shocks. All in all, these banking sectors are not immune to problems and do not always provide sufficient impetus for economic development, which is problematic because most transition economies have bank-dominated financial sectors. Our last section considers the problems of, and prospects, for banks fulfilling this role in the European transition countries. To illustrate the commonalities and differences in the transition experience, we have selected fourteen representative countries from three regions Central Eastern Europe (CEE), South Eastern Europe (SEE), and the former Soviet Union (FSU). We group the countries as follows: CEE consists of The Czech Republic, Hungary, Poland and Slovakia; SEE consists of Bulgaria, Croatia, Romania, Serbia, and Slovenia; and the FSU consists of Russia, Estonia, Latvia, Lithuania and the Ukraine [3].

Understanding concept of fraud we used following model integrity with rationalization, opportunity, individual and pressure. It means four current approaches come together alone for fulfillment of the frauds in banking industry at figure 1.

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**Figure 1. The Fraud Triangle**  
 Source: Adapted from Cressey, 1973

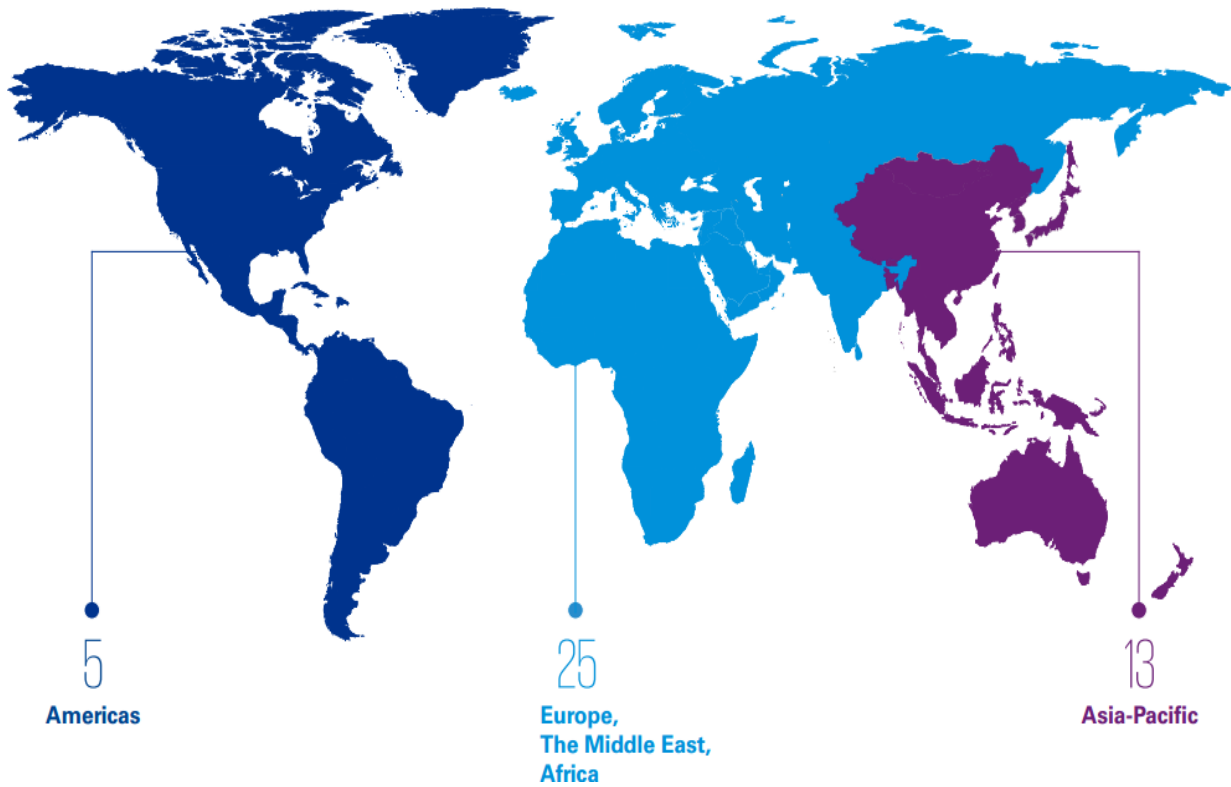
**Types of bank fraud**

- Accounting fraud
- Demand draft fraud
- Remotely created check fraud
- Uninsured deposits
- Bill discounting fraud
- Duplication or skimming of card information
- Cheque kiting
- Forged or fraudulent documents
- Forgery and altered cheques
- Fraudulent loan applications
- Fraudulent loans
- Empty ATM envelope deposits
- The fictitious 'bank inspector'
- Money laundering
- Payment card fraud
- Stolen payment cards
- Phishing and Internet fraud
- Prime bank fraud
- Rogue traders
- Stolen checks
- Wire transfer fraud [4,5,6,7]

Current researches held by Global Banking Fraud Survey, KPMG in 2018 major regions banking facilities related with fraud in this sector. We can see from the figure 2 that Europe and African countries are main hubs for inconvenience at banking jobs. South East Asian countries are also second high amount of frauds happen at the moment.

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**Figure 2. Widespread Global Banking Fraud activities**  
 Source: Global Banking Fraud Survey, KPMG, 2019

As a single country US is also plays great role in financial fraud operations. We realize that small

business and MNC plays much role in relation with Transnational Bank activities.



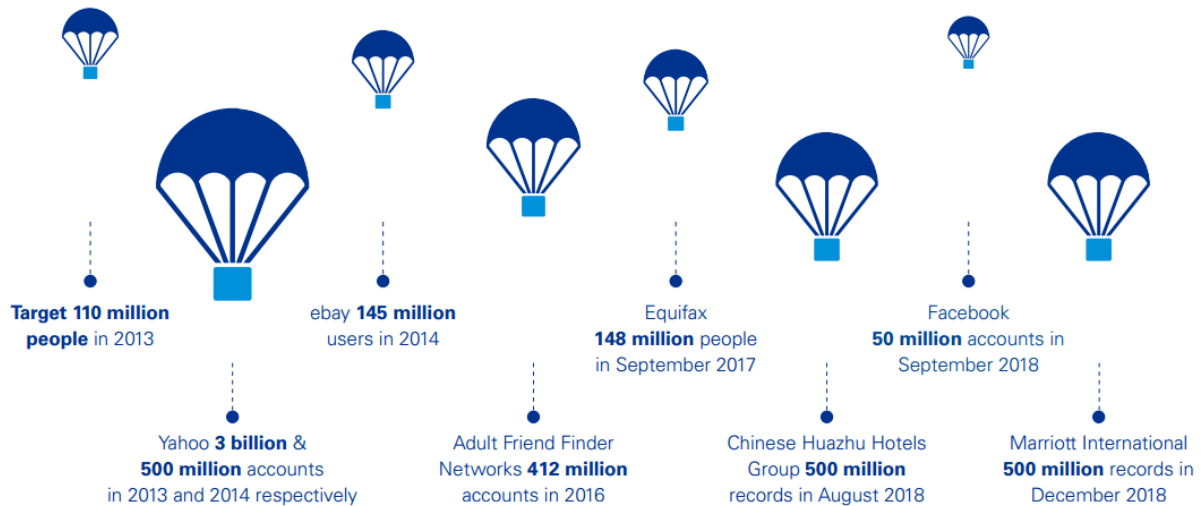
**Figure 3. Structure of the Banking Frauds**  
 Source: Global Banking Fraud Survey, KPMG, 2019, p 7.

If we analyze above figure 3, working structure chain come after each other. It risks, human factor

relations, payment system like express or easy tips and online banking facilities distributed.

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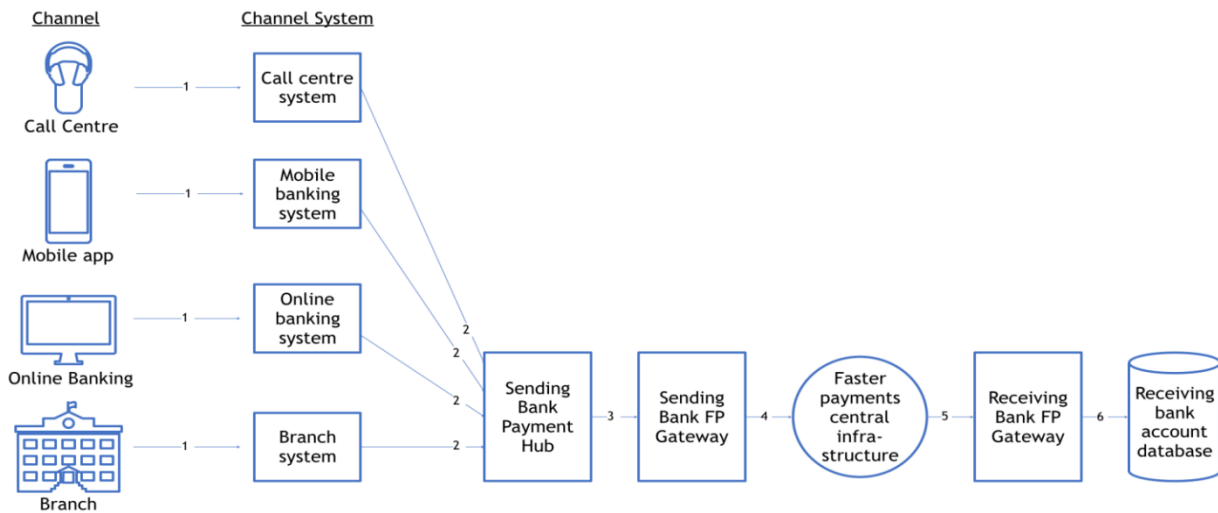
**Figure 4. Share of the world banking fraud destinations [8]**

Source: Global Banking Fraud Survey, KPMG, 2019, P9.

According to the Global Banking Fraud Survey, 2019 amount of the individual sectors have been detected as a main sectors of the fraud objects. It can be easily seen that Yahoo accounts dominated but, Marriot and Chinese banking services had been in risky in future.

Following methodology is states for the reduction of the banking frauds in economies. Online

banking is designed mainly to achieve two objectives. First increased convenience for the consumer and second reducing the cost of operations to the banks. Numerous benefits such as lower fee to go online, higher interest rates, online viewing of account details and statement information, pay bills, transfer money between accounts, scheduling automatic periodic payments such as rent or loan payments.



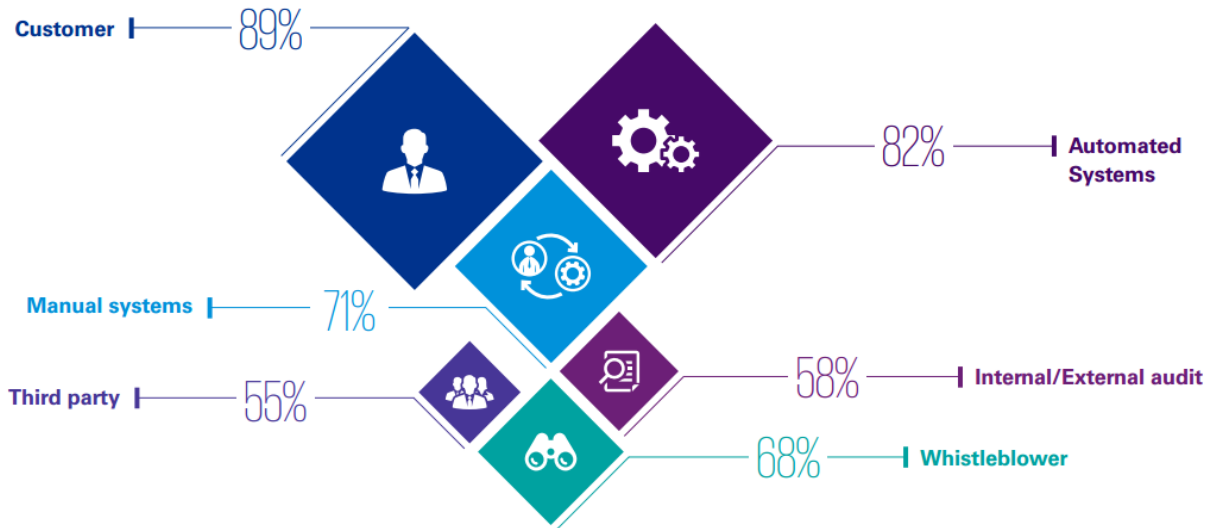
**Figure 5. Latest Bank Fraud Reduced in 2019 [9]**

At the age of technology modern bank infrastructure is involved highly secure interference. According to the following figure banks with no doubt catch any frauds in highly developed countries. But

transition period economies like Uzbekistan in some case not able to fighting for against cyber-attack on time or other reasons.

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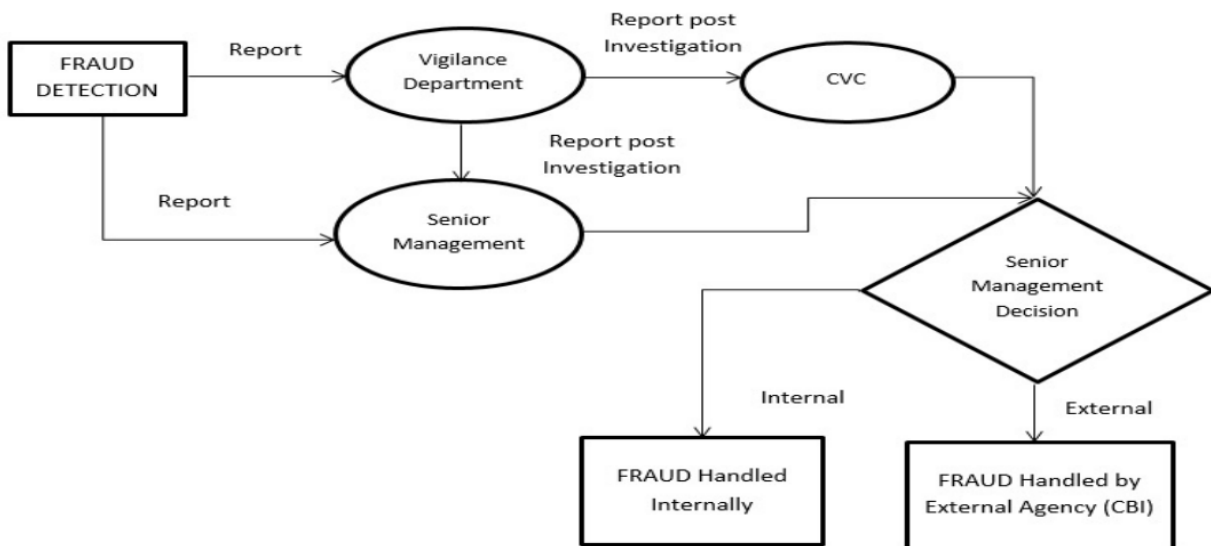
**Figure 6. Identification of frauds by banks [10]**

**DISCUSSION**

The easiest way to steal money using the Mobile Bank service is as follows: the victim, when entering into a contract, indicates the subscriber number that is connected to the Mobile Bank. Subsequently, a person ceases to use this subscriber number for a long time for various reasons, without disconnecting the Mobile Bank service from him, after which the mobile operator re-issues the SIM card. The new user of the SIM card continues to receive SMS messages on bank

card transactions and, accordingly, gets access to account management through the “mobile banking”.

Money fraud is one of the most extensive and comprehensive groups, because almost any fraud, in one way or another involves the illegal seizure of other people's money. However, there are several methods of fraud, indirectly or directly related to cash bills. These methods can be practiced in shops, stalls, and exchange offices. Following model can be offered as depicting procedures in figure 7.



**Figure 7. Flow Chart depicting procedures post Fraud Detection and Reporting in PSBs [11]**

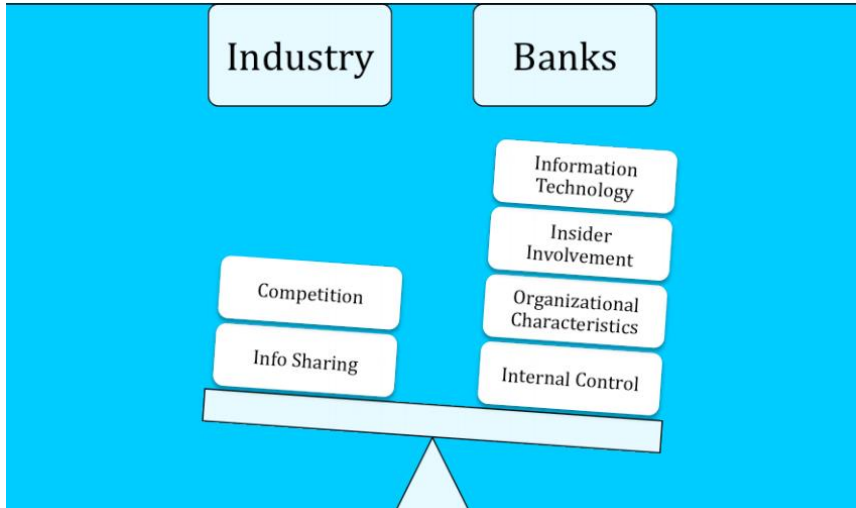
**Source:** Charan Singh, Deepanshu Pattanayak, Divyesh Satishkumar Dixit, Kiran Antony, Frauds in the Indian Banking Industry, working paper no: 505, Year of Publication – March 2016, p 11.

In commercial banks main objectivity is landing money and expanding money flow into business. Economic sectors are requested banking payments and money transfers. While it is well organized and highly international auditing system applicable

efficiency will be raise as planned. But this factor not all time fulfilled. According to the following figure 8 bank responsibilities are grater than the economic sectors itself.

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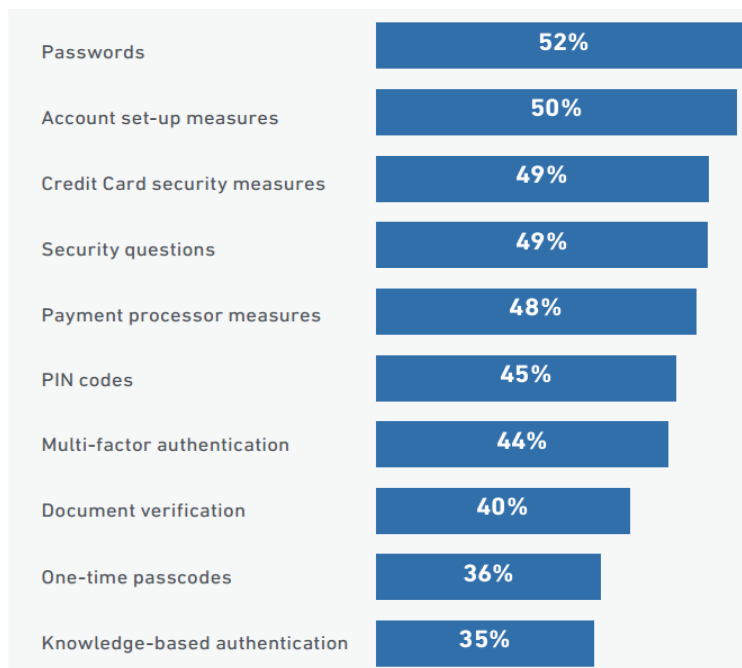


**Figure 8. Industry and banking factors in the conceptual model of fraud [12]**

A-Z of Banking Fraud 2016, The What, Why and How. Banking fraud cost an estimated \$64bn in 2014. 70% WAS INTERNAL. Most remains undetected "A-Z of Banking Fraud 2016 Association of Certified Fraud Examiners, Report to the Nations explain banking frauds as followings:

- Quantum of fraud
- BIG DATA
- Complexity
- Data theft
- External fraud
- Four eyes
- Genesis of a fraud
- Hacking
- Internal fraud [13]

Banking in the transition countries is particularly interesting because banks played no economic role in planned Soviet-style economies while financial sectors in most transition countries are now dominated by banks rather than equity markets. Hence, we begin with the first phase of transition banking, an overview of the emergence of banking sectors from the planned economies. The birthing process was hardly smooth; it took place amidst massive macroeconomic collapse and considerable economic uncertainty. Not surprisingly, these nascent banking sectors experienced crises ranging from serious bad loan problems to total collapse. As explained in figure 9 fraud detection and prevention methods has been tested as a main categorical problem for the consumers in business.



**Figure 9. Businesses use a variety of fraud detection and prevention methods, but still rely on passwords as the top form of authentication.[14]**

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Especially responses to the bad loan problem, the process of bank privatization, and the development of the necessary regulatory framework. The following section characterizes the next phase of transition banking, the remarkably rapid emergence of more mature banking institutions that are largely privatized with a dominant role played by foreign banks. Banking sectors in many transition economies developed and now look little different from

We would like to recapitulate some of the key issues that have sought to highlight in banking sector today:

- While the number of frauds reported each year is actually coming down, the amount involved is going up substantially. The increase in amount involved is largely attributable to the few large value advance related frauds that come to light each year. The small value technology related and other transactional frauds, as a proportion to the number of daily banking transactions, are very miniscule and are manageable.

- The large value advance related frauds, which pose a significant challenge to all stakeholders, are mainly concentrated in the public sector banks.

- While there is a pressing need to overhaul the system of monitoring, control, supervision and follow up of advances related frauds, their incidence in public sector

- banks in a large measure can also be trailed to comparatively poor corporate governance standards and lack of firm resolve by the Board and the Top Management in fighting this menace.

- There is a need to improve exchange of information between all stakeholders to instill and maintain financial discipline among the users of funds and prevent negative information arbitrage to the detriment of the system

- Board oversight of the audit processes and the internal systems and control must be able to identify vulnerable areas, raise red flags and plug loopholes quickly and effectively

- There are considerable delays in reporting frauds to appropriate authorities,

- This trend needs to be curbed immediately. Close liaison must be maintained with investigating agencies and courts to ensure timely completion of investigations and closure of cases

- Society should demand stringent action against the perpetrators of financial frauds and should socially ostracize them

- Banking system should collectively ensure that the fraudsters do not have access to banking facilities

### CONCLUSION

It is necessary that a strong foundation is built by leveraging robust IT systems, framing effective policies and procedures, laying down strict compliance processes, setting high integrity standards, developing efficient monitoring capabilities in all economic sectors. Initiating strict punitive action against the culprits in a time bound manner. It is also imperative that we insulate ourselves from unscrupulous activities by strengthening the fraud detection of money movement and control mechanism through prompt identification, investigation and exchange of information. This is necessary not just for the security of banks but for ensuring the stability and resilience of the overall financial system and sustaining the confidence that various stakeholders have in its strength and integrity. As for the current paper it is required improvement of cyber protection in banking sphere. In Uzbekistan also initial reforms are in testing nowadays. In this occasion local governance should implement international standards for protection consumers for economy develops well.

### Acknowledgement

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