

“The impact Of Business Ethics on the Banking Sector”

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THESIS PAPER

I. INTRODUCTION:

It is a great announcement from Government of India recently about its great vision of achieving US\$5 trillion economy within next 5 years i.e. by year 2024-2025, To achieve this goal, the economy needs to grow at high and robust rate^{1,2}. The major economies are US, China and Japan. The current economy size of Indian Economy itself being \$2.8 trillion. We can imagine an economy of any size. Are we having a virtuous population to make it possible? For any such ambition we need wholehearted support of the Indian Banking system. The experience of Indian Banking System with the ethics of their borrowers not that palatable. Banking ethics is the ancillary part of Business ethics. Banking is different from other business as it directly involves public money deposited in trust and open public who borrows it. In the present era, there cannot be a person living without a bank account, banking services or bank loans in their lifetime. Every transaction in bank is a business transaction as every service involves a cost and almost all the transactions are commercial in nature. For every transaction multiple agency are involved. Primarily banking can be split into three portfolios viz Deposits, Advances and services. Importantly advances portfolio is the economic growth engine for country in which pure money circulation is involved through trades. The unethical attitudes of bankers as well as customers make big impact on the banking system especially credit offtake. Even before making inroad into the impact of ethics on banking, let there be an understanding as to how ethics is much related to economic growth of the country?

II. LACK OF ETHICS – AN HINDRANCE TO COUNTRY’S GROWTH:

FIVE-YEAR PLANS: Moving away from the old concept of five-year plans that India has been following since 1951, the National Institution for Transforming India (NITI) Aayog³ formed with an objective to Foster involvement and participation in the economic policy-making process by the State Governments of India, has brought out a 15-year vision document⁴ and also 3 years Action Plan document⁵ in tandem with global trends and economic growth. The long-term vision document formulated various ways through which India can achieve its broader social objectives to meet the UNDP’s 2030 sustainable goals and will be a roadmap on transformation required in the planning system to sync it with the 14th Finance Commission recommendations⁶. The 14th Finance Commission favoured giving states more untied funds along with greater fiscal responsibility in implementing centrally-sponsored schemes. To this effect, it increased the states’ share in central taxes from 32% to 42%. With introduction of NITI Aayog if the planning commission is abolished, it was felt that there was no longer any need for 5-year plans. Three Year Action Agenda for the period 2017-18 to 2019-20 is descriptive. The key sectors in the economy are agriculture, industry and services.

Financial Sectors in India: India has a well-developed Financial System since Nationalisation of Banks in 1969. With various Five-year plans, there has been tremendous growth in all the sectors. But for banks with wide network of bank branches, the country would not have posted this vibrant economic growth in a short duration. The country could register a massive economic growth and marching towards vibrant path. With enhanced morals and ethics, certainly there would have been a glorious achievement in the country in all directions!

In simpler understanding, ethics means moral principles that govern a person's behaviour or the conducting of an activity. Ethics is a branch of philosophy and is concerned with a normative science or normalizing principles. "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". It has been said that Ethics begins where legislation ends.

Business Ethics helps us to find answers to such questions. 1. to understand more about the causes and consequences of business malpractices and seeks to address them in a better way. 2. to improve ethical decision making by providing knowledge and solution to ethical dilemmas faced by business leaders. 3. to establish a robust banking system as a giant growth engine for the country as a whole⁷.

A study on Impact of Banking Ethics helps us to find answers to many such questions. 1. In the absence of job opportunities proportionate to growing population, this study on the Banking Ethics helps us to understand more about the causes and consequences of financial defaults and seeks to address them in a better way. 2. Ethical practices of people create high returns for the business aspirant, bank and the country, by creating trust in the long run.

III. OBJECTIVES OF THE STUDY:

The main objective of the study is 1. To analyse the concept of Business Ethics in Banking Sector. 2. To explain the need or importance of Business Ethics in Banking. 4. To infer ways through virtuous education through which Ethical Business principles can be entrenched in the banking industry.

IV. BUSINESS ETHICS OF BANKERS:

The banks are primarily funded by depositors and their prime responsibility is to ensure to maintain the trust placed by the depositors and to minimized every possible risk in their investment. Banks must act as a custodian to promote public trust, confidence and a good reputation by infusing values such as integrity, trust, responsibilities, accountability, respect and fairness in all its dealings.

However, the major defaults and bank losses have led common men to have a view that there is something fundamentally wrong with the banking industry. Banks play a major role in an economy by mobilizing savings from public and channelling it to the deficit units, in particular private enterprises for the purpose of expansion and development. It is important to note that through this function banks earn a volume of their income by way of interest margin, fee-based income etc., and also pay out returns to the investors. Therefore, if any bank is unable to recover the funds it lends out by way of loans, endangers its NIM adversely. This will also impair a bank's ability to meet the withdrawal needs of depositors.

Ignorance for ethical practices and disregard for basic banking principles have dented the hope of common public on Banks.

A well-known case of a Corporate Group (UB) with nine thousand crores of unpaid loan from banking and financial institutions has shaken the confidence of people recently⁸. It is important to note here that banks act as a trustee of the people's money and such incidents can affect its reputation and contribute to its long-term success or failure. The omission of ethical practice in bank has not only limited economic growth but has resulted in the infliction of pain on depositors and other stake holders. The other such incidents occurred in large consortium of banks and financial institutions include financial facilities granted to Bhushan Steels and Winsome Diamonds etc.

V. ETHICS FOR PUBLIC:

The other side of the burning issue is lack of ethics among public. Banking Codes and Standards Board of India has laid down various ethics for the banks which provides protection to customers and explains how a banker is required to deal with customers in its day-to-day operations. There are no similar codes for the borrowers as regards borrowings from banking system⁹.

VI. DEVELOPMENT OF THE COUNTRY:

It is a fact that Banking System has multiple complex rolls to play in the economy. Bankers only can rescue the people from poverty; regulate economy; resolve the unemployment issues in the country. Hence the bankers are in dire necessity of psychological support from all types of people irrespective of caste, creed or religion etc. They should be allowed to choose honest borrowers for granting loans from public money for which they are custodians. Moreover, they cannot play partiality in granting loans to non-corporate small borrowers due to RBI's rules and regulations and State Level Bankers Committees.

Reserve Bank of India has evolved a scientific mechanism to financing to various commercial and non-commercial customers. At every financial year ending, the composition of loans and advances of a Bank should be as per certain stipulation failing which the bank management is subject to penalty. At the end, out of total credit outlay in the Balance Sheet, 40% of the credits outstanding should have been for the priority sectors including Agriculture, Small and Medium Enterprises and other priority sectors. Hence for every major advance done to large borrower in multiples of crores, the above percentage should be ensured at any point of time. After all, corporate financing is also a must for the country to promote employment, self-sustenance, enhance exports, earn foreign exchange, financial stability, growth of ancillary units, transportations etc. Hence the banker is constrained to hunt for suitable honest borrowers among suitable corporate borrowers with large projects. Simultaneously to cope up with the ratio as above banker has to hunt for honest borrowers. Looks strange? It is true! That is the speciality of our Reserve Bank's regulation! People cannot blame that banks are financing only for Corporates! Out of 40% of advances shown above, as per RBI stipulation, 18% the total adjusted net credit should have gone to Agriculture! Hence agriculture borrowers also cannot make a hue and cry that they are deprived of funds. The pre-requisite is one should have a track record of honesty to satisfy the bankers to fit in as a borrower for a bank¹⁰.

Bank borrowers and NPAs: Bank borrowers may be classified into 6 categories for the purpose of analysis viz. 1. Large Corporate borrowers, 2. Mid-Corporate Borrowers, 3. Small and Medium Enterprises Borrowers 4. Retail Borrowers, 5. Agriculture Borrowers 6. Urban & Rural borrowers. When a large corporate borrower with more than Rs.100 crores exposure - may run into lakhs of crores based on prudential norms) becomes NPA it brings a big blow to the bank with severe impact on the Parent Branch from where it is operated. When the business proposition shows symptom of fall, the promoter resort to unethical ways to meet their ends and ultimately succumb to pressure on a day. If the borrowings are beyond their means and realisable value of securities are insignificant, the promoters abandon the company leaving the lenders in lurch. When the borrowings are huge and if they are indifferent in repayment by selling their personal properties they even flew away abroad. They are cautious in safeguarding their personal wealth's. Ultimately the loss falls on the bank concerned ending with loss of reputation too. The situation applies to Mid-Corporate and MSME too. Further the reduction in the exposure for Corporate Borrower is likely to reduce the quantum of money needed for priority sector borrowers to show up in the Annual Financial Statements!

As regards, the agricultural borrowers, the situation is little bit different. A large chunk of borrowers unethically believe that their loans would be written off by the Government under an Election Manifesto. As regards other borrowers, a large chunk of financing under CGTMSE scheme where collateral security is not to be insisted for advances up to Rs. 2 crores¹¹. They are mostly new to business without medium professional skills. Many have low Emotional Quotience to withstand the pressures of business when there is financial crunch.

NPA - GOVT. ACTIONS: As per Reserve Bank of India (RBI) data on global operations, aggregate gross advances of Public Sector Banks (PSBs) increased from Rs. 18,19,074 crore as on 31.3.2008 to Rs. 52,15,920 crore as on 31.3.2014. Asset Quality Review (AQR) study revealed high incidence of NPAs. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPAs of PSBs, as per RBI data on global operations, rose from Rs. 2,79,016 crore as on 31.3.2015, to Rs. 8,95,601 crore as on 31.3.2018, and as a result of Government's 4R's strategy of recognition, resolution, recapitalisation and reforms, have since declined by Rs. 89,189 crore to Rs. 8,06,412 crore as on 31.3.2019 (provisional data). Government has taken comprehensive steps to expedite and enable resolution of NPAs of PSBs, include, inter-alia, the following: (1) The Insolvency and Bankruptcy Code, 2016 (IBC) has been enacted. As per RBI's directions under the aforesaid amended provision in the Banking Regulation Act, 1949(2) Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act has been amended to make it more effective, for the lender to get possession of mortgaged property within 30 days. (3) Under the PSB Reforms Agenda, PSBs have created Stressed Asset Management Verticals to focus monitoring high-value loan accounts and created One-Time Settlement platforms for timely realisation¹⁵.

Major problem to the country is lack of ethical values in the society. Individuals in both corporate sector and priority/weaker sector practice unethical practices while dealing with banks. The negative impacts of fraudulent attitude of a few makes big impacts on honest lot. It is likely to make strong impact on the sovereignty of the country in future. It is an

urgent need to incorporate virtuous education with a mix of teachings on souls with thrust on detachment, mortification and purification to all so that the country is generating more and more ethical consciousness with responsibility to protect the country financial disasters¹².

Virtuous deeds builds up a noble person and adds value to the soul. A noble person is one who has cosmic love towards all living beings, who has a sense of shame for bad deeds, who has empathy toward others, who is beneficent by nature and who seeks truth in everything. Aim of a society should be to make noble persons from childhood in the interest of a peaceful world. Noble persons being unbiased do not aspire for others wealth. They prefer human approach with human consideration instead of discriminating on caste, creed etc. They being neutral and virtuous, they do excel in any profession¹³.

VII. CONCLUSION:

Banking Ethics is all about loyalty and honesty to all stakeholders and accepting responsibility for decisions. The essence of banking is to move large amounts of money accurately and safety around the economy following the principles of trustworthiness, transparency, disclosure and accountability. High ethical standards are expected to guide operations in the banking industry. Banks should strive to be ethical in their operations as unethical banking activities results in social and economic loss and create unnecessary friction in the economy. At the same time, public should tune up themselves in morals and ethics to enhance credibility with financial institutions. All cannot get jobs. Most of population is likely to depend on banking system for borrowings for their survival. On the part of governments, the education system should be modified with more and more virtuous contents so that honest citizens are created by the country by way of regular educational systems. Becoming a virtuous citizen through virtuous educations is itself a value creation! Are we having a virtuous population to make it possible?

While welcoming the Government of India's dream of \$5 trillion economy within next 5 years, it is our submission to all concerned to make all out efforts for establishing a fully ethical and oral society within the same target period of 5 years ending 2024. Then surely, we can imagine an economy of any size. For any such ambition we need wholehearted financial support of the Indian Banking system and their prerequisite is borrowing ethics of public!

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