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A Study On Collision Of Business Ethics In Banking Sector

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Abstract

Business ethics is the organized analysis of ethical principles relating to business, industry, commerce, trade and other related activities, institutions, beliefs, and practices. There is definite interdependency between ethics and business ethics. In recent years banking sector has faced various events of frauds, internal oppression, greed, low ethical values, internal control, increasing NPA's due to these events the ethical principles in banking sector has faced poor performance. This study focuses on whether unethical practices have led to bank frauds, has greed played a major role in rising frauds, NPA's and economic slowdown, at the same time, study show the present problems in banking standards of ethics and frauds which negatively affects the financial institution. This paper is aimed to reflect when banks fail to meet the ethical standards, main frauds and problems in past two years of banking ethics result in social and economic drop and create irrelevant friction in the economy.

Key words: *Business ethics, unethical practices, NPA, economic slowdown, frauds*

INTRODUCTION:

Business ethics is set of standard rules and principles which can be regarded as the standard norm to evaluate and guide business ethics, on the other hand the long term perspective, a business based on honesty, sincerity and ethical values will help for sustainable growth with abundance and if one doesn't have it, one cannot survive in the long run. Banks should strive to be ethical in their operations as unethical banking activities results in social and economic drop and create redundant friction in the economy (Regina john et al). The recent scamsplayed an important role in rising public, business and academic awareness of issue related to business ethics (Vyakarnam, et al 1997). The integrity of business leaders has been questioned, regarding fraudulent activities of varying degrees. The word "Ethics" deals with the issues of right and wrongs. Ethics is a branch of philosophy and treated as 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 behavior defining moral and immoral actions, Business Ethics, the other sideit 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).

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OBJECTIVES OF THE STUDY

1. To know the concept of business ethics.
2. To find out whether it is important to practice business ethics in banking.
3. To study the significance of business ethics in banking.
4. To understand the collision of frauds in banking sector.

Social and ethical issues in 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 financial assets. Financial institutions have become more rigid and sophisticated in the way they work. The products and services they offer tend to be very complicated. The ways they invest means, the way they plan, promote, and deploy 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 the destinations of the economic means they handle, their credit-giving policies and approaches, and other aspects of the banking platform that tend to be little lucent and not very candid about their way of doing business. Inopportune, central and state governments, regulatory, and other institutions simply cannot sink with this rate of evolution in a satisfactory manner. Banks are so swift for the reaction-time of governments and other institutions. As a repercussion, various major issues are being overlooked by the institutions charged with directing our societies toward the common good.

The banking industry commonly gives credit facilities to organizations, and helps in increasing capital in the financial markets, to firms operating with no socially-responsible agendas, or with little commitment to one. We have overlooked firms that have little respect for their workers and which have continuouslyinfringedlabor laws (majorly in developing countries) having no problem safeguarding deposits from well-known banks. So far, banks have not been involvingin asking clients about their human-rights or social-impact agendas. Financial institutions tend to look at the risk-return ratio of their capital as the only basis for sanctioning the credit.

Banking institutions play a vital role in the supply and demand of money. How banks spend money is not irrelevant from a moral and ethical outlook. Given the fact that money can be used in crime, pollution, corruption, violation of human rights, threats to human life, totalitarian regimes, and all sorts of wrong-doing and considering that money is eventually funded to a very large extent by individual investors, we have several concerns regarding financial institutions and how they use money. Financial institutions can channel economic means in various ways that make money result in some form of evil-doing.

The two important methods in which banks can do this are:

1. 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

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efficiently enact, enable, and promote the realization of actions with their granting of financial means.

2. 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.

Significance and basic principles of business ethics:

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 organization in the long run, by creating trust.
5. Business Ethics eventually leads to sustainability.

The Basic Ethical Principles in Banking are:

1. **Integrity**: Stick to the principle of integrity in all their relations in the course of their operations;
2. **Neutrality:** "Respect towards human underlies the success.", do not ever discriminate among their employees and customers, and refrain from biased behaviors;
3. **Reliability:** Provide clear, understandable and accurate information to their customers within the frame of mutual trust in all their services and operations, and perform their customer services timely and completely
4. **Transparency:** gives customers clarity,understandably and clearly informed about their rights and obligations, and benefits and risks regarding the products and services offered to them;
5. **Supervision of Public Benefits, and Respect to Environment:** In all activities, do not only target profitability, but also take pains in supporting and sponsoring social and cultural events and activities in the light of the principles of supervision of public benefits and respect to environment.
6. **Fight Against Money Laundering Financing of Terrorism:** Within the framework of international norms and national applicable laws and regulations, acquire it as an significant principle against laundering of crime, corruption and other mutual acts and act voluntarily to cooperate with each other and with other relevant industries and organizations and related official authorities, and take the required actions in their organizations and conduct training programs for personnel
7. **Information Abuse:** Take all kinds of measures and actions in order to prevent abuse of insider information of themselves and their customers.

UNETHICAL BUSINESS PRACTISES AND ITS COLLISION ON BANKING SECTOR:

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Reserve bank of India identified Rs. 71,500 crores worth scams in last two years. According to RBI report most of these frauds were because of unethical practices like., cheating, forgery, exploitation, criminal rift of trust. The detected frauds which put in scale more than Rs. 71,000crores in recapitalization recover the financial health of public sector banks, because government owned banks bagged over 90% of these loses. On whole 3,780 incidents of frauds identified in last two years, surprisingly 15% of incidents and 80% losses increased from last year FY18. As stated by RBI annual report released in august bulletin, in areas of operations frauds related to advances constituted the predominant share of amount involved in frauds in FY18., although from last the share of frauds in off-balance sheet is decreased, on the other hand frauds relating to debit cards, credit cards, online transactions and deposits incorporate only 0.3% of the total value of frauds and small frauds less than RS. One lakh was only 0.1%. RBIalso stated, that regulators, financial institutions, policymakers faced the fact that it took around 2 years for banks to identify the frauds, large investments more than Rs. 100 crores took 4 years to detect by banks. Almost Rs. 52000 crore worth of frauds identified were declared as big frauds.

Recent frauds and NPA'S (NBFC Crisis)in last two years:

RTI announces, in the early quarter of FY19 2480 incidents of frauds identified with a huge amount of Rs. 31890 crores involved by 18 public sector banks in march, April and June this year. In this connection CBI has announced a major financial crisis across India, and appointed special agency to probe with incidents of banking frauds. The said agencies have taken action countrywide linked to bank incidents, frauds scams have conducted search more than 50 areas across 18 cities in 12 states and made recovery of 640crores. The probe agencies have already filed 15 cases against major companies and entities, promoters and directors, bank officials CBI said.

The India's largest lender bank of India have suffered with major frauds by 39% of share, according to SBI in first quarter around 1190 cases involved in cheating worth of Rs. 12000 crores detected and followed by Allahabad bank suffered with 381 cheating cases involving Rs. 2856 crores

-similarly corporation bank retrieved major frauds in 16 incidents worth Rs. 960 crores,

-Punjab national bank listed with 99 fraud cases worth Rs. 2526 crores.

-Bank of Baroda involved in 75 incidents of frauds with a total sum of Rs. 2297 crores.

-central bank of commerce has reported with 45 incidents of frauds worth of Rs. 2130 crores.

-Bank of India Rs. 517 crores in 42 incidents.

-Indian overseas bank Rs. 935 crores for 46 cases

-Canara bank have reported 69 cases worth Rs. 2035 crores

-PMC Bank is caused by major scam with huge loss of Rs. 4335 crores

On the said losses incurred by the public sector banks due to frauds, the central bank said it did not have any figures available as how much worth is lost by these banks. Nevertheless, the information given by the central bank does not give any details of nature of banking fraud and the losses suffered by banks and their customers.

February 2018:

Punjab national bank- Nirav Modi Scandal

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The PNB employees at Brady's house branch, fort Mumbai issued fake bank collateral in excess of Rs. 11356.84 crores. The fraud is aiding over years by two companies of jewelry groups- managed by Mr. Nirav Modi(diamond merchant),and his uncle Mehul Choksi. They received the credit from overseas bank to fund business. In this connection CBI arrested eight PNB officials who involved in fraud.The status of the case according to CBI Nirav Modi, Neeshal Modi has declared as offenders. Mr. Nirav Modi is arrested by Scotland Yard (police) on extradition warrant in march 2019.

The RBI removed banking instruments such as the letter of understanding, fake guarantees etc., the government has also approved the criminal economic offender's bills to stop as they cannot escape from Indian Law.

Gitanjali group

Mr. Mehul choksi, Nirav Modi's Uncle and Owner of the gitanjali group is among who named in PNB fraud.

2014 to present Bank NPA's

A mix of combative and carefree lending, alongside willful loan frauds and economic decline resulted in a rapid rise in bank NPA's not a single public or private sector bank has been spared

The status of gross NPA's of public sector banks rise nearly four times to Rs. 8.06 lakh crore in march 2019 from Rs. 1.30 lakh crores in march 2014. Those are scheduled commercial banks rise to Rs. 2.94 lakh crores from Rs. 1.42 lakh crore in the same period.

The impact after six years is intense: from operation concerns such as higher provisioning for bad debts and lower profitability, there have been deeper problems like leadership crisis and shifts across several banks and inability to lend in a major way.

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March 2018:

IDBI BANK SCANDAL

Erstwhile Aircel company protagonist C. sivasankaran his son and companies controlled by them are Axcel sunshine ltd and win D oy were accused bythe CBI of defaulting on loans worth Rs.600 crores from IDBI Bank. FIR registered against the people who involved in the scandal, the fifteen bank official including MD, CEO Kishore kharat who ever employed when loans were granted to companies on complaint received from the central vigilance commission.

The present status of the scandal, Mr. Sivasankaran who has denied involving in the fraud, now case have moved to the Chennai High Court issued a circular against him by the BOI (bureau of immigration).

Impact of the case is the government has declared indirectly that they will not provide supplementary capital to the IDBI Bank who is making losses, the bank said it require additional capital worth Rs. 7000 crores.

September 2018:

IL&FS

IL&FS is one of the largest financial services company with multiple companies started defaulting from last year and unable to pay its debts. The credit rating agency(ICRA) reported that company's NPA have increased to Rs. 820 crores by the end of the FY18 from Rs. 410 crore during the past year, it overall 92.32% increase.

The status of IL&FS, the chairman of the company Mr. uday kotakreconstituted by the government, the company ensuing sales assets to be realize frauds and pay off the loans. It has restructured the debt of 5100 crores and its other debts are around Rs. 94200 crores.

Impact of IL&FS collapse on economy is very huge, as the entire banking system is witnessed the major liquidity downfall in India. The liquidity shortage across banks and NBFC's has led to a situation where most NBFC's are now struggling for survival.

July 2019:

PNB BANK (Bhushan power & steel ltd)

PNB once again alleged with an incident worth of Rs. 3800 crores with bhushan power & steel ltd., the scandal is accused for the diversifying the funds from banking system was reported to RBI on the basis of identifying the forensic audit.

The status of the case is, as PNB said it is identified that firm has misrepresented the bank funds, manipulated books of accounts to increase the fund from bankers, at present the case is under bankruptcy court for the debt resolutionprocess under new insolvency law.

The impact of the incident is very huge in economy with increased NPA's and economic slowdown, the firm could not reach for comment on the PNB statement

September 2019:

LAXMI VILAS BANK:

The laxmi vilas bank directors has incriminated for misappropriating funds of customers. The financial service firms Religare finvest have accused the bank management for misrepresenting the Rs. 790 crores as fixed deposit, a report has filed against them with the

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economic offence wing. The probe team is investigating the incident, on the directors of the firm is a case is filed against cheating and rift of trust.

The RBI has intensified its decision to fix the problem “fit and proper” while checks on management of the bank and India bulls with whom a merger was planned.

September 2019:

Punjab and Maharashtra cooperative bank (PMC) Bank

The cooperative bank is in the midst of a scandal for under-reporting NPA’s. The managing director of the firm Mr. Joy Tomas and other board of directors of the firm, in confession letter claimed that the bank had created new accounts to keep its loans to real estate firm HDIL as standard loans which had ideally become NPA’s. The bank has lent nearly 70% capital to developer which against RBI lending policy. The RBI and other probe agencies are investigating the fraud.

The impact of the fraud is the existing bank account holders are allowed to withdraw Rs.10000 per month from their account, the monetary authority on October 3rd allowed customers to withdraw Rs. 25,000 at one go or in six months.

Conclusion:

According to my study to conclude, business ethics is nothing but to be honest and loyal towards to your customer and stakeholder and follow the basic principles of ethics in the firm, banks should take stand to be ethical in the operations as unethical operations results in social and economic loss/slowdown in the economy. The present economy status is very low because of unethical incidents took place because of the top executives since the amount of advance are higher and also due to political interference. The delay in treating the advances as frauds are also because the top executives see to it that they are not held accountable and as the days pass by the evidence gets destroyed and hence it is found that very few are held accountable for their involvement.Still, there could be more number of undisclosed frauds. The larger the amount involved in the frauds, the later will they be disclosed. That has been the strategy of the PSBs and All PSU including banks should be kept away from the reach of politicians, and these PSU banks should be privatized, hope the percentage of fraud will come down.RBI should also report the recovery in fraud events and punishment thereof.

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