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Paper 12

ETHICAL ISSUES FACING THE BANKING INDUSTRY

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Abstract

Economic performance of a country is largely determined by banking and financial system. Banking and finance play a vital and crucial role in framing public policies in today's business environment. Banking ethics is a specialized set of ethical standards and rules that should be followed in the activities of financial institutions and employees of the banking sector. But despite the simplicity of the definition, in the modern world, this concept becomes complex and ambiguous. An ethical issue is defined as a problem, situation or opportunity that requires an individual group or organization to choose among several actions that must be evaluated as right or wrong, ethical or unethical. Businesses and industries increasingly find themselves facing external pressure to improve their ethical track record. Sustainable and ethical banking has been developing for Decades and is becoming a significant force in the financial Industry. The importance of studying this subject is defined by the fact that the ethical behavior of the bank and bank employees promotes banking. At present there are several conceptions of banking ethics: general ethics, regulated ethics and ethical bank. The most common practice is to regulate internal and external relations of banks and bank workers with ethical codes. At the same time, studies show the existence of problems in the banking standards of ethics, which negatively affects the financial institution. This paper highlights social and ethical issues which help in achieving sustainable development of banking and finance.

Key words: Banking, social and ethical issues, moral, behavior, code of ethics.

Introduction

An ethical issue is defined as a problem, situation or opportunity that requires an individual group or organization to choose among several actions that must be evaluated as right or wrong, ethical or unethical. Businesses and industries increasingly find themselves facing external pressure to improve their ethical track record. This external pressure is exerted by stake holders. Stakeholders can be defined as all those who have a stake or claim in a business. These include employees, customers, shareholders, suppliers, government, communities and society as a whole. All these people ultimately determine whether specific business actions and decisions are seen as ethical or unethical. They also, more often than not, raise ethical issues when they exert pressure on business top decision makers that serve their particular agendas. Stakeholders apply their values and standards to many diverse issues such as working conditions, consumer rights, environmental conservation, product safety and proper information disclosure.Ethical issues that

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affect most businesses can be classified as honesty and fairness, conflict of interest, fraud, discrimination and information technology.Honesty and Fairness refers to truthfulness, integrity and trustworthiness, while fairness is the quality of being just equitable and impartial;

- Conflict of Interest exists when an individual must choose whether to advance his or her interests, those of the organization or those of some other group;
- Fraud refers to when an individual engages in deceptive practices to advance his or her own interests over those of his or her organization or some other group, it is any purposeful communication that deceives, manipulates or conceals facts in order to create a false impression;
- Discrimination is defined as is the prejudicial distinguishing treatment of an individual based on his or her membership - or perceived membership - in a certain group or category. It could be sexual, racial or any other form; and
- Information Technology refers to ethical issues and the numerous advances made in internet and other forms of electronic communication. Here we consider issues such as privacy of employee and their legal protection of their rights

Literature Review and research methodology

Banks across the globe have received the considerable amount of pressure from its diverse stakeholders including shareholders, investors, media, NGOs and customers (Bhattacharya et al., 2004 ;) to carry out business in a responsible and ethical manner.As bank is service is always treat as a pure service. Services have some exceptional characteristics that make them different from physical products (Zeithaml and Bitner, 1996). Green (1989) revealed that a bank's responsibility extends to Government, customers, shareholders, staff, and the community. Companies do have ethical responsibility, but it is not protected by limited liability from the consequences of their actions.Weber and Remer (2011) described Social Banking as a way of value-driven banking that has a positive social and ecological impact at its heart, as well as its own economic sustainability. Most of the Social Banks came out of the crisis much stronger and bigger than they were before. In addition, none of the Social Banks had to be bailed out with public funds. This increasingly attracts the interest not only of clients searching for safe and sensible ways to deposit their funds but also of conventional banks that begin to understand the potential of a more socially oriented approach towards banking.

Therefore, this descriptive study is conducted to understand the various roles and responsibilities of banks in order to strive more effectively and efficiently against some current issues, which has already attracted the attention of the world. Following are the objectives of the study:

• To understand the various roles and functions of Banks.
• To know various emerging issues of 21st century in Banking Industry of India.

The descriptive study was conducted with the help of secondary data collected through various research articles, publications, news paper articles, magazines and other websites.

Ethical issues facing the banking industry

Financial institutions including banks of all sorts, credit agencies, private equity firms, pension funds insurance companies and the like- have long been considered by most people to maximize

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financial assets. Financial institutions have become very complex and sophisticated in the way they operate. The products and services they offer tend to be more and more complicated. The ways they invest resources, the way they design, promote and implement credit facilities, all become less evident year after year, and the speed at which they evolve is ever accelerating. In pursuing this end, banks, and financial institutions in general, have long defended the confidentiality of the information pertinent to their business, be it data about their clients the sources and destinations of the economic resources they handle, their credit-giving policies and procedures, and many more aspects of banking profession that tend to be little transparent and not very communicative about their way of doing business. Unfortunately governments, regulators, and other institutions simply cannot cope with this rate of evolution in the satisfactory manner. Banks are moving too quickly for the reaction-time of governments and other organizations. As a consequence, many important issues are being overlooked by the institutions charged with directing our societies towards the common good.

One could wrongly infer that money is simply one more item being exchanged. There is a threat that money will be treated as simply one more item that makes things conceivable, as a basic way to achieve any work. Be that as it may, to deal with money as an item with no moral ramifications and effect bears the danger of turning into a profoundly uncaring methodology when we look it in expounded. Money, in the entirety of its structures, has suggestions and results. Money isn't simply one more item being dealt with. Money infers activities; money enables things to occur and money advances and orders changes. Money is a significant, if not the most significant fuel for the event on the planet. Given that banks are the official middle people of money, we need the take a gander at how they handle and what they do with it.

Monetary institutions like banks assume a key job in the stockpile and development of money. How banks use money isn't superfluous from a good and moral viewpoint. Given the way that money can be utilized in wrongdoing, contamination, debasement, infringement of human rights, dangers to human life, authoritarian systems, and a wide range of wrong-doing and thinking about that cash is in the long run subsidized to an exceptionally huge degree by singular speculators, we have a few concerns with respect to budgetary foundations and how they use money. Banks can divert monetary assets in various manners that make money bring about some type of wickedness doing.

The two main ways in which banks can do this are:

(a) By lending money to others, money enables and promotes actions, and in this sense, when banks lend money to evil-doers they are facilitating their activities. Banks effectively enact, enable, and promote the realization of actions with their lending of financial resources.

(b) by actively and directly investing money, that is, owning shares, be it in the name of others or for themselves, in companies, projects, or countries, that conduct different forms of wrong-doing.

In this paper, researcher draws your attention to notice the key job the financial business plays in that inventory network of cash. In addition, we will point out your the way that it is your cash, which can assume a key job in that production network and that isn't ethically or morally avoidable any longer to research and to effectively address how banks are utilizing that inventory network to channel your cash, with monetary practices that can be energizing incorrectly doing over the world.

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Usurious practices

Banking is a business worried about securing and developing individuals' money. As in any industry, it is reasonable and adequate that banks attempt their best to amplify their speculations and hence, it is sensible that banks charge loan fees on the credits and financing exercises they offer to their customers. Nonetheless, banks that charge inordinate financing costs, oppressive commissions, or ultra-productive credit charges that go past sensible measures for taking an additional profit by a particular circumstance in disadvantage to their clients, are liable of usury. Usury might be characterized as requesting fundamentally more cash again from clients than is simply and reasonable. Money related foundations reliably occupied with usury are as needs be a subject of our worry. While we don't really embrace bureaucratic guidelines which might be unreasonably troublesome and counter-profitable, we do anticipate that banks should act ethically concerning loaning rehearses inside their associations which are conceivably usurious. We are worried that banks are much of the time charging unreasonable rates and forcing out of line favorable circumstances for themselves upon clients. We in this way anticipate that banks should take care to actualize policies that prevent wrong-doing as usury and comparable sorts of abusive practices.

Financial institutions are also guilty of some forms of usury when they encourage their customers, especially individuals, to go into excessive debt by taking irresponsible credit at too high interest rates. Some credit clients, particularly those situated in low-credit infiltration networks are much of the time being exposed to unnecessary promoting and strain to drive them into credit at beneficial loan fees that go past what is standard in the business.

Speculative banking

The advantages a bank loans and contribute ought to be dealt with mindfully, even also along these lines, when we think about that the bank is contributing and loaning cash that has a place with others. Participating in excessively speculative investments and irresponsible credit lending practices is ethically inadmissible, and by and large, not by any means great business. We accept brokers and budgetary experts should adopt a mindful strategy in all venture and loaning tasks with its clients' cash. Indeed, even on account of high-chance, exceptional yield kind of customers, a bank is a definitive substance settling on the venture choices for the speculators, and practices of theoretically putting vigorously in too-dangerous protections, for example, derivatives without the adequate collateral, sub-prime mortgages, irresponsible adjustable-rate-mortgages, and other investments that do not undergo the serious due-diligence required just for the sake of short-term returns should be considered cautiously, particularly given the enormous loss of riches that we have seen during the crisis.

The circumstance of over-speculative, over-risky banking gets particularly convoluted from an ethical point of view when we think about that customers only sometimes get the essential, detailed data to tell them what sort of speculations their brokers are attempted with their money. Another part of concern with respect to speculative banking, which has additionally been confirm in this crisis, is the way that numerous money related foundations have been associated with speculative investment bringing about huge amount of losses for their clients while their administrators keep on accepting pay bundles and rewards in the a huge number of dollars. While we comprehend that the financial calling has customarily produced a great deal of riches

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for its officials, their over the top rewards become a moral concern when their customers' riches has been decimated exactly in light of these types of speculative investment practices.

Financing arms manufacturing and trade

Numerous banks are effectively financing the military business around the globe. While we perceive the ethical adequacy of a nation taking consideration to safeguard its populace, and consequently putting resources into arms and weapons, we are worried about abundances and human rights infringement engaged with this action. We are explicitly alluding to unpredictably dangerous, excessively harming weapons and their producers and wholesalers. These generally fall in the classification of purported "group weapons" which are exceptionally dangerous weapons which crush an adversary's military objective, yet often murder a great many guiltless regular citizen exploited people. Some weapon-producing organizations have gotten credit offices of truly significant sizes from well-kwon monetary foundations. We are discussing credits in the billions of dollars. We can't imagine that Banks didn't have the foggiest idea about the motivation behind the financing offices they were masterminding. Surprisingly more terrible is the way that banks currently likewise claim partakes in these bunch weapons producers. A few rumored monetary establishments claim partakes in organizations like GenCorp, Lockheed Martin, Textron, and Raytheon, which mean twofold digit value positions in those organizations. Owning shares in an organization known to fabricate such weapons has moral and ethical implications

Financing of companies with little or no commitment to social responsibility

The financial business for the most part gives credit to companies, and aides in bringing capital up in the markets, to organizations working with no socially-mindful motivation, or with little promise to one. We have watched organizations that have little regard for their laborers and which have reliably abused work laws (for the most part in creating nations) having no issue verifying credits from wellknown banks. Up until now, banks have not been keen on interrogating customers regarding their human-rights or social-impact plans. Banks tend to look at the risk-return ratio of their investment as the sole basis for granting the credit.
A few banks are financing organizations, for example in the framework business, that work in an exceptionally utilitarian route in certain nations. Some framework designers, for instance, that construct water dams far and wide have been blamed for affecting the networks in which they work by compelling the removal of individuals from their home networks to manufacture the dams any place it is all the more monetarily advantageous for them, paying little heed to the social effect this may have. Profiting accessible to organizations working in this manner fills their wrong-doing. Assets directed to these sorts of organizations can without much of a stretch end up in the hands of those totalitarian systems.

Ecological Impact

We ought to anticipate that banks should begin glancing more in detail at the potential natural harm that their customers could be creating when accepting financing from them. Organizations known to be engaged with exercises that outcome in significant natural harm through the extraction of petroleum derivatives for example; organizations dirtying the oceans through the

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arrival of dangerous synthetic compounds; organizations that assembling items which continue in the earth and are connected to wellbeing concerns; and some other organization harming the world ought not get financing so effectively as they do today from banks and budgetary foundations. While we perceive that shirking of all conceivable natural harm is regularly over the top expensive and difficult to accomplish, we accept that the endeavors ought to be at any rate truly sought after. We anticipate that organizations should effectively look for a harmony between their activities, their production forms, their utilization of natural and human resource and the respect for the earth.

Financing, gifts, and sponsorships as opposed to the benefit of the family

As financial institutions handle tremendous measures of capital, the effect of their gifts and sponsorships can be considerable and the cash they channel through gifts can have significant effect on society. In this regard, we are especially worried about banks giving dynamic help to associations that advocate against the foundation of family and against family-values. As we are persuaded that the family is the reason for any solid society, we are keen on observing banks avoiding activities that by one way or another can influence the respectability of family or assault family esteems in any capacity. These exercises could incorporate giving monetary help to causes that effectively advance activism against family esteems. While we recognize that there are different perspectives with respect to the estimation of families and their job in the public arena, we want to keep our speculations, and proposals for our customers' ventures from organizations advancing non-family neighborly causes and activism. We lean toward not to generate our wealth from putting resources into organizations that pick financing, advancing, and supporting elements and associations that don't share our view on family and family esteems as the foundations of society, harmony and concordance.

Inclusion in social endeavor

The banking industry plays a key role in the development of the markets in which it operates. By loaning and fund-raising, a bank can viably help build up a network, however more remote than that; a bank is relied upon to get effectively associated with supporting the advancement of that network in which it works. An ever increasing number of banks and budgetary foundations are applauded when they bolster associations, for example, cooperatives or credit associations, or engage in financing of network activities. Given the way that a bank benefits legitimately from the economic resources of the community, we would be concerned when a bank openly neglects to help those communities in which it conducts business.

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