

Ethics in Indian Banking Industry: Issues and Challenges

Shubham Kumar Pandey¹, Priyanka Sharma², and Dr. Rashmi Jain³

^{1,2}(Student, MBA finance, KR Mangalam University)

³(Assistant Professor, School of Management and Commerce, K. R. Mangalam University)

Abstract: The Indian banking industry has come a long way from the tradition banking practices of colonial era to the modern technology-oriented banking philosophy. The industry has thus seen newer and greater heights with the changing times. Amid this, trust, confidence and ethics remain the core of industry at any given day. However, Indian banking has recently seen some major frauds cases in reputed public sector and private sector banks such as Punjab National Bank, ICICI bank, specific ethical issues and challenges that are characterized by manipulating credit ratings, customer's beliefs and mis-selling of securities & information. In addition, there are long-standing ethical concerns regarding practices such as market manipulation, consumer manipulation and insider dealing, malpractices in mortgage loaning. Although, ethical implications of these practices may not be uniform, still need of the hour today is to constantly evaluate and improve their operations in order to keep up with the fast pace of transformations in the banking and financial industry today. In this paper author has studied the various unethical and fraudulent practices which has taken place in recent times in Indian banking industry, the issues and challenges posed by these practices on the various stakeholders and suggested appropriate action to be taken in situations holding potential for ethics violations.

Keywords: Ethics, Banking Industry, Mortgage lending, Banking frauds, Unethical practices

I. INTRODUCTION

The word ethics is derived from the Greek word 'ethos', which means character. Ethics is the discipline that helps in dealing with the good & the bad having moral duty & obligation. Ethics is the embodiment of the moral values, that helps in describing, what is right & what is wrong in human behavior & what ought to be.

There are many faces of unethical issues and challenges major one is the corruption, where public office is used for personal gains. Now a days in the organizations the major reason for unethical issues and challenges is its size of an organization, competition, complexion from the other colleague and struggle to retain in the market.

Banking industry is one of the oldest industries. The word Bank came from French word Banque, from Old Italian banca, from Old High German bank. Joint stock companies entered the banking sector in 18th century. The recent financial crisis saw significant number of bank failures, including some of the world's largest banks and much debate took place around the world about bank regulation.

Indian banking was originated in the 18th century, the first bank was 'The Bank of Hindustan', was established in 1770 and it is liquidated in 1829-32; and the second bank was 'The General Bank of India', established in 1786. The Banking Codes and the standards Board of India is an independent and the autonomous banking industry, having the body that monitors the banks in India. To improve the quality of the banking services in India S S Tarapore (the former deputy governor of RBI) had the idea to form the committee.

Below in the context we briefly discuss about the current major issues and challenges faced by Indian banking industry, in which we get to know about how these issues will give its impact in Indian banking industry and how the employees of banking industry breach ethics through their work and performance which effect the growth and development of banking industry as well as economic development. Also, we discuss about the communal behavior of employee towards customers, how they violate customer by take advantage of their problem (like a person startup their business and apply for loan while approving it employees demand for a part of subsidies form loan amount to pass it). Such kind of problem we are going to discuss in brief in below context.

II. LITERATURE REVIEW

DESAI (2015) has studied the various ethical aspects of the Indian financial service industry. The author is of the opinion that it's greed and unethical behavior by the market participants which is the reason for the financial crises. The authors have suggested to perform the ethically financial intermediaries must follow the rules of law, industry standards and then act ethically. The ethical practices should be given utmost importance by the financial service industry.

According to Tiffany Pace an Ethical issues in the banking are currently receiving, dealing with the great attention, and those who manage these organizations seem to be under constant public scrutiny. Tiffany Pace also discusses the certain ethical issues and concerns it with the banking managers, his suggestions are to enhance the degree of ethicalness in the organizational practices and decision behaviors that need to be

attempted. Tiffany also present his views that the financial markets in most countries now opening up further through deregulation, arid technology fast replacing face-to- face contact, there may arise new problems and issues pertaining to organizational ethics. 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 their impact on organizational dynamics and performance.

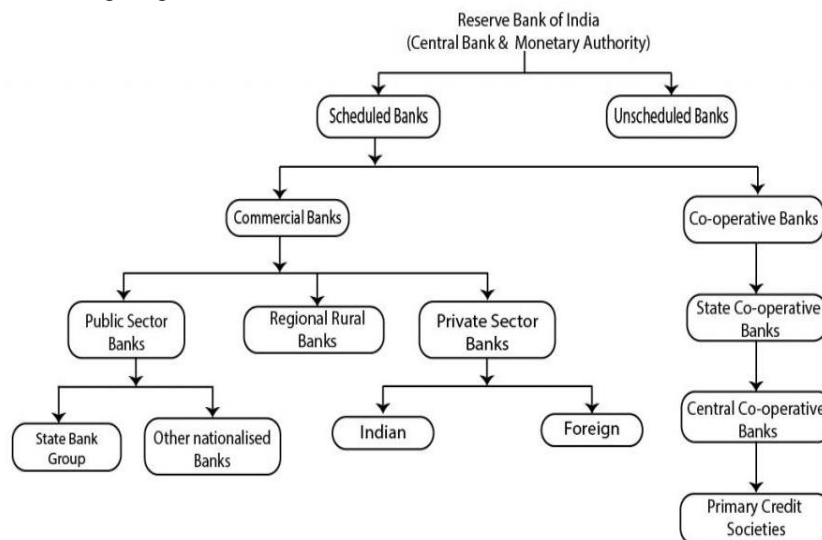
III. RESEARCH OBJECTIVE

As per study the main objective that focuses are ethical challenges and issues in Indian banking industry, nature and element of ethical dilemmas also discuss about how the banking employee pursue their behavior towards their customers and find out whether they follow ethical behavior are not. Along with this we also focus on the current issues and challenges which affect the banking industry form customers point as well as employee's point of views. There is some other objective which is as follows:

- It describes the business practices which commonly covered in the financial institution's codes of conduct.
- Identify the regulations which prohibited the unethical practices, issues and the challenges in the banking.
- An effective approach which helps in determining the appropriate action in the situations that holds the potential for violations of the ethics.

IV. STRUCTURE OF INDIAN BANKING INDUSTRY

Indian banking industry is characterized different types of banks under its umbrella. The various types of banks are shown in the following diagram.



➤ Definition of ethics:

The basic concepts and fundamental principles of decent human conduct. It includes study of universal values such as the essential equality of all men and women, human or natural rights, obedience to the law of land, concern for health and safety and, increasingly, also for the natural environment.

➤ Principles of banking ethics:

(a) Integrity: It simply means choosing your thoughts and the actions which is based on the values rather than aiming for the personal gain from the another person. It stick to the principle of integrity with all their relations in the course of their operations.

(b) Neutrality:It is departing from the basic principle of “Respect towards human underlies the success.”, do not ever discriminate among their employees and customers, and it refrain from the biased behaviors; and Abstain from any of discrimination ethnical origin, religion, financial and social status, or gender in provision of their services;

(c) Reliability:It means the bank should provide the clear, understandable and accurate information to their customers within the form of mutual trust with the customer in all their service areas and the operations so, that they can serve their best to their customer as services render from themselves timely and completely

(d) Transparency:The bank have to give their customers clearly, understandably and frankly information about their rights & the obligations, benefits as well as risks regarding the products and services which offered to them; and before giving any product and the service or advice, which efficiently assess their customers and the financial capacity, status and the needs of their customers, and offer their products and services accordingly.

(e) Information Abuse: The bank has to take care of all the kinds of necessary measures and the actions in order to prevent abuse of insider information of themselves and to their customers.

➤ Ethical issues and challenges faced by Indian banking industry:

- a) Poor coordination with the public/rude behavior towards consumer: In the Indian Banking system banker behavior towards their customer looks unfavorable and non-cooperative, this can happen due to high volume of work pressure, consisting less knowledge, unfavorable behavior from customer's end etc.
- b) Issues and Challenges faced by Indian banking industry:
 - Unable to make enough money. Despite all of the headlines about banking profitability, Indian banking industry still is not making enough return on investment, or the return on equity, that shareholders require.
 - Consumer expectations. These days it's all about the customer experience, and many banks are feeling pressure because they are not delivering the level of service that consumers are demanding, especially in regards to technology.
 - Issues in adoption of new technology: Adaption of new technology by banks and their employees is a major challenge for them because of having less knowledge of technology and also not getting trained on them fully.
 - Pressure from regulatory authority: Regulatory requirements continue to increase, and banks need to spend a large part of their discretionary budget on being compliant, and on building systems and processes to keep up with the escalating requirements.
- c) Indian banking scams: fraud that shook the Indian banking



d) Money Laundering: Current Issues and Challenges:

In the recent years, and especially the terrorist attacks of September 11, 2001, in worldwide the efforts to combat with the money laundering and the financing of terrorism which have assumed the heightened importance. Money laundering and the financing of terrorism are the basic global problems that not only threaten with the security, but also compromise with the stability, transparency and the efficiency of the financial systems, thus undermining the economic prosperity.

- The International Monetary Fund estimates that the laundered money generates \$590 billion to \$1.5 trillion per year, which constitutes approximately two to five percent of the world's grossdomestic product.
 - Money laundering and the financing of terrorism can have the devastating economic and the social consequences for countries, especially those which are developing countries or those with fragile financial systems.
 - The term "money laundering" describes the process of concealing the true owners of illegally obtained with the funds.
 - This process gives legitimacy to criminal funds by "washing" them through various institutions "so that they can be used without detection of the illegal activity that produced them." Each phase of money laundering, also known as a "washing cycle," removes a "layer of the taint or criminal staining from those funds.
- e) Unethical practices in mortgage lending: These crises have been arising due to whole range of issues such as subprime mortgage lending, Excess leverages, Lack of control by government financial bodies. These are the root cause of the issues in unethical behavior of many executive who work in financial services sectors and their resultant negligence. Some other causes of unethical practices in mortgage lending are:
- Sub-prime mortgage
 - Predatory lending
 - Complex debt instrument
 - Shadow Banking System
 - Fraudulent loan terms
- f) Global Banking:

Global banking is also coming in major heads in Indian banking industry and for sustainable growth and development in industry, has to adopt the integration process in the form of globalization as India spread the red carpet for the foreign firms in 1991. The impact of globalization becomes the challenges for the domestic enterprises as they are bound to compete with global players. In Indian Banking Industry, there are 36 foreign banks which is operating in India, that becomes a major challenge for the Nationalized as well as the private sector banks because they are very large in the size, technically advanced and having the good presence in global market, which gives the more and better options and services to the Indian traders.

V. RECOMMENDATIONS AND CONCLUSION

Recommendations

- Creating a responsible corporate -profit should not be the only focus.
- Transparency- Everything should be transparent with the customer.
- Not using their situation of power to abuse the needy.
- Acting with a sense of corporate citizenship.
- Ensuring compliance by focusing on integrity. -Everyone should be treated as same

Conclusion

To conclude this, we can say that ethical issues and challenges in Indian banking industry are improving now a days specially in loaning department and to solve this issues government interference need more attention so that customer can avail those benefit in real which government scheme provided which can also helps in overall growth and development of individual, state as well as economy.

There are many privacy issues that have been analyzed and explained with examples and also discussed about the professional, ethical, legal and social fulfillments in Indian banking system.

Lastly, Unethical marketing practices and behavior leads to create a negative attitude of the customer towards financial service and the same may result in the less channelization of funds which is not good for the health of any financial system. There is a need to make a statutory body for financial services which take care of all those issues. Financial services are complex, so government should do some measures for customer awareness and customer education with special regard of financial services

VI. BIBLIOGRAPHY

- Desai P.s. (2015). *Ethical Issues in Indian Financial Service Industry*. *International Journal of Marketing & Financial Management*. Vol 3, Issue 01, pp 30-39
- Bihari, S.C. (2010). *Financial Literacy - The Key to Financial Deepening*. *Bank Quest – The Journal of Indian Institute of Banking and Finance*, 81(4), 28-35.
- Chen, Martha A., & Donald, S. (2001). *Managing Resources, Activities, and Risk in Urban India: The Impact of SEWA Bank*. *United States Agency for International Development (USAID) and Assessing the Impact of Microenterprise Services (AIMS) Project*.
- Fisher, T., & Sriram, M.S. (2002). *Beyond Micro-credit: Putting Development Back into Micro-finance*. *Vistaar*, 39.
- Hoque, S. (2008). *Does Micro-credit Program in Bangladesh Increase Household's Ability to Deal with Economic Hardships?*. *MPRA Paper No. 6678*.
- Hossain, M. (1988). *Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh*. *IFPRI Research Report No. 65*.
- Hulme, D. (2000). *Is Microdebt good for poor people! A note on the dark side of microfinance*. *Small Enterprise Development*, 11(1), 26-28.
- Jain R., & Mittal S. (2015). *A Critical Analysis of Microfinancing Schemes of Bank in Rural Haryana Leading to Women Empowerment*. In S. Mittal, D.V. Gakhar & G.D. Sharma (Eds.), *Financial Markets and Economic Development* (pp. 223-236). *New Delhi: Bloomsbury Publishing*
- RBI (2017) *REPORT ON TREND AND PROGRESS OF BANKING IN INDIA*
- KA Goyal, V Joshi (2012). *A study of social and ethical issues in banking industry*. *International Journal of Economics and Research* 2 (5), 49-57
- KA Goyal, V Joshi (2011). *Indian Banking Industry: Challenges And Opportunities* . *International Journal of Business Research and Management (IJBRM)* 3 (1), 18-28

Websites:

- www.banktechindia.com
- www.globalenvision.org
- www.rbi.org.in
- www.wikipedia.org/wiki/Ethical_banking
- www.encyclopedia.uia.org
- www.digitalistmag.com
- www.jagranjosh.com
- www.economicstimes.indiatimes.com