A Study of Ethical Issues in Indian Banking Sector

Jyoti Sharma

Abstract— **Banking and Financial institutions are such a crucial part of the infrastructure of the entire world economy. Although banks create no wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth. In this way they become effective partners in the process of economic development. As bank operate in a broad environment and the entry is open to all sorts of people thereby making it difficult to enforce ethics. This article highlights ethical issues such as issues in HR, Finance, Marketing, Social ethical issues, which help in achieving sustainable development of banking. Adherence to the norms of the bank's ethics improving ties among bank's employees as well as relations with clients. Appropriate behavior and social culture of the staff shape the image of the bank. This article addresses the ethics requirement for the banks staff and deals the application of ethical norms and the requirement of sound ethical code in the banking industry. The sample size of 100 people is going to be taken which includes both male and female of age 25 to 50 years. This paper is divided into four parts. First part discuss introduction of banking industry. Second part discuss concept of bank and it functions. Third part analyzes the review of past study on the topic and fourth part highlights an ethical issues related to banking industry and finally conclusion has given.**

Index Terms— **Banking Industry, Ethics, Functions of banks, Ethical Issues, Social issues.**

I. INTRODUCTION

As time passes, we realize and adopt the changes that are taking place around us. The variety of changes and challenges brought about by the continuing trends towards liberalization, greater autonomy to organizations, more emphasis on profit and intensifying competition are beginning to have impact on organizational dynamics and performance. In the process of industrialization, liberalization and globalization, we are facing some global issues like global warming, environmental concerns, social and ethical issues.

A bank is one of the most common factors among all human being, societies and industries. We are all related to banks directly or indirectly. There is a direct role of banks in day to day activities of our life. Bank is a financial institution and all of us whether persons, industries or government organizations deal with banks. Competitive advantage and longstanding survival of the banking sector do not depend only on market oriented service production but also on winning public confidence. The crucial condition of public confidence is to comply with ethical standards.

Banking and finance as a profession have an intrinsic value chain which is interwoven with the cycle of providing adequate financial products and services. As long as there are no bank guidelines or criteria on ethical, social and sustainability aspects, the individual co-worker or the lending committee are generally applying the' neutrality rule', excluding ethical, social and environmental considerations from the banker's decision making. So, we have to understand the social and ethical issues that bank faces and the role of ethics and banks norms in changing banking scenario.

II. OBJECTIVE

The objective of this paper is to explain the functions and significance of the banks, arising ethical and social issues at the working place in banks in today changing scenario.

III. METHODOLOGY

This paper is to outcome of a secondary data on Indian Banking Sector. To complete this, annual reports, various books, journals and periodicals have been consulted. Several reports on this topic have been considered and internet searching has been also used.

The sample size of the survey was 100 peoples both customers and employees of the bank. Both male and female selected randomly between ages of 25 to 50 for the study.

IV. BANKING IN INDIA

Banking in India in modern sense originated in the last decades of the 18th century. The first bank was the Bank of Hindustan, which was established in 1770 and liquated in 1829-32 and the General Bank of India established in 1786 but failed in 1791.

The largest and oldest bank, State Bank of India originated as the Bank of Calcutta in June 1806. In 1809,, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government, , the two were the Bank of Bombay and the Bank of Madras. The three banks were merged in 1921 to form Imperial Bank of India, which became the State Bank of India in 1955. The Reserve Bank of India is established in 1935 under the Reserve Bank of India Act.

In 1960, the State Bank of India was given control of eight state associated banks under the State Bank od India act, 1959. In 1969 the Indian government nationalized 14 major private banks and 1980, 6 more private banks were nationalized. The Indian banking sector broadly classified into scheduled banks and non scheduled banks. The scheduled banks are those which are included under the 2nd Scheduled of the Reserve Bank of India act, 1934. The scheduled banks are further classified into: nationalized banks, State Bank of India and its associates, Regional Rural Banks, foreign banks and other Indian Private Sector Banks.

Manuscript received April 18, 2016

Jyoti Sharma, Deptt. Of Public Administration (Commerce Department), University of Rajasthan, Jaipur, India

A. Conceptual Framework

Banks are the financial institution that creates credit by lending money to a borrower, thereby creating a corresponding deposit on the bank's balance sheet. Lending activities can be performed either directly or indirectly through capital markets. Due to their importance in the financial system and influence on national economics, banks are highly regulated in mast countries. Several definitions are given by various authors, laws and researchers, some of them are as follows:

"Banking has been defined as accepting for the purpose of lending and investment of deposit of money from the public, repayable on demand order or otherwise and withdraws able cheque, draft or otherwise."

"An organization where people and businesses can invest or borrow money, change it to foreign money, etc. or a building where these services are offered" According to English Cambridge Dictionary.

Oxford Dictionary defines a bank as "An establishment for custody of money which it pays out on customer's order."

"A bank is an establishment which makes to individuals such advances of money as may be required and safety made, and to which individuals entrust money when not required by them for use" according to Professor Kinley.

"Bank is that institution which performs functions of banking" according to Sir John Paget.

B. Functions of Banks

Before the establishment of banks, the financial activities are handled by money lenders and individuals. At that time the interest rates were very high and there were no security of public savings and no uniformity regarding loans. So as to overcome such problem the organized banking system were established, which was fully regulated by the government The organized banking sector works within the financial system to provide loans, accept deposits and provide other services to their customers. The following functions of the bank explain the need of the bank and its importance:

Functions of bank

- Primary Functions
  1. Accepting Deposits
  2. Advances Of Loans
  3. Credit Creation
- Secondary Functions
  1. Overdraft Facility
  2. Discounting Bill of Exchange
  3. Agency Functions
     - a. Transfer of Funds
     - b. Purchase/Sale of Securities
     - c. Purchase/Sale of Foreign Exchange
     - d. Trustee & Executor
     - e. Collection/Payment of various items
  4. General Utility Functions
     - a. Locker facility
     - b. Travelling Cheque
     - c. Underwriting Securities
     - d. Letter of Credit
     - e. Collection of statistics

Banks are judged by their ability to develop financial resources such as complex derivatives and sophisticated credit schemes. In pursuing these needs, banks have lost the confidentiality of the information pertinent to their business. Services offer by them tend to be more and more complicated. The way they invest resources, the way they design, promote and implement credit policies are become less evident day by day. Another aspect that Banks are the official intermediaries of money we need to look to. To handle money as a commodity with no ethical implication and impact is to look critical moral issue

C. Ethics

Ethics is derived from the Greek word "Ethos" which means a person's fundamental orientation toward life. Ethics is two things- Ethics refers to well founded standards of right and wrong that prescribe what human ought to do, usually in terms of right and wrong that prescribe what human ought to do, usually in terms of rights, obligations, benefits to society, fairness or specific virtues.

Secondly, ethics refers to the study and development of one's ethical standards. It is the discipline that examines one's moral standards or the moral standards of a society.

"Patrick and Quinn defined ethics as the study of individual and collective moral awareness, judgment, character and conduct."

An ethical bank also known as a social, alternative, civic or sustainable bank, is a bank concerned with the social and environmental impacts of its investment and loans. Ethical banking movement includes: ethical investment, socially responsible investment, corporate social responsibility, ethical consumerism and social enterprise. The common bond and specificity of this type of financial institutions is that they are characterized by value driven impulses and practices at the core of their business.

Ethical banking provides direct finance through lending and risk capital to fulfill the financial needs of selected entrepreneurs, organizations and businesses. Modern forms of cooperation beyond focusing on membership needs such as the fair trade and microfinance movements, combine economic with social values are a step forward in the understanding and practice of brotherhood and solidarity in a global economical context.

V. REVIEW OF LITERATURE

Bartlett and Preston (2000) said that there will always be companies and individuals that take advantage of the goodwill of others to make a quick profit. Business ethics does exist but it should not be limited to a search for normative systems. Business ethics should search for ways to allow people in the business environment to do think is right for themselves their company and their community rather than what they think is expected of them.

Green (1989) revealed that banks responsibilities are increased to customers, stakeholders, government, staff and society. Banks record and the perception of its ethics affects its reputation and ensures long term success or failure. No business will survive longer on the record of cheating, fraud and exploitation. He concluded that we face complex and conflicting issues; our commitment to ethical behavior has to test.

Goyal and Joshi (2011) studied a sample of 19 banks mergers based on number of branches and geographical penetration in the market. Apart from financial aspects, they observed some emerging issues like employee's perception, branch size, customer perception, communication, change management strategies and human resource management. These issues can be settled when a bank implement certain ethical policies.

Lawrence (1976) observed that Ethics are changing in business today. Companies have developed codes of ethics to create awareness of ethics, but their values are debatable. Ethical values are less at working place because of changing personal values.

Manikyam (2014) explained the impact of liberalization, privatization and Globalization in changing banking scenario and study the challenges and opportunities of national and commercial banks. He analyzed that pre and post liberalization brought various environmental and ethical challenges which directly affect the organization, society and customers. He discussed the various challenges and opportunities like high transaction costs, IT revolution, timely technological up gradation, intense competition, privacy & health. He said that Indian banks have to rethink their policies and norms to compete and survive in this changing scenario.

Pennington, Macklin and Campbell (2007) identified three broad ethical dilemmas that the HR managers identify: clashes between justice and care, morality and organizational performance, confidentiality and honesty or openness. Most of HR Mangers also acknowledge that organizational performance as an ultimate goal is increasing in importance in HRM. This undermines moral norms.

Sahu and Rajasekhar (2005) addressed and analyzed certain questions regarding bank credit to the agricultural sector and impact of the closure of rural bank branches on the provision of credit to agriculture by analyzing the data on the total outstanding credit provided by the scheduled commercial banks to the agricultural sector during the period 1981-2000 and concluded that profit oriented norms persuaded commercial banks to neglect the agricultural sector, provision of a credit subsidy reduce the supply of agricultural credit.

From the above study, following are the objectives to uncover the issues:

1) To understand the various functions of banks.

2) To know the various ethical issues of today global world in the banking industry.

VI. ETHICAL ISSUES

Among all of the issues, ethical issues are the most difficult ones to handle. If the working place lacks ethical standards, employer risks losing valuable customers and possibly even more. Federal laws impose heavier penalties on employers convicted of criminal wrong doing if they cannot prove that they have made efforts to implement ethical measures to prevent and deter illegal conduct.

Some of the primary forms of employee misconduct or unethical behavior include the following:

i) Misrepresenting time or hours worked.

ii) Lying to supervisors.

iii) Misuse of employer's assets.

iv) Lying on reports or falsifying Records.

Some of the main areas of any business organization are Human Resource, Marketing, Finance etc. It is very much essential to evaluate the ethical issues arising and the effect of ethical values in above mentioned concern.

A. Ethical Issues in HR

Human Resource is regarded as one of the most important factor of production; it is only human which make other factors of production mobile. These days this area too is not free from unethical issues these may be relating to employee hiring, performance appraisal, remuneration and benefits, incentives plans etc.. There are issues pertaining to the salaries, executive perquisites and the annual incentive plans. The HR manger is often under pressure to pay out more incentives to the Top Management and justification for the same is put as the need to retain the latter. HR practitioners face bigger dilemmas in employment hiring, the pressure of hiring someone who has been recommended by a friend or a top executive. Issue arises when HR has already hired someone and he/she later found to have presented fake documents.

Another issue in HR related to the privacy of the employees. Any employees working in organization has a personal life and he wants to protect his/ her personal life, certain situation may arise that mandate snooping behaviors on the part of the employer. Employees also face ethical issues during performance appraisal. In good organizations employee's performance are evaluated on the basis of organizational achievements, their strength and weakness but still in many organizations performance are based on gender, race and relations. An employee could commit unethical behavior by sexually harassing coworkers. This could involve making lewd comments, touching inappropriately or making unwanted sexual advances.

B. Issues in Finance Area

Ethical issues in the financial services affect everyone; the public seems to have the perception that the financial services sector is more unethical than other areas of business. An ethical issue arises due to self interest morphs into greed and selfishness which is unchecked self-interest at the expense of someone else. Unethical practices are like delays in payment, interest to shareholders, incentives and bonus to employees, unequal payments, fraud in cheques, recording false information are some of the common unethical practices which are going these days.

C. Issues in Marketing Area

Marketing ethics can be defined as how moral standards are applied to marketing decision, behavior and institutions. Markets present a clash of interest between various players. There is competition for resources, customers and price etc., which breeds ground for activities that may not get ethical sanctions. Unethical behavior such as price wars, selective advertising and deceptive marketing can negatively impact a company's relationship.

Violence, sexuality is important ethical issues in advertising. Advertisers should ensure that their ads are not offensive and violating the laws of land. Sometimes ads violate the basic standards of decency, morality and religious beliefs of viewers. Sometimes product and services offer by banks do not meet relevant laws and regulations. There are ethical problems arising out of new technologies that are deleterious to health, safety and environment.

D. Social Issues

In good organization, the only differentiating factor is performance, but still in many organizations the employees were differentiated on the basis of their race, gender, origin and their disability. Organizations operate for profit, they also cannot spend an unlimited amount on precautions and remain competitive a commercial context tends to limit privacy measures and to motivate organizations to share data when working in partnership; this has led to many moral problems. Customers confidentiality is also one of the most eminent features which distinguish relationship between banker and customer. Sometimes banker does not keep customer information confidential and disclose to third party. Customers also faces problems related to accuracy of information and data. Sometimes information about bank product and services, condition and the interest rates/ services charges provided by banks promotional literature or directly by bank's employees are not accurate or clear.

One of the most common ethical violations involves computer. Surfing the web during workday, visit to news, gambling, shopping or social networking sites would violate employer's internet usage policy and would undoubtedly be unethical behavior. Many employees disclose employer's confidential or proprietary information or any trade secrets. Make sure you are familiar with employer's policy and follow it carefully.

CONCLUSION

Analysis of works by Indian public and private banks revealed that there is no other industry where ethics would be more important than in banking because financial institutions are such a crucial of the infrastructure of the entire world economy. In banking, like any other type of business everything rests on relations, banks relation with clients, employees, business partners, and the state. Ethical judgment stir confidence in the public and help develop a better reputation for a bank, maintain good relation with the customers and cultivates greater sensitivity to the impact of the enterprise's value. High ethical standard of employees can be very much contributory to the impressive achievements of business goals. The survey has shown that banks primarily focus on the competence and professionalism of their employees. Many banks priorities on honesty as well as the ability to communicate and avoid conflicts.

Banks operate in a broad environment in which they have to respond selectively to social, political, economic and customer issues, they are at the same time obliged to the expectations of their shareholders and employees. The banking profession is unrestricted and entry is open to all sorts of people thereby making it difficult to enforce ethics. The survey confirmed that in spite of all checks and balances in banks, frauds and forgeries are on the increases. The study revealed that banks provide continuous professional training, but ethics training is receiving the desired attention at the professional level, but it is generally lacking at individual company level. As a result unethical practices like frauds, insider abuse, greed, mismanagement and other financial malpractices are growing in the banking industry.

To ensure a sound banking system based on ethical practices are banks should adopt the code of ethics, there is a need for continuous professional training, ethical training should be made compulsory for all banks, penalties for unethical practices should be stiff to deter unethical behavior.

The survey has shown that an employees working in any organization thinks that managing ethical environment is the job of HR department or upper management. Every employee should think that being ethical is a part of a job. It's not just a boss's job and not just the role of HR department or upper management. Much of the burden for preventing ethical violations falls on employee because an employee in a strong position to know if an unethical behavior occurs. After all, employee often works very closely with coworkers, which means he may be in a position to witness their ethical dilemmas when supervisors are not.

REFERENCES

1. Agarwal, S.N. (2001), Changing Scenario in Management,Rajat Publication.
2. Chakraborthy, S.K. (1995), Ethics in Management (Vedanta Perspective), Oxford University press.
3. Chakraborthy, S. K. (1997), Values and ethics for Organizations, Oxford University Press.
4. Chellaswamy, P. (2010), Modern Business Management, Himalaya Publishing House.
5. Barlett, A. and Preston, D. (2007), Ethical Behavior Really Exist in Business? Journal of Business Ethics, 23(2) p. 1-6.
6. Fisher, C and Lovell, A. (2009), Business Ethics an Values: Individual, Corporate & International Perspective, F T prentice Hall.
7. Green,C.F. (1989), Business Ethics in Banking. Journal of Business Ethics, 8(8) p. 631-634.
8. Goyal, K.A. and Joshi, V. (2011), Mergers in Banking Industry in India: Some Emerging Issues, Asian Journal of Business and Management Sciences, 1(2) p. 157-165
9. Goyal, K.A. and Joshi, V. (2011), A study of social and Ethical issues in banking sector, International Journal of Ethics, 2(5) p. 49- 57.
10. Jaseviciene, F. (2012), The Ethics of Banking: Analysis and Estimates, Ekonomoka 91(3) p. 101-116.
11. Koslowski, P. (2011), The Ethics of Banking: Conclusions from the Financial Crisis, P. 13-15, 19-23.
12. Lawrence, F.G.(1976),Whose ethics guide Business, Management Review, 65(4) p. 44-49.
13. Manikyam, K.R. (2014), Indian Banking Sector: Challenges and Opportunities, Journal of Business and Management, 16(2) p. 52- 61
14. Pennington, A.H. and Mackling, R. and Campbell, T. (2007), Human Resource Management: Ethics and Employment.
15. Rawson, R. (2006), Working Ethics: How to be fair in a culturally Complex World, Jessica Kingsley Publishers.
16. Robert, W. K. (2008), Business Ethics and Society, Sage Publications.
17. Shah, A., Indian Banking2020: Making the decade promise come True.
18. Shah, H. M. (2009), Contemporary Issues in Management and Commerce, Mark Publications.
19. Stevens, B. (1999), Communicating Ethical values: A Study of Employee Perception, Journal of Business Ethics, 20(2) p. 113-120.
20. Trivedi, I.V., Chaudhary, C.M. and Kumar, S. B. (2010), Indian Banking System, Jaipur, Ramesh Book Depot.

WEBSITES

http://en.wikipedia.org/wiki/Ethical_banking
www.iba.org.in
http://www.business-ethics.org/research.html
http://business-ethics.com
http://globalethics.net/web/guest/business-ethics

Jyoti Sharma, Master in Human Resource management, Research Scholar (University of Rajasthan), Jaipur(raj.), Research Topic: Ethical Issues in Banking Sector: A Comparative Study of SBI and ICICI Bank.