

# Ethical Dilemmas in Banking

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The banking profession covers an area so vast that it would be absolutely foolhardy to profess a complete knowledge in this field at any point of time. Further technological innovations over the past two decades have added a new dimension to the profession. However although loss of customers is detrimental to business development and unplanned investment to financial stability for any bank, certain basic ethical practices have to be followed for its commanding respect in the market. Further the absence of adopting ethical code of conduct may even lead to negligence and possibly fraud. However, the points brought out hereunder confines itself to a moral code of conduct applicable to the future only with systemic corrections to be made from time to time and does not infringe upon competitive commercial decisions made in the normal course of business .

The need for business ethics commences at the grass root level with advertising of products for attracting customer. Three decades ago when Indian economic policies leaned towards socialism, there existed a Joint Publicity Committee underlying the uniform policies of all public sector banks. Accordingly separate advertising by public sector banks was prohibited. However, this committee completely lost its sanctity since when subsequent Indian economic policies adopted capitalist leanings. Banks have since resorted to

independent advertising strategies in a competitive environment. Advertisements however had to be transparent and not a mere formality. Accordingly as per an ethical code of conduct each bank today advertises its own products without infringing upon the space of another which is morally upright.

The twenty first century is the era of software enabled transactions. However, software is only a compilation of data stored within and guidelines against unethical practices already in vogue in a manual environment, have to be fed into the same as a control mechanism .Typical examples of unethical practices to be prevented by the software in future is the belated renewal of an overdue term deposit with retrospective effect for a period equal to or lesser than that of the original one to gain the benefit of interest. Subsequent manual intervention will lead to unethical practices tarnishing the image of the institution. Similarly the trend of putting through business transactions in savings bank accounts on a continuous basis is also extremely unhealthy as the very concept of savings gets distorted. Further loan and other commercial documents should be transparent to ensure functional sanctity. Software cannot by itself differentiate between individuals and customer identification is only a password consisting of alphabets, numerals and syllables either

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independently or in combination with each other. Accountability of software firms should be strictly enforced to avert large scale frauds and scams. Further the curb on cash transactions above three lakhs will lead to greater transparency in business dealings to prevent tax evasion and curb money laundering. However, compromising of passwords by gullible customers to fraudsters will lead to loss of funds just like cash. Systems and procedures should therefore be constantly reviewed. In this context there is an apparent revision to replace card transactions with Left Thumb Impression under review to replace card based transactions with Left Thumb Impression (LTM) for increased security.

Budgets are essential for future business planning and funds utilisation. However under the pressure to depict business growth, bank branches resort to window dressing that is to temporarily invite deposits for a short term in operative accounts to depict business growth. This apart from violating business ethics, also has a progressive effect as future budget settlements leaning towards business growth will continue to be based on artificial past performance. Budgets will thus become more of figures than actual target planning .

The reduction in the level of non performing assets (NPA) is part of the budget exercise. However in several cases borrowers lack adequate liquidity for repayment of loan installments and bank branches resort to restructuring the same to reduce their NPA portfolio. Business appraisals are not realistic with sanction of loans being more target oriented than qualitative . It is also equally unsustainable to sanction a fresh advance to close an existing one. Political interference

also fudges rational thinking and advances remain unrecoverable more out of fear to demand repayment than the possibility of recovery. Further continuity in transactions in loan accounts should be maintained to monitor funds usage and prevent diversion of funds

The recent demonetisation of high value currency produced another unhealthy trend with substantial amounts obviously belonging to tax evaders being passed through the Jan Dhan accounts of innocent and gullible rural depositors. Such instances would not have occurred but for either the connivance or indifference of officials who have either sought to retain customers or indulge in corrupt practices.

The arrival of online banking is a welcome feature as checks and balances can be ensured to either prevent or correct wrong decisions at all levels and create accountability. The system control measures in software have to be periodically reviewed to plug loopholes in a mechanised environment

We finally come to audit. Three decades ago auditing was viewed as a fault finding machinery where irregularities pointed out were either difficult or impossible to rectify . However the audit process today is more operation friendly than a disciplinary mechanism and auditors endeavour to correct defective procedures to ensure an ethical environment. This does not however absolve them of their duty to function independently and highlight frauds.

