



## EXPLORING CRIMINALITY IN THE BANKING SECTOR OF UZBEKISTAN A STUDY OF CRIMES IN THE INDUSTRY

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**Abstract:** *This article presents a detailed investigation into the realm of criminality within Uzbekistan's banking sector. Through meticulous research and analysis, it explores the various forms of illicit activities plaguing the industry, ranging from fraud and corruption to money laundering and cybercrime. By examining specific cases and statistical trends, it offers insights into the scope and severity of these crimes, highlighting their potential ramifications for both financial institutions and the broader economy. Furthermore, the article discusses current measures and potential strategies aimed at mitigating the prevalence of such criminal behavior, ultimately aiming to contribute to a more secure and resilient banking environment in Uzbekistan.*

**Keywords:** *Criminality, banking sector, corruption, money laundering, cybercrime, statistical analysis, case studies, impact, strategies, security, integrity, financial crimes, illicit activities, study, analysis, trends, challenges, prevention, mitigation, regulatory framework, law enforcement, economic impact, risk management, compliance, fraudulent schemes, regulatory compliance, data breaches, risk assessment, internal controls, financial stability, economic resilience, investigative techniques, illicit transactions, legal implications, financial intelligence, compliance standards.*

The aim of the article is to comprehensively analyze the landscape of criminality within Uzbekistan's banking sector, encompassing various forms of illicit activities such as corruption, money laundering, and cybercrime. Through detailed statistical analysis, case studies, and examination of trends, the article seeks to elucidate the impact of these crimes on the industry and the broader economy. Furthermore, it aims to explore effective strategies for prevention, mitigation, and regulatory compliance, ultimately contributing to the enhancement of security, integrity, and resilience within the banking sector.

The relevance of this article lies in its exploration of critical issues within Uzbekistan's banking sector, particularly concerning criminal activities. As financial systems globally face increasing threats from fraud, corruption, and cybercrime, understanding the specific challenges and dynamics within Uzbekistan's banking industry is essential. By shedding light on the prevalence and impact of such crimes, as well as discussing strategies for prevention and mitigation, the article serves as a valuable resource for policymakers, regulatory authorities, financial institutions, and other stakeholders. Moreover, in a time of heightened focus on regulatory compliance

and financial transparency, this analysis contributes to the ongoing dialogue on strengthening financial systems and safeguarding against illicit activities, ultimately promoting stability, trust, and integrity in Uzbekistan's banking sector. The banking sector in Uzbekistan has undergone significant transformations since the country's independence in 1991. Initially characterized by state dominance and limited financial services, the sector has evolved with the gradual introduction of private banks and international partnerships, aimed at fostering a more competitive and diversified financial market. Despite these advancements, the sector has seen an uptick in criminal activities, mirroring its growth trajectory. As the banking infrastructure expanded, so did the opportunities for fraud, corruption, and other financial crimes. This rise is partially attributed to the rapid development outpacing regulatory measures and oversight capabilities, creating gaps that have been exploited by criminals.

The susceptibility of Uzbekistan's banking sector to criminal activities can be attributed to several factors inherent in the nation's economic and regulatory framework. Economically, Uzbekistan is in a transitional phase, with reforms aimed at liberalizing the economy and reducing state control. This transition, while beneficial, has also led to temporary regulatory ambiguities and enforcement inconsistencies, making the financial sector a fertile ground for criminal elements. Furthermore, the regulatory environment, although strengthening, still lacks the robustness seen in more developed economies. Issues such as insufficient regulatory oversight, limited transparency in banking operations, and inadequate punitive measures for financial crimes contribute significantly to the sector's vulnerability to criminal activities.



examples in the more detailed form.

Fraud in the banking sector often involves deception for financial gain. In Uzbekistan, a common scenario might involve loan fraud, where individuals or groups falsify documentation to secure loans they have no intention of repaying. This can also extend to credit card fraud, where stolen or counterfeit cards are used to transact unlawfully. Globally, similar frauds include Ponzi schemes and insider trading, where

The image<sup>1</sup> is a circular diagram categorizing eight types of financial crimes. At the center, it's labeled "Financial crime," surrounded by segments representing money laundering, terrorist financing, sanctions and embargoes, fraud/dishonesty, bribery and corruption, tax evasion and illicit flows, market abuse and insider dealing, and collusion and antitrust. Each segment points toward the central theme, illustrating the spectrum of activities considered under financial crimes. Main of them will be explained with the

<sup>1</sup> AML and Financial Crime, <https://www.pwc.lu/en/financial-crime.html>



deceptive practices are utilized to manipulate stock prices or investment returns. As an example the action that has taken on November 15,2023 can be mentioned. Universalbank's chairman of the supervisory board, A. Irchaev, commented on the theft of funds from clients' bank cards, revealing that 300 million soums were stolen and an additional 200 million were frozen by the bank's security system due to suspected fraudulent activities. The funds were transferred via P2P to other individuals' cards, with law enforcement currently identifying the recipients. Additionally, A. Irchaev noted that the fraudsters accessed SMS messages and bypassed identification systems, with SMS codes being sent by a separate operator, not the bank itself.

Corruption in this context typically manifests as bribery and embezzlement. For instance, a bank official in Uzbekistan might accept bribes to approve loans without due diligence or to facilitate illicit financial activities, such as the evasion of capital controls. Internationally, corruption is similarly seen where bank executives might embezzle funds through complex schemes involving shell companies, a notable example being the corruption scandals that have rocked several large multinational banks.

Money laundering is the process of making illegally-gained proceeds appear legal. In Uzbekistan, this could occur through the establishment of front companies that purport to engage in legitimate business activities but exist primarily to move illicit funds through the banking system. This mirrors global cases where criminals use real estate investments or trade-based laundering (involving over or under-invoicing of goods) to cleanse dirty money. In Namangan, a significant embezzlement case has unfolded involving the head of the banking services department at a regional branch of a commercial bank. The official was arrested for siphoning off 1.5 billion soums under the guise of transferring funds for financial aid to the banking services center in Buvayda. Instead of fulfilling the intended transaction, he diverted these funds for personal use, purchasing a three-bedroom apartment in the Chust district and a Malibu car. This case has led to criminal charges under Articles 167 (Theft by appropriation or embezzlement) and 243 (Legalization of proceeds from criminal activities) of the Criminal Code, with an ongoing investigation into these allegations.

Cybercrime has become increasingly prominent with the digitization of financial services. In Uzbekistan, this might include phishing attacks aimed at stealing login credentials to access bank accounts or initiating unauthorized transactions. Similarly, globally, cybercriminals deploy sophisticated methods like ransomware to lock financial institutions out of their systems until a ransom is paid, or malware to siphon funds from accounts surreptitiously. On November 11, 2023, a significant security breach occurred involving the bank accounts of numerous Uzbek citizens. Hackers successfully circumvented SMS code protections to withdraw substantial sums of money. As reported by Gazeta.uz, this cyberattack impacted at least 16 individuals, with the total financial damage estimated around 1 billion soums.



Uzbekistan's banking sector is governed by regulations primarily overseen by the Central Bank of Uzbekistan, which enforces financial norms and supervisory mechanisms designed to ensure stability and transparency in the market. These regulations cover everything from capital adequacy to consumer protection and anti-money laundering (AML) compliance. To enhance these regulations, it could be beneficial to integrate international standards more fully, such as those set by the Financial Action Task Force (FATF), and to increase the frequency and depth of audits. Another improvement could be the establishment of a more robust framework for monitoring and reporting suspicious activities that align more closely with real-time data analysis technologies.

Banks in Uzbekistan can bolster their risk management strategies by incorporating advanced technologies like artificial intelligence (AI) and machine learning (ML). These technologies can help in predicting and identifying patterns that indicate fraudulent activities, thus enabling proactive measures. For instance, AI algorithms can analyze transaction behaviors to detect anomalies that deviate from a customer's usual patterns, potentially flagging fraudulent transactions before they are completed. Implementing robust encryption methods and securing online banking channels can also mitigate risks associated with cyber threats.

The role of law enforcement and judicial bodies in Uzbekistan in combating banking crimes includes investigating financial crimes, prosecuting offenders, and adjudicating cases through the courts. However, there are areas that require improvement, such as the need for specialized training for law enforcement on the latest cybercrime tactics and financial fraud schemes. Successful enforcement actions in the past often involve collaboration between banking institutions and law enforcement agencies, allowing for quick response times and effective investigation of financial crimes.

In summary, the exploration of criminality in Uzbekistan's banking sector has illuminated several key areas of concern, including prevalent financial crimes such as fraud, money laundering, and cybercrime. These crimes not only destabilize the financial system but also undermine public trust in banking institutions. Our analysis highlighted that while there are robust frameworks in place, gaps in regulatory compliance, risk management, and enforcement measures persist. Notably, successful strategies often involve the integration of advanced technological tools like AI and machine learning to detect and prevent fraudulent activities proactively. Some of the recommendations on this purpose:

1. Enhanced Regulatory Frameworks: Regulators should adopt more stringent compliance standards based on international best practices. This includes implementing continuous updating and training on the latest financial crime prevention techniques, ensuring that regulations evolve with new challenges in the financial landscape.



2. Advanced Technological Integration: Banks should accelerate the adoption of cutting-edge technologies. For example, deploying blockchain technology could offer a transparent and secure platform for recording transactions, significantly reducing the potential for fraud. Implementing AI-driven behavioral analytics can also aid in early detection of irregular patterns indicative of financial crimes.

3. Strengthened Public-Private Partnerships: Encouraging collaborative efforts between law enforcement, financial institutions, and technology providers can lead to more effective crime prevention strategies. Initiatives could include joint task forces focused on specific types of financial crimes and workshops or seminars to facilitate the sharing of knowledge and best practices across sectors.

4. Comprehensive Training Programs: Establish ongoing training for bank staff and law enforcement agencies to keep them abreast of the latest cyber security threats and countermeasures. Simulated cyber-attack drills could also be conducted regularly to test the resilience of existing financial security systems.

5. International Cooperation: Enhance international cooperation to tackle cross-border financial crimes. This could involve sharing intelligence and best practices, as well as joint investigations between Uzbek authorities and their counterparts in other countries.

By implementing some changes, Uzbekistan can not only mitigate the risks associated with financial crimes but also enhance the overall security and resilience of its banking sector, fostering a safer economic environment for both consumers and businesses.

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