Significance of Ethics in Banks

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ABSTRACT

The issue of ethics is one of the major concerns for companies, customers and lawmakers worldwide. Many frauds and scams are coming in light which puts doubts in the minds of people about functioning of companies. Banking is one of the major and crucial sector on which all other sectors depends in an economy. The essence of banking is mutual trust between bank and customers. So the issue of ethics is all the more significant in banks. This paper draws attention to the significance of ethics in banking industry.

Keywords

Ethics, Banking Ethics, Banks

ETHICS

The word "Ethics" which is coined from the Latin word 'Ethos' and Greek word 'Ethikos' which pertains to character. Ethics is thus said to be the study of conduct. Habits and behavior are related to the permanent peculiarities of human character. Conduct is the reflection or mirror of one's character. Thus ethics is the science of character or habit. It evaluates human habits, character and voluntary determinations and discusses their propriety or otherwise (Sharma, 1963).

Ethics has been defined differently by different philosophers:

Peter F. Drucker writes— "There is only one ethics, one set of rules of morality, one code that of individual behavior in which the same rules apply to everyone alike."

Philip Wheel Wright says— "Ethics is the branch of philosophy which is the systematic study of selective choice, of the standards of right and wrong and by which it may ultimately be directed."

In the words of Prof. James Seth (1860 – 1925) a renowned Scottish Philosopher: "As the science of the Good, it is the science par excellence of the ideal and the ought" (Seth J., A Study of Ethical Principles, p. 37.).

The American Heritage Dictionary offers these definitions of ethics: "The study of the general nature of morals and of specific moral choices; moral philosophy; and the rules or standards governing the conduct of the members of a profession."

BUSINESS ETHICS

"Business Ethics is a specialized study of right and wrong applied to business policies, institutions, and behaviors" (Velasquez, 2007).

Businesses are some of the most powerful institutions within modern society; therefore business ethics is an important study area. Business organizations are the key economic institutions which help people in modern societies to carry on the activities of producing and distributing goods and services. They make available the fundamental framework within which the members of society combine their scarce resources— labour, land, capital, and technology—into utilizable goods and services, and they also offer the channels through which these goods and services are disseminated in the form of employee salaries, consumer products, investors' return, and government taxes. Today large corporate organizations and MNCs lead our economies and societies. So concept of business ethics has become more significant (Singh & Kumar, 2010).

Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed. By 'right' and 'wrong' we mean morally right and wrong contrary to, commercially, financially or strategically right or wrong. Furthermore, by 'business' ethics, we do not mean only commercial businesses, but also not-for-profit businesses, government organizations, charities, pressure groups, and other organizations. Ethics is concerned with the study of morality and the application of rationale to reveal exact rules and principles that establish right and wrong for a given situation. These rules and principles are called ethical theories (Stanwick & Stanwick, 2009).

High ethical standards necessitate both individuals and businesses to follow sound mor`al principles. But, some special points must be kept in mind when applying ethics to business. The most important point is that businesses must earn profit to survive. But if profits are earned through wrongdoing, it will be for short period only and the life of the organization may be shortened. To address the unique aspects of the business world, society, government and business community has developed rules—both legal and implicit—to guide businesses in their efforts to earn profits in ways that do not harm individuals or society as a whole (Ferrell et al. 2011).

IMPORTANCE OF ETHICS IN BANKS

Banking is fundamentally based on trust where public entrust their funds to banks for safety and investment. Therefore, banking business must be done in an ethical and transparent manner. Worldwide, banks are regulated for the reason that of their role as financial intermediaries. As financial intermediaries, banks mobilize funds of the people and make it available to the individuals /businesses that need those funds at a price. Banks also provides an efficient payment mechanism in the economy. They provide an efficient and organized system for making payments to settle personal and business transactions as well as global obligation of their customers. The ethical questions that the banking industry has to face are numerous and complex but in a broader viewpoint an ethical bank must have a policy that takes into consideration all those questions that the banks have to face due to globalization and the social and environmental issues.

Economic development and financial stability have precondition that there exists a culture of impartiality, ethical standards and financial transparency in the banks worldwide. Banks have however often been found indulging in unprofessional and unethical practices. Banks are not only expected to operate professionally but transparently and ethically so that the people would have confidence in the system. Banking ethics is all about faithfulness and honesty to customers and other stakeholders, impartiality, trustworthiness, valuing principles and working with a high degree of transparency. However, banks must operate within certain guidelines, either as defined by regulator, public policy or industry practice. A plenty of legislations have been enacted to regulate banking operations and ensure a fair competitive environment. But regulations and penalties alone are not enough to ensure transparency in operations. High ethical standards are likely to guide operations in the banking industry. Ethical standards and conduct of the bank employees plays a major role in creating and maintaining mutual trust and confidence.

Maintenance of an ethical culture in banking is of vital importance to the bank, regulators, employees and customers. It brings about a broad range of benefits.

- Ethical banking practices help protect depositors' interests, preserve the reputation of the Bank and maintain the stability of the system.
- The observance of the highest ethical standards by the staff of the Bank can avert breaches of the law and the corrupt practices. This will eventually protect stakeholders' interests and augment the Bank's brand image and competitiveness.
- The nurturing of strong moral values amongst employees can motivate them to come up with appropriate solutions when facing ethical dilemmas.
- Ethical business practices are critical aspect of professionalism. It is also the precondition for effective staff management. A bank officer should therefore make every endeavor to ensure that his staff conducts their business in concurrence with extremely high ethical standards.
- Through trustworthy and ethical banking practices customers' interests will be better protected.
- If ethical practices are not followed by banks then public confidence would be eroded and the stability of the banking system as a whole would be damaged.

Chowdhury (2011) observed that high ethical practice results in high customer satisfaction and performance. Mzoughi et al. (2011) found that there was an impact of ethical dimension of selling behavior on customer satisfaction, commitment, his trust and loyalty. Rendtorff and Mattsson (2012) found that increased experience of competency might imply experience of increased feeling of ethical superiority and high customer satisfaction. Doraswamy (2013) believes that banks need to engage in corporate social responsibility activities which satisfy the needs of all stakeholders in order to contribute to the common good of the local community, the country and humankind.

PRINCIPLES OF BANKING ETHICS

Dastidar (2014) described Banking ethics as honesty, trustworthiness, impartiality, compatibility and transparency. This can be further elucidated as:

- *Honesty*: Banks must be honest in their dealings and interaction with their employees, shareholders, customers, competitors and the other organizations that they have to interact with.
- *Trustworthiness*: Banks must carry out all their activities and transactions precisely, accountably, timely, accurately and notify their clients accordingly.
- *Impartiality*: Banks should act in an impartial way and must not distinguish between the customers or between the employees or between any of the stakeholders.
- *Compatibility*: Banks must carry out all their activities and operations as per the banking rules and regulations.
- *Transparency*: Banks dealings and transactions must be made in a transparent and fair way by providing clear and easily comprehensible information about their services, products, risks and benefits to their customers.

Bozovic (2007) listed the basic ethical principles in banking as follows:

- *Principle of mutual trust*
- *Principle of mutual benefit and interest*
- *Principle of good intentions*
- *Principle of business compromise and business tolerance*
- *Principle of ethical improvement of business behaviour*
- *Principle of demonopolization of one's own position*
- *Principle of conflict between one's own interests*

The breach of ethical principles in banking happens when the lenders take too much risk and use loopholes that allow them to approve more loans. Strict adherence to the law and regulations in the field of banking makes it possible to give loans to all the qualified clients in a fair way (Bozovic, 2007).

CONCLUSION

As the banking industry is based on trust, transparency and good faith between banks and customers; so ethical practices are all the more significant for banks. It is observed that banks which are ethical in their dealings have satisfied customers. It is also observed that ethical banking keeps improves confidence of people and motivates employees. So banks must adopt ethical practices to improve their profitability, sustainability and improved customer satisfaction.

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