ETHICAL BANKING NEED OF AN HOUR

Written by ***Mariya Siraj* & Ehtesham Ahmad*****

** Junior Research Fellow, Khwaja Mouniddin Chishti Language Umiversity, Lucknow, India*

*** Professor, Department Of Commerce,Khwaja Mouniddin Chishti Language Umiversity, Lucknow, India*

ABSTRACT

From the traditional banking methods of the colonial era to the current technology-oriented banking philosophy, the Indian banking sector has gone a long way. As a result of the changing times, the industry has reached new and bigger heights. Despite this, trust, confidence, and integrity remain at the heart of the profession on every given day. However, there have always been ethical issues about tactics like as market manipulation, customer manipulation, and insider dealing, as well as mortgage lending malpractices. Although the ethical consequences of these activities may differ, the need of the hour today is for banks and financial institutions to continually examine and improve their operations in order to stay up with the quick speed of revolutions in the banking and financial business. This study highlights the need for ethical banking and explains the connection between the borrower and the lender- a devil face of the lender and the social and economic evil in the interest structure of the Indian banking sector. The methodology used in this study is descriptive and qualitative in nature.

Keywords: Banking Philosophy, Ethical, Economic Evil, Financial Institutions Interest Structure, Manipulating.

INTRODUCTION

The term ethics comes from the Greek word *ethos*, which meaning "*character*." Ethics is a discipline that assists in dealing with the good and the bad in terms of moral responsibility and obligation (Sharma, 1963)**.** Ethics is the embodiment of moral ideals, which aids in articulating what is good and wrong in human action, as well as what ought to be. There are various faces to unethical concerns and concerns, the most prominent of which is corruption, in which public position is utilised for personal benefit. Nowadays, the main cause for unethical difficulties and problems in businesses is the organization's growth, competitiveness, complexion from other colleagues, and fight to maintain in the market. The banking business is one of the oldest. Banking is basically founded on confidence in which the people submit their cash to security and investment institutions. Banking must thus be conducted in an ethical and transparent way. Because of their function as financial middlemen, banks are regulated worldwide. As financial intermediaries, banks mobilise people's cash and make these money available at a price to persons / enterprises that require them. Banks also offer an effective economic payment system. They provide for an effective and orderly payment system for personal and commercial transactions and for their clients' worldwide duty. For banks, regulators, workers and consumers, maintaining an ethical banking culture is essential. In the context, we briefly discuss need of ethical banking confronting the Indian banking industry, as well as how these issues will impact the Indian banking industry and how employees of the banking industry breach ethics through their work and performance, affecting the growth and development of the banking industry as well as economic development. In addition, we explore employee communal conduct toward consumers, specifically how they breach customers by taking advantage of their problems (For example, employee working in the bank industry might misuse their positions and privileges to produce phoney files, paperwork, savings books, and/or counterfeit gold for credit and property. It might even counterfeit client signatures or deposit the money into your own accounts instead of customers' accounts and then transfer it to another bank to withdraw). Such a topic will be discussed briefly in the following context.

MONOGRAPH

(Smith, 2002)In his book The Wealth of Nations (1776), Adam Smith**,** who envisioned a free market economy, authored a second classic, the theory of morality (1759). Smith claims in this work that human morality rests on sympathy between the agent and the observer, or between individuals and others in society. As a foundation of “Smith defined 'mutual compassion.' Since then, many things have occurred: free market, industrialization, globalization, economic expansion, a technological revolution, and economic inequality and global warming. The question we should ask ourselves, therefore, is "where have we gone wrong?"

(S., (1997)) States for banking practices that the moral hazard is an asymmetric problem of information following the transaction. When an agent's principle is ordered to do so, yet the agent does so, the agent is interested or dislikes dishonest or immoral behaviour in the individual's determinant.

(Dorasamy, 2013) Argues that banks must conduct social responsibility actions that meet the demands of all stakeholders to help contribute to the common benefit of local communities, countries and people.

(Mohd Saleem, November 2013) Banking one side of the coin that shows the positive side of the bank system now prevailing, and in general most banks are built on a very contentious interest-rate structure. And, the other side of the coin should be demonstrated as contemporary banking is built on the interest banking system and interest banking system itself is a sign of outcomes, which causes economic and social losses. The ugly face of the interest-based financial system has surfaced in so many cases.

DESAI (2015) (P.s., 2015)**,** the author takes the view that the market participants have been covetous and immoral, which is why the financial crises arise. The writers recommended that ethical financial intermediaries should respect the laws, industry standards and operate ethically. The ethical behaviours of the financial services business should be accorded great emphasis.

(Menezes, 2016) In banking, the business ethics of different sorts of people is seen differently. If "Loyalty to your organisation" is business ethics, then its "confidence in your profession" for employees and for management. The "justice to the people you interact with" workforce. That honesty, we may also say, Human values and honesty are the main attributes of a boss who in his attitude or business is ethical. We also saw the relevance or need banking corporate ethics. The main part of the study is the feeling. Maximisation of profit and the ethics of company may go hand in hand without obstacles.

(Kour, December 2017) Because banks and consumers are built on trust, openness and good faith, ethical procedures are more important for banks. We see that banks that are ethical have happy consumers in their transactions. Ethical banking also enhances people's confidence and stimulates staff. Banks therefore need to embrace ethical behaviour in order to boost their profits, sustainability and customer pleasure.

(Climent, 2018) The main finding of this study is that both sorts of banks' differences in reaction reflect two different business strategies. While some banks have previously tried to assume responsibility for society and the environment, these aims have been seen as specialised operations until recently. Businesses must focus from high profits to highly sustainable returns in order to play a more beneficial role. Banks ought to utilise their financial resources as a tool to serve society rather than strong interests and sponsor ethical initiatives that contribute instead of eroding human rights.

OBJECTIVES

1. To understand the social and economic evil in interest system.
2. To concentrate on the interaction between the lender (bank) and the borrower- a devil face of the lender.
3. To explore the idea of ethical banking.

METHODOLOGY

This research paper's study methodologies include a blend of descriptive and qualitative research. In descriptive research, researchers must use data and information from numerous research journals, newspapers, books, and internet sources, but in qualitative research, researchers must conduct personal interviews with banks and financiers. This text was created with the intention of being useful and beneficial to the whole human population who are interested in learning about interest-based banking and its alternatives.

INTERACTION BETWEEN THE LENDER (BANK) AND THE BORROWER- A DEVIL FACE OF THE LENDER

The individual or the organization's demands and goals lead them to go beyond their capability and consume money that does not belong to them. In this case, the necessities are covered by debt, either with or without interest. Although the position of lender cannot be avoided, several aspects make it more difficult and hurtful. People desire to get into debt without thinking about the long-term costs and outcomes. The practise of lending money in exchange for interest is entirely profit-driven, although it entails several sorts of risk and return. Among these risk factors, the chance of losing money is quite high, and other considerations such as irregular payments of instalments with interest and the dread of assets being converted into NPV (Non-Performing Assets) are also highly important for lenders. The risk factor remains crucial and frightening in the majority of situations.

As previously stated, the interest-based banking system is a profit-driven process with some complications and risks for the borrower that cannot be avoided. It indicates that, despite the circumstances, the borrower must perform his or her obligations to pay interest in the set amount without fail or delay. If a borrower makes such a mistake, he or she may suffer sanctions, which may place further financial strain on the borrower. On the one hand, the borrower is unable to pay the agreed-upon sum plus interest, while on the other hand, the lender requests more funds as a penalty for late payment. It signifies that the lender expects to obtain his or her money regardless of the borrower's ability or competence. Humanity is killed as a result of this process. That is the actuality and presence of interest-based banking. The majority of the time, lending is based on collateralized debt, with the lender having the right to recover his or her money from the collateralized asset.

Borrowers face the risk that if they do not repay the loan, their assets will be sold and the proceeds used to pay off their debts in the form of a loan. That is the most extreme point to which the borrower may be exposed. But before that, the borrower has to deal with a slew of issues, including mental agony, despair, and social anxiety. If the borrower is unable to pay, he or she may lose his or her possessions, particularly the collateralized asset. This dread may cause or drive the borrower to commit suicide, and there have been several cases when individuals have committed suicide to avoid societal injustice and lender torture owing to insufficient wages and cash to repay their debts. This is because the borrower does not want to lose his or her money or get financially ill, thus in order to prevent this situation of loss and illness, the lender is compelled to collect his or her money with interest at any cost or in any way. Regardless of societal or human ideals, the debts are repaid.

SOCIAL AND ECONOMIC EVIL IN INTEREST SYSTEM

People often believe that interest-based banking tortures borrowers more than it benefits them. There are several situations when the borrower suffered greatly as a result of a loan obtained from a bank or another lender under this method. Due to this merciless interest structure, the borrower had to lose his/her assets, relief in life, and even his/her life. When the largest banks in the United States failed in 2008, causing widespread panic and uncertainty, the curse of interest erupted in full force, and many communities and economies chastised the system. There are certain aspects that may be used to describe the actual negative impact of interest-based banking.

- Negative influence on small and individual business performance.
- Engenders greed and selfishness.
- Improper distribution of wealth and income in society.
- Companies with little or no commitment to social responsibility are financed
- Exploitation of the poor and weak.
- Humanity and well-being ignorance.
- Barrier to social collective growth.
- Capitalist dominance over institutions, resources, production, and national revenue.
- Totalitarian governments are financed and supported.

The principal worry here is that the interest-based bank sector, on the one hand, offers numerous finance and investment options; but on the other hand, it also has such hazardous repercussions on both the economy and society.

ETHICAL BANKING

Ethical banking is a wide phrase that refers to banks that operate according to a set of values and values that guide how they engage with their customers, their communities, and the rest of the world. While each bank must decide which values will be at its foundation, most share a few traits, including as community participation, customer screening, and internal and external moral consistency. Ethical banking can assist in the development of strong, financially stable communities. The fact is that adhering to a strict set of principles might be difficult to put into practice from a strictly practical standpoint. (Sanchis, 2013)

Ethical banking sponsored initiatives are founded on the following concepts:

1. Equality: Financed projects and enterprises should promote the active involvement of all the organisation members, and should establish pay systems with modest discrepancies in pay of the managers and employees.
2. Employability: Financed initiatives and enterprises should promote steady employment and access to jobs for exclusion-induced groups.
3. Environment: Financed initiatives are expected to provide sustainable development.
4. Collaboration: financing should be used to assist initiatives and firms that promote (among the organization's staff) internal collaboration and external cooperation (with other organizations).
5. Commitment to the environment: Funded projects and corporations should support actions in support of society to local communities and beyond.
6. Reinvestment: Funded initiatives should reinvest their gain for the betterment of society

FINDINGS AND DISCUSSION

- It finances the development and expansion goals on the one hand and creates a climate that allows borrowers to feel insecure, anxious, depressed simultaneously.
- This system is highly traditional and involves threatened actions, misuse and exploitation of borrowers as well as methods to collect the debt.
- In the current environment, banks and financial organisations implement such a recovery method that breaches important human rights principles.
- The debtors feel dejected and scared because of the restricted taxation of recovery strategies.
- So many development difficulties or booms are facing banks and financial institutions, notably micro-finance, in the constricted environment for borrowers.

- Many families have received large and minor debts, which have led to an increase in incidents of death and suicide by day.
- Though banking and financial institutions contribute to and nurture society's progress, they also create several hurdles as a result of which society suffers greatly.
- The debtors feel dejected and scared because of the restricted taxation of recovery strategies.
- Sometimes banking and financial systems have harmful effects on revenues, employment, pricing and generally output.
- Financial and banking institutions have a major social influence. The money are required and sought as a loan in each population category. However, it is not discovered a correct and even allocation of money.
- Ethical banking standards assist protects depositors'interests, safeguard the reputation of the Bank and ensure the stability of the system.
- The Bank's personnel can prevent violations of the law and corrupt activities by observing the highest ethical standards. This will eventually defend the interests of stakeholders and increase the brand image and competitiveness of the Bank.
- The promotion of strong moral ideals among employees might drive them to develop adequate answers in the face of ethical difficulties.
- Critical parts of professionalism are ethical business activities. This is also a prerequisite for efficient administration of employees. Therefore, a bank executive should make every effort to guarantee that his personnel operate with a high level of ethics.
- Customers' interests will be better safeguarded by trustworthy and ethical banking operations

CONCLUSION

The bank, regulators, workers, and customers all benefit from maintaining an ethical culture in banking. It provides a wide range of advantages. There is a powerful element behind this, and the increasing nature of the economy and of development of society, that is to stimulate and promote the growth and development of this sector, if the fortunes and destinies of financial institutions and banks are discussed. However, there are also some circumstances that create a disparity between lenders and lenders. The development of these tools and strategies may bridge the gap between lenders and lenders takes time. The scheme should be such that the correct distribution of the fund in society and unbiased methods when the debts are recovered. It is necessary to quit exploiting the lender and to provide him with sufficient time. The participatory banking concept may be evaluated and used such that it may benefit both parties equally and by agreement. In this connection, when social values are significant, the notion of Islamic banking is most attractive. As described above, the bank contributes and equalises the social structure on the one hand. Interest-based banking has unfavourable effects on output, revenue, jobs, prices, demand and supply.

REFERENCE

Climent Francisco Ethical Versus Conventional Banking: A Case Study [Journal] // sustainability. - 2018. - p. 13.

Dorasamy N., —Corporate Social Responsibility and Ethical Banking for Developing Economies — [Journal] // Journal of Economics and Behavioral Studies, 5(11),. - 2013. - pp. pp: 777-785..

Kour Manjit Significance of Ethics in Banks [Journal] // International Journal of Management and Social Sciences Research (IJMSSR). - December 2017. - pp. Volume 6, No. 12,pp 8.

Menezes Amith BUSINESS ETHICS AND ITS IMPORTANCE IN [Journal] // International Journal of Scientific Research and Modern Education (IJSRME). - karnataka : International Journal of Scientific Research and Modern Education (IJSRME), 2016. - p. 201.

Mohd Saleem Matloob Ullah Khan The impact of interest based banking on social- economic environment and its solution through islamic finance concept [Journal] // International Journal of Scientific and Research Publications, Volume 3,. - November 2013. - p. 2.

P.s. Desai Ethical Issues in Indian Financial Service Industry [Journal] // International Journal of Marketing & Financial Managemen. - 2015. - pp. Vol 3, Issue 01, pp 30-39.

S. Mishkin F. "The Cause and Propagation of Financial Instability Lesson for Policy Makers In making Financial Stability in a global Economy", [Journal] // Proceeding of a Symposium

Sponsored by the Federal Reserve Bank of Kanas City,Jackson Hole,Wyo,. - (1997). - pp. pp. 55-96..

Sanchis J.R. La Banca que Necesitamos La Banca que Necesitamos [Journal] // Publicacions de la Universitat de València: Valencia, Spain. - 2013. - pp. ISBN 978-84-370-9143-3..

Sharma R. N., Outlines of Ethics, [Journal]. - 1963. - p. pp2.

Smith Adam The Wealth of Nations [Book]. - England : Oxford,Bibliomania.com Ltd,, 2002.