# INNOVATIONS AND TRENDS IN FINANCIAL SYSTEM

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# Preface

This edited book '*Fedha*'—A Light in to new ways of Finance, aims to present the real picture of the research in the field of Finance in Rural Kerala. The major findings of articles in the book lead to the knowledge of real world of investment in the eyes of rural population. It involves a great effort of more than fifty research minds in different subthemes of Finance like Behavioural Finance, corporate finance and Banking services.

The expected audience of the book consists of researchers, research students, Practitioners and investors.

We would like to convey our appreciation to all the contributors including the authors of the Chapters in this book.

Our special thanks to our Head of the department Prof. Bindu T. for her continuous support and great effort to bringing the book in to fruition. We expresses here our sincere gratitude to Dr. E. Jayan principal of our institution who motivated us for this endeavour.

This book - Fedha - is to be published as part of a national seminar on Financial Derivatives and the meaning of Swahili word Fedha is FINANCE...

# Foreword

It makes immense pleasure that a new academic horizon is being opened up for the enrichment and refinement of the knowledge base, offers a new realm of academic excellence to meet the challenges in the contemporary global scenario of Commerce & Management. Since it is a quality oriented endeavor in the form of a Research publication as a part of the National Seminar on 'Financial Derivatives', this can provide a valuable academic base, culture and uality among the teachers, research scholars and seekers in the concerned field. The selection of research articles pertaining to such a vibrant and dynamic area could transform the beneficiaries by a new academic experience and exposure. It is really a valuable and remarkable academic contribution of the Department of Commerce to bridge the gap to a certain extend in the related academic space. Hope that let it be a mile stone in the glorious academic path of the institution leading to the highest goal and fulfillment in the field of higher education.

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# Message from Principal

“Fedha (finance) is always considered as wealth and knowledge. Here I appreciate the cordial spirit of the department of Commerce for achieving new destination.”

**Dr. E. Jayan**

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## About the Authors

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**Kamalraj Mohan** is currently working as Assistant Professor, PG Department of Commerce and Management studies, Sreekrishnapuram V.T. Bhattathiripad College Mannampatta, Palakkad, affiliated to University of Calicut. He has ten years of teaching experience in Education and one year experience in the field of Commerce education. He is very much interested in Human resource Management, Organizational Behaviour. He has presented research papers in National and international seminars and published articles in National journals.

# 36 Importance of Ethics in Banking

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**Introduction**

The banking system plays a vital role in the modern economic world. Banks collect the savings of the individuals and lend them out to business- people and manufacturers. Bank loans facilitate commerce. Manufacturers take from banks the money needed for the purchase of raw materials and to meet other requirements such as working capital. It is safe to keep money in banks. Interest is also earned thereby. Thus, the interest to save is raised and the volume of savings increases. The savings can be utilized to produce new capital assets.

As per Section 5(c) of the Banking Regulation Act, 1949 a "Banking Company" means any company which transacts the business of banking in India.

As per Section 5(b) of the Banking Regulation Act, 1949, "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or by cheque.

Bank or financial organizations which are expected to execute their functions in a way that it increases confidence and stability. Banks bring borrowers and lenders together. The banks are primarily funded by depositors and their prime responsibility is to ensure to maintain the trust placed by the depositors and to minimize every possible risk in their investment.

But people have suffered substantial losses and their confidence in the financial industry has dissolve in recent years due to an array of unfair practices. The public has invited for accountability, but in many cases the actions were not illegal. This underscores the Federal Deposit Insurance Corporation's functions on the vital of a code of ethics for bankers.

An analysis of both frauds and the increasing non-performing assets suggests that the attention of banks to their basic functions of deposit and credit has diminished in the wake of their search for non-banking products like mutual funds and insurance, which offer strong commissions to all team of officers.

***Ethics***

The word ethics is derived from the Greek word 'ethos', which means character. Ethics is a division of philosophy that is concerned with human character & conduct. Ethics is the tangible of moral values, which describes, what is right & what is wrong in human behavior & what ought to be. The same action is viewed as ethical or unethical depending upon the school of moral thought to which one subscribes. Further, the view point of ethical or unethical change at times because some values are dropped & some values are added over the period. "Ethics is the discipline dealing with what is good and bad and with moral duty.. Ethics is related with the analysis of morality and the application of reason to explain specific rules and principles that determine right and wrong for a given situation.

***Banks' Benefits from Ethical Conduct***

An interactive relationship is likely to emerge between ethics and competitive advantage. Through ethical practices, banks can acquire brand reputation. This should help them wide customer base and increase income.

The brand name position is also likely to attract ethically conscious clients. As a result, the banks will be greatly relieved of the problem of non-performing loans. Thus, they will be relatively free from the problems created by sudden employee turnover to hire smart and honest employees. HR management would be easier, internal governance would improve and operational efficiency would rise. Brand position would make it easier to raise additional capital in a cost-efficient manner, as and when needed.

***Relevance of external conditions***

While the responsibility for implementation of ethical principles lies primarily with the banks themselves, certain elements in the external environment challenging them would be helpful in generating necessary inspiration.

An independent, honest judiciary is of seminal importance in this regard. If the banks are promised that they would get a fair and equal treatment in legal conflicts, they are unlikely to enjoy in unfair practices. Moreover, the judiciary can play a vital restraint role against violation of ethical principles.Active civil society groups on concentrating the operations of banks can also be helpful. Similar comments would apply to the media.

**Objectives**

- To identify the ethical rules and code of conduct in banking.
- To analyze the need for ethics in banking.
- To identify the measures taken by banks to solve ethical issues.

**Methodology**

Thisstudy is mainly based on secondary data. This has been collected through websites, online newspapers, magazines, journals and from research papersetc.

***Data Interpretation***

The Bank strictly observes the law and government regulations, which are anchored Basic Rules in its procedures. The Code of Ethical Conduct is intended to provide guidance and of Conduct orientation in cases where rules of conduct are not adequately defined by the law or Bank procedures. The Code sets standards that can ensure that Bank employees behave appropriately when they encounter such ethical problems, in all units and at all levels.Ethics in banking must be firmly division on four pillars.

First, banks must comply with all laws, rules and regulations that are usually framed in any country to ensure soundness of operations and to enhance confidence of the society. These laws, rules may relate to, among others, capital adequacy, maximum shares of a family, qualifications and tenure of members of the Board of Directors and Managing Directors, by members on of depositors on the Boards, credit rating requirements, maximum limits on single party exposure, liquidity and credit/deposit ratios etcSecond, banks must ensure fair and equal treatment of all stakeholders. The interests of various stakeholders such as shareholders, depositors, borrowers and employees do not necessarily coincide. The banks may be inclined towards offering low returns to depositors and charging high interest rates from the borrowers in order to maximize profits and dividend for the shareholders. Such conflict of interest must be balanced.

Third, the banks must ensure full, truthful to their financial health. As noted before, many of the assets which turned out to be unsafe were treated as off-balance sheet items. The main stakeholders were thus deprived of the right to get a transparent picture of the true financial health and the risks that were being assumed.

Fourth, banks must act as socially responsible corporate citizens. Milton Friedman, a noble-laureate economist wrote in 1970 that there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profit .Social responsibility must be analyzedfrom a wider view point, taking into account the impact of banks' activities on growth, employment and emphatically in our case, poverty alleviation as well.

The Basic Ethical Principles in Banking are:

- Principle of Mutual Trust is of special importance for successful functioning of the business system. Vital and valuable deals are very often contracted over the phone, in the absence of witnesses, while the relationship between the participants is dominated by the inviolable principle of mutual trust.
- Principle of Mutual Benefit and Interest means that none of the partners in a business relationship should feel cheated;
- Principle of Good Intentions is very important for business ethics and moral behaviour.
- Principle of Business Compromise and Business Tolerance refers to the harmonization of the conflicting interests of participants in the business process;
- Principle of ethical improvement of business behavior represents the business partner's readiness to accept the mistake that has been made as a result of his own actions. Principle of Demonopolization of One's Own Position, because monopolistic behavior on the market does not contain any ethical market value and
- Principle of Conflict between One's Own Interests refers to the inability to relate common to personal interests, with simultaneous adherence to the same ethical values.

***Importance of Ethics in Banking***

Ontologism based on the concept of good as opposed to evil helps us define thebanking business from the point of view of ethics. This simplifiedparallelleads us to the conclusion that full awareness of and the related ethics about theimportanceof banking products and services is imminent to all economies, regardless oftheir economic development

Ethics are not in the law itself, but in the justice that justifies them. Banks should follow some ethical principles religiously to avoid such situations

- To observe with the relevant applicable laws in the course of duties.
- To keep their customers know about benefits and risks of products and services provided to them.
- To provide fair services to customers providing the same services.
- Not to impart any information about banks or their customers.
- Not to lead to any loss of image of the bank through their actions and practices.
- Not to compress any violate the justice,honesty, truth, and social responsibility principles.
- Not to use the bank's assets, properties and resources inefficiently and for purposes.
- Not to obtain any personal benefits for themselves, or for others by using their job positions and duties.
- To promptly refuse, and report to superiors and governing bodies, any offers of personal benefits.
- To avoid entering into unethical relations with customers, such as indebtedness, personal guarantee and opening of joint account.
- Not to accept any gifts opposite to customs and usage from existing or potential customers.
- To be responsible with considering to their job duties during performance of banking services.

***Recommendations to reduce the unethical behavior in banking practices***

Formulating a responsible corporate culture where the key should not be the mind of maximizing profits at all cost.

- Acting with transparency and explaining relevant information.
- Governing funds with wisdom and transparency.
- Providing loans with a sense of ethical-social responsibility.
- Not using their situation of power to mistreat the needy.

- Acting with moral imagination and social sensitivity.
- Acting with a sense of corporate citizenship.
- Protect compliance by focusing on integrity.

**Conclusion**

Banking Ethics is all about honesty to all stakeholders and choose responsibility for decisions. The essence of banking is to move large amounts of money accurately and safely around the economy following the principles of trustworthiness, transparency, disclosure and accountability. The more ethical standards are anticipated to guide operations in the banking industry. Most importantly, the regulatory authority must play a vigorous role to ensure real time governing and observation over the banking operations. The authority should have the capability to promptly identify violations of ethical norms and initiate remedial measures, including legal actions, without being influenced by political pressure or any other extraneous consideration. Thus, banks should value and forward ethics in their operations while its objective is to maximize their profits.

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