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Business Ethics in Banking Industry: The Indian Scenario

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ABSTRACT

The banking related scandals in India have been rising rampantly in the recent years. In the light of such incidents it has become imperative to evaluate the banking environment in the country and to understand how these scams and frauds can be minimized or if possible prevented. This study aims to understand the general ethical environment in the banking industry across the world and evaluates the ethical scenario prevalent among banks in India. The study also make suggestions about building a deeprooted reputation and goodwill for banks in order to sustain for long.

JEL Classification: G21, G34

KEYWORDS: *Ethics, Values, Scams.*

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INTRODUCTION

The values and ethics of an organisation represent what the organisation stands for. It guides the activities of the organisation and serves as a guiding note for every decision or step of action. The commitment to such ethical behaviour has to be continuous and on-going if the organisation is to survive for long term. In case of a bank, its responsibility extends not solely to its customers but also to the, shareholders, staff, government and the community. Like every other service industry, the banking and finance industry is a people business which depends on people to run the business¹. The banking sector, being a small and innovative player, serves as a sharp focus for ethical dilemmas². However being a service sector industry which is dealing directly with people, there is a great responsibility and commitment from the banks to cater to the requirements of the society and the community without compromising on its ethics and values.

There has been a great rise in the number of banking related scams in India. In 2018 the 11346 crore fraud by renowned jewellery owner Nirav Modi with the nation's second-largest public sector bank Punjab National Bank is said to be one among the biggest banking related frauds in the country. The Vijay Mallya Scam is a fraud by Vijay Mallya's Kingfisher Airlines which had borrowed Rs 9,432 crore from thirteen banks including State Bank of India, which is the largest public sector bank in India and was the biggest lender with 1600 crore followed by the Punjab National Bank with 800 crore, IDBI with 650 crore and Bank of Baroda has lend 550 crores. Other major banking related scams in the recent years include the Rotomac Pen Scam, R P Info Systems Bank Scam and the Simbhaoli Sugar Mills Bank Scam.

In the light of these events it has become necessary to evaluate the banking environment in the country and to understand how these scams and frauds can be brought down. It is also important to understand the extent to which ethics and values adhered by Indian banks and evaluate the role of ethics and values in the banking environment.

This study aims to understand the general ethical environment in the banking industry across the world and evaluates the ethical scenario prevalent among banks in India. The study also make suggestions about building a deep rooted reputation and goodwill for banks in order to sustain for long.

REVIEW OF LITERATURE

According to Goyal, the sustainable development of banking and finance sector depends upon issues like green banking, rural banking, agriculture banking, social banking and ethical banking. The author³ states that social banking is the need of the decade. Benedikter⁴ in his article in 2011 defines social banks as those banks which have conscience. In the previous decade, banks were

not bothered about their own environmental situation or of their customers. But if you look at the current scenario, you will see that banks have an entirely different point of view. They have started different funds like green banking, environment investment funds, global banking, agriculture banking, etc.

There have been a number of different studies across the world examining the ethics and values prevalent among banks. In case of Europe and the United States, the recent economic crisis, have contributed to the development of social banking and since then it has become an important trend among the bank. The crisis played a vital role in turning social banks from small niche institutions to huge companies. This is because the awareness level of social banks had gone up during the crisis. Customers realized that social banks are more community oriented, ethical, responsible and less speculative. Another study talks about the Goldman rule which lies on the assumption that the opportunity cost of being ethical will be higher when there are more profitable opportunities⁵. The author defines ethical behaviour as any action taken by an organization to avoid exploitation of other organizations. Those who follow the Goldman rule does not consider how others are affected by their means to profit.

While in a different study⁶ it was revealed that values like truth, austerity, trust, honesty and saving spirit can have a significant impact on the economic development of a nation. The study also states that the economy of a country can be understood by its ethical values. The ethical values which constitutes the culture, changes the social manifestations which in turn changes the economy. The author states that the various ethical practices carried out by banks increases its ability to achieve their goal. The study talks more about internal ethical issues in banks than the external ethical issues. Internal ethical issues can be; employees engaging in personal activities during banking hours, using an equipment like telephone for their own personal use, etc. The author recommends to have a discussion on ethical issues in every staff meeting. The author suggests to have a dedicated staff to look after the ethical issues relating to the bank as it will definitely have a good impact on the bank's performance if it is properly managed⁷. The study identifies three factors which can influence an employee's ethical behaviour. The long term orientation that an employee receives is the primary factor that influences his behaviour. The strategic aggressiveness and competitive intensity of the bank are the other factors which can influence the employee's ethical behaviour. The study states that it is high time to establish a proper regulatory framework to manage ethics in the banking sector⁸.

Studies have also stated that banking ethics are derived from the traditional concept of ethics. As banking system developed over the years, the issue of ethics became less important as the powerful concept of social responsibility had already hit the system in a positive manner⁹. Thereby

the implementation process of banking ethics went smoothly as there was already a platform created by social responsibility activities. Money laundering and the imperfect legislation for consumer rights are the two major ethical issues the banking sector is facing. Policy makers have ignored the concept of ethical banking as an alternative to restructure the banking system. The government should take necessary steps which promotes the expansion of ethical banking system. Ethical banks are those banks which conducts its activities in a way that creates social values¹⁰. It is also said that business ethics in case of banks are viewed differently by different persons. In case of management ethics would mean loyalty to the organisation, in case of employee's ethics may mean, faith in their profession and in case of employers it would mean fairness to those who deal with them. This study have also concluded that people may feel that business ethics and profit maximisation and business ethics can go hand in hand without any hindrance¹¹. Studies have revealed that banks are not interested in the environmental situation of their own nor their clients. However, there has been a change in this attitude due to increased awareness on environmental investment funds, loans, green banking, global banking, rural banking, agri-banking, social banking and ethical banking³. The foundation of a bank lies with its reserve system. Banks lend out the major portion of the depositors funds and keep aside a small portion as reserves to redeem the deposits. Thereby the bank is violating the rights of depositors by not safeguarding their funds and not hedging against uncertainty¹².

A study conducted in Slovak Republic has revealed that the bank employee's loyalty to their employers is low. It was found that the bank's front office employees have relatively low moral attitude. In case of an employee's dealings with a client, the study has revealed that there has been a significant reduction in the number of sales clerks who may accept the free choices made by the client and also help them in case of adverse selection of a product. The bank managers feel that a major problem facing sales clerks in commercial banks is the lower level of loyalty and increased turnover rate. One third of the clients feel that the banks are simply trying to increase the sales in order to earn more money and only less than 20 per cent of all clients feel that bank is actually trying to solve their financial needs¹³.

In the context of Islamic Banking, that sets morally responsible standards in its marketing strategies, studies using a sample from customers of Jordanian Islamic banks have revealed that with an Islamic bank as both service provider and with the intent to use the facility's service again, there is an evidence of positive influence of customer satisfaction¹⁴. Studies also reveal that adherence to the Islamic ethics can elevate the behaviour standards of bankers and customers in Islamic banking¹⁵. A study in Malaysia revealed that employees of banking institutions exhibit a favourable practice of

Islamic Work Ethics and have resulted in increased spirit of teamwork, truthfulness, self-reliance and organisational commitment even in the absence of surveillance¹⁶.

A study on the extend of ethical behaviour and perceptions in small, local banks have revealed that as compared to older employees, younger employees tend to have a greater level of ethical consciousness. This is because, the longer an employee works in an organisation the greater will be their need for job security which may lead them to indulge in unethical behaviours¹⁷.

In case of India, studies have revealed that there are various banks that consider the social and ethical aspects of banking. However for commercial banks, it is a big challenge to support organisations for social cause besides their main profit maximisation goal¹⁸. With the emergence of online banking the trust factor has also become important. Building trust would involve highlighting their shared values, interacting with customers and introducing more privacy programs and ensuring online security. The reputation factor is also important in building trust. The lack of trust issues can affect customer relationship¹⁹. The profit motives of commercial banks have persuaded them to neglect the agricultural sector. Many banks in the rural areas have reduced the supply of agricultural credit²⁰. However such conduct from the side of banks would result in increased client dissatisfaction and loss of goodwill.

CONCLUSION

Nowadays customers are also becoming aware about the social and ethical aspects, therefore even though the concern for social and ethical aspects may decelerate the company's growth rate, they must not sacrifice their reputation and goodwill. The recent scams and frauds in the banking industry has completely destroyed the goodwill of certain banks and has led to the rise of great resentments from its customers and also the general public. Banks being the safe guarder of people's money, must always be an institution that the public can trust. It must always have goodwill and a positive reputation created through its deep rooted ethics and values. Such an institution will always be trusted by the customers and also the public at large.

There has also been various evidences from the recent scams in India which reveals that banks have acted in a favourable way towards large companies and business tycoons, however eventually there has been many cases where the businesses went bankrupt and the money borrowed from banks were not paid back. There are also many instances where banks have failed in their duty towards the unprivileged in the society.

From the review of various articles relating to banking ethics and values in both India and abroad it is evident that ethics and values is an important aspect in the banking industry and is absolutely essential if the bank is to survive for long. Even though there are studies that gives an

evidence of contradiction between profitability and ethics, it is always concluded that ethics must be kept prior to the motive of making profits.

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