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The Impact Of Business Ethics In The Banking Sector

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ABSTRACT:*In recent past the Banking industry has witnessed various incidents of frauds, greed, insider abuse, poor ethical values and internal controls, increasing non-performing assets etc. These incidents resulted from lack of strong ethical principles on the part of the management. This study attempts to highlight whether unethical practices have led to Bank frauds, has greed played a role in the number of bank forgeries? etc. Ethical practices are increasingly understood to be fundamental to any company's operations, but even more so within banks. When Banks fail to meet the ethical standards, the interest of all parties is put at stake and results in social and economic loss and create unnecessary friction in the economy. The mission of ethics is to minimise the abuse of power of decision making and reduce negative impacts on the economy as a whole. But the biggest problem is that ethics is often considered as a means to earn more money rather than an end in itself. But turns out that Ethics is the only way out to completely eliminate the risk by making it (Ethics) in to a goal itself.*

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I. INTRODUCTION

The study of Business Ethics has gained prominence in the system of management school in recent years. This is because highly publicised ethical scandals were brought to the attention of the public. These scandals played a vital role in increasing public, business and academic awareness of issue related to Business Ethics **(Vyakarnam, Bailey, Myers, & Burnett, 1997)**. The integrity of business leaders has been questioned, regarding fraudulent activities of varying degrees. Thus, it has become important that students of B-Schools as future managers should leave a sense of ethical values and principles. The word "Ethics" deals with the issues of right and wrongs. Ethics is a branch of philosophy and is considered a normative science. "Ethics is concerned with the study of morality and application of reason to elucidate specific rules and principles that determine right and wrong for a given situation"**(Crane & Matten, 2007)**. It has been said that Ethics begins where legislation ends **(Crane & Matten, 2007)**

Thus, where Ethics is a conception of right and wrong behaviour defining moral and immoral actions, Business Ethics, on the other hand is the application of general ethics to the business **(Fernando, 2011)**. Fernando, says that "Business Ethics is the art and discipline of applying ethical principles to examine and solve complex moral dilemmas". But the biggest problem is that ethics is often considered as a means to earn more money rather than an end in itself **(Zsolnai, 2002)**. But turns out that Ethics is the only way out to completely eliminate the risk by making it (Ethics) in to a goal itself**(Dag, 2004)**.

Why Business Ethics important?

1. With the growing influence and power of business in society, its contribution is also increasing. How, or indeed whether this contribution is made raises significant ethical questions. Business Ethics helps us to find answers to such questions.
2. Business Ethics helps us to understand more about the causes and consequences of business malpractices and seeks to address them in a better way.
3. Business Ethics can help to improve ethical decision making by providing knowledge and solution to ethical dilemmas faced by business leaders.
4. Real life situations have shown that ethical business practices create high returns for the organisation in the long run, by creating trust.
5. Business Ethics eventually leads to sustainability.

II. OBJECTIVES OF THE STUDY

1. To analyse the concept of Business Ethics.
2. To find out whether it is important to have Business Ethics in Banking,
3. What is the need or importance of Business Ethics in Banking.
4. To infer ways through which Ethical Business principles can be entrenched in the banking industry.

III. BUSINESS ETHICS IN BANKING

Bank or financial organisations which are expected to execute their functions in a way that it increases confidence and stability. Banks bring borrowers and lenders together**(Asikhia, 2016)**. The banks are primarily funded by depositors and their prime responsibility is to ensure to maintain the trust placed by the depositors and to minimized every possible risk in their investment. Banks must act in a way to promote public trust, confidence and a good reputation by infusing values such as integrity, trust, responsibilities, accountability, respect and fairness in all its dealings.

However, recent banking crises and failures point in another direction. These scandals and crises have led to a growing view that there is something fundamentally wrong with the banking industry. But the problem is that banking business is becoming more complex and the difference between what is legitimate and illegitimate becomes more blurred. It has been seen that ethical and professional values are still not formally entrenched and followed in the banking system. Many banks are associated with accepting bribes in return for loans, lending to influential parties and cheating customers. Fraudulent financial practices seem to be a part of their culture that believes in bending the rules for personal gain. One of the most important functions of the banking system include mobilization of financial resources from locations where they are least needed to where they are most needed. If these functions are efficiently carried out the economy would be able to mobilized meaningful level of savings and ensure that these funds are efficiently directed towards some viable project. Thus, bank play a major role in an economy by mobilizing savings and channelling it to the deficit units, in particular private enterprises for the purpose of expansion and development. It is important to note that through this function banks earn a volume of their income by way of interest margin and also pay out returns to savers. Therefore, if any bank is unable to recover the funds it lends out by way of loans, it puts its own existence in danger.This will also impair a banks ability to meet the withdrawal needs of depositors. Thus, for any bank to perform well certain issues need to be addressed specially in the area of loan sanctioning. Ignorance for ethical practices and disrespect for basic banking principles have manifested in various forms in this area. Report show that there is high level of non-performing loans in Indian Banks which were attributable to poor corporate governance practices, lax credit administration processes and absence or non-adherence to the bank's credit risk management practices. One of the biggest example of this, that came to the lime light was the UB Group 9000 crores of unpaid loan from 17 different PSU and Non-PSU banks. The nation'sbiggest public-sector bank, the State Bank of India is the leader of the consortium of 17 banks to whom UB Group owes more that Rs 9000 crores**(Unnikrishnan, 2016)**. The majority burden of these loans was on government owned banks. Bank's chances of getting their money back was very less as Kingfisher Airlines which is a part of UB Group hardly had any assets left for banks. Finally, kingfisher was declared an NPA by most banks including SBI, towards the end of 2011 **(Unnikrishnan, 2016)**. Panic was beginning to set in in the banking industry as the banks had to answer a lot to the shareholders for offering generous loan recast facilities and converting the debt of kingfisher to equity at a huge premium. The questions arising here is, how are Indian banks caught in this mess? And why didn't they exercise restraint in lending him such a big amount? Another serious question is how did kingfisher airlines manage to get so much money on loan even after it was continuously going in to losses from the time of its inception? Reports suggest that there were serious differences of opinion among the group of senior bankers in SBI but, the majority decision was to take the big risk and lend to kingfisher. According to Crime Branch of India (CBI)Industrial development bank of India also ignored warnings from some of its officers against lending to kingfisher, which was already in acute financial distress in 2009**(Unnikrishnan, 2016)**.Apparently these banks were taken for a ride or it can be said that norms and regulation were ignored and ethics was somewhere compromised leading in to a soup. It is important to note here that banks act as a trustee of the people's money and such incidents can affect its reputation and contribute to its long-term success or failure. The omission of ethical practice in bank has not only limited economic growth but has resulted in the infliction of pain on depositors and other stake holders. Thus, banks need to adhere to Ethics all the more in order to enable them to distinguish between good and bad decisions in different situations.

The list of such incidents is not short including big names like Bhushan Steels and Winsome Diamonds etc. Such poor decisions on the part of banks can easily ripple out from individual circumstances to the community at large**(Ferreira, Jalali, & Ferreira, 2016)**.

Prof. Dr. Julian Nida-Rumelin has given four cardinal virtues as guiding principles towards the decision-making process to be exercised by Banks:

1. **Wisdom:** The ability, despite a lot of pressure, to reliably judge a situation, based on solid evidence and largely free of momentary influences.
2. **Courage:** The strength of will to act in accordance with a wise judgement, and not to be deterred. It is the practical counterpart to Wisdom, expressed in the coherence of financial industry practice and the rationality if its primary principles.
3. **Restraint:**is Knowledge of the limits of one's own ability and expertise, and the considerate behaviour that results. This applies to the degree of risk that one is willing to take.
4. **Integrity:** The personality trait that assures the intrinsic character of Wisdom, Courage and Restraint, and integrates them to a coherent whole. In the ability to observe the same rules of conduct no matter what the context, or that changes in the way of doing things follows clearly definable rules.

(Gup, 1990)says, that greed is the ulterior motive for unethical practices in Banks. Dishonest loans have proved to be the bane of banks and makes them financially dwarfed. All of this happens when banks officials disregard and disrespect the norms and policies of banking and connive with customers to obtain questionable loans and other facilities. Insider abuse is another practice which refers to a wide range of misconduct on the part of the banking officials done for personal gains without any regard for the soundness of the institutions they work for.
Banks should follow some ethical principles religiously to avoid such situations:

- To comply with the pertinent applicable laws in the course of duties.
- To keep their customers informed about benefits and risks of products and services offered to them.
- To provide neutral and fair services to customers buying the same services.
- Not to disclose any information about banks or their customers.
- Not to lead to any loss of reputation of the bank through their actions and behaviours.
- Not to breach any violate the justice, honesty, integrity, reliability and social responsibility principles.
- Not to use the bank's assets, properties and resources inefficiently and for non-intended purposes.
- Not to derive any personal benefits for themselves, or for others by using their job positions and duties.
- To immediately refuse, and report to superiors and authorised bodies, any offers or propositions of personal benefits.
- To avoid entering into non-ethical relations with customers, such as indebtedness, personal guarantee and opening of joint account.
- Not to accept any gifts contrary to customs and usage from existing or potential customers.
- To be accountable with regard to their job duties during performance of banking services.

IV. CONCLUSION

Banking Ethics is all about loyalty and honesty to all stakeholders and accepting responsibility for decisions. The essence of banking is to move large amounts of money accurately and safety around the economy following the principles of trustworthiness, transparency, disclosure and accountability. High ethical standards are expected to guide operations in the banking industry. Even though sufficient legislation has been laid down to regulate banking operations in India but its not enough alone to ensure discipline in the industry. As it is said that Ethics begins where legislation ends. Banks should strive to be ethical in their operations as unethical banking activities results in social and economic loss and create unnecessary friction in the economy. When Banks fail to meet the ethical standards, the interest of all parties is put at stake. The mission of ethics is to minimise the abuse of power of decision making and reduce negative impacts on the economy as a whole**(Belas, 2013)**. Thus, banks should value and implement ethics in their operations while aiming to maximise their profits.

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