

# SOCIAL AND ETHICAL ISSUES IN BANKING INDUSTRY

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**Abstract—** Economic performance of a country is largely determined by banking and financial system. Banking and finance play a vital and crucial role in framing public policies in today's business environment. This article highlights social and ethical issues such as social banking, ethical banking, green banking, global banking, rural banking, and agri-banking, which help in achieving sustainable development of banking and finance. For this purpose, we have gone through a series of development that are taking place in current business scenario. This paper is divided in four parts. First part discuss introduction of Banking Industry in India. Second part explains historical background of banking and its development. It also discusses concept of Banks. Third part analyzes the review of past studies on the theme. Fourth part highlights Social and Ethical issues related to Banking Industry and finally conclusion has been given.

**Index Terms—** Banking industry, social and ethical banking, green banking, global banking, rural banking, and agri-banking

## I. INTRODUCTION

As time passes, we realize and adopt the changes that are taking place around us. We keep on evaluating effects of changes on us. It is obvious that technology has changed and modified the life styles of human beings.

In the process of industrialization, modernization and globalization, we are observing some global issues like global warming, environmental concerns, social and ethical issues. These issues and concerns do not emerge instantly rather it takes years of continuous and gradual change.

In the above context, we need to identify a common factor that can be an independent entity. A Bank is one of the most common factor among human beings, societies, industries, and countries. We all are related to Banks directly or indirectly. There is direct role of banks in day-to-day activities of our life. As we know that a bank is a financial institution and whether it is a common person, private organization or government organization, all of them are dealing with banks. Therefore, the responsibility of banks increases and we need to understand the role of banks in the Global Economy of 21st century.

## **Banking Industry: Historical Background**

Banking industry is one of the oldest industry of the world. The first record of banking activity can be traced way back in 2000 BC in Assyria and Babylonia when merchants of ancient world made loans to farmers and traders that carried goods. Later in ancient Greece and during the Roman Empire lenders based in temples made loans but also accepted deposits and changing money. The word Bank came from French word banque, from Old Italian banca, from Old High German bank. It is said that benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transactions with the help of desks covered by green tablecloths According to Trivedi, Chaudhary and Kumar (2010) the emergence of modern banks are considered from 1157 when 'Bank of Venus' was set up in Italy. Later on, 'Bank of Barsilona' in 1401 and 'Bank of Geneva' in 1407 were set up. 'Bank of Amsterdam' and 'Bank of England' were set up in 1694. It is considered one of the oldest unit of Modern Banking System. Joint stock companies entered the banking sector in 18th century.

During the 20th century, developments in information and communication technology allowed banks to dramatically increase in their size and geographic network. 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

## **Conceptual Framework**

Conceptually a bank is known as a financial institution, which serves as a financial intermediary among various components of our society. The primary task of a bank is to accept deposits and provide credits either by lending or through capital market. Several definitions of banks are put forwarded by various dictionaries, laws, and researchers. Some of them are as follows:

"A bank is a financial establishment which uses money deposited by customers for investment, pays it out when required, makes loans at interest" – Oxford Dictionary (2008).

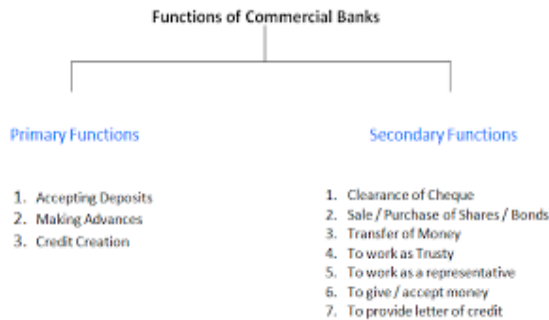
"Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and with drawable by cheque, draft, order or otherwise" – According to Section 5(b) of Banking Regulation Act, 1949.

"A bank is an establishment which makes to individuals such advances of money as may be required and safely made,

and to which individuals entrust money when not required by them for use” – According to Professor Kinley.

“Bank is that institution which performs functions of banking” – According to Sir John Paget

On the basis of above definitions we can say bank is an institution, which deals in money, thus each bank performs various functions like money lending, accepting deposits, transferring of money and management of foreign exchange. In this scenario, it is necessary to understand various functions of banks



After understanding the traditional roles and functions of a bank, it becomes the topic of research that a bank is such a common factor among all of us, therefore the responsibility of Banks should be increased significantly. Banks can really play a role to prevent our society from blind and rapid industrialization and its hazardous effects. We are about to study the emerging issues, additional roles and responsibilities of banks that can be of utmost importance from the point of view of global problems in 21st century.

**Social and Ethical Issues in Banking Industry**

Empirical research since 1990 concluded that banks were not interested in their own environmental situation or that of their clients. We are witnessing certain changes and growing awareness in the field of financial sector like; environmental investment funds, loans, green banking, global banking, rural banking, agri- banking, social banking and ethical banking.

The recent economic crisis caused millions of job losses. It will take years to get momentum back by major economies. As a result of this global crisis, social banking and social finance have become important trends among bank customers in US and Europe. The crisis transformed social banks from niche institutions to large, publicly visible players. This is due to the growing level of awareness among number of bank customers in Europe about social banking which is a less speculative, more responsible, ethical, and community-oriented. It is the modest way to deal with money than traditional banking.

**Social Banking**

In Social Banking, the focus is on satisfying existing needs in the real economy and the society; also taking into account their social, cultural, ecological, and economic

sustainability. In the repercussion of the crisis, many people felt that social banking is more caring for the overall progress of society than traditional and mainstream banking. It is assumed that social banking may provide important lessons for the banking and financial sector to avoid further crises in the future.

According to Institute for Social Banking, “Social Banking describes the provision of banking and financial services that consequently pursue, as their main objective, a positive contribution to the potential of all human beings to develop, today and in the future”

Benedikter (2011) defines Social Banks as “banks with a conscience”. They focus on investing in community, providing opportunities for the disadvantaged, and supporting social, environmental, and ethical agendas. Social banks try to invest their money only in endeavours that promote the greater good of society, instead of those, which generate private profit just for a few.

He has also explained the main difference between mainstream banks and social. banks that mainstream banks are in most cases focused solely on the principle of profit maximization whereas, social banking implements the triple principle of profit-people-planet. Social banks care about making a profit, but equally for promoting human and environmental well-being. It is this triple principle that they follow when they decide to whom to lend money, and for what purpose.

It means that social banks consider social and economic “sustainability” when making financial decisions. “Sustainable” investments and lending practices are ones that produce a better quality of life for the greatest possible amount of people, and whose effects endure over time and continue to produce a multiplicity of positive effects long after the initial investment.

Now-a-days, social banks are becoming cultural power as social banking includes the concepts of humane and humanist in financial activities.

**Ethical Banking**

The Cooperative Bank (UK) offers its customers home energy rating on purchases of consumer durables. The purpose is to enable them to better understand how energy efficient a property is and how to make improvements. Moreover, bank's mortgages include carbon-offset features. Every year that a customer holds a mortgage, the bank offsets a fifth of the carbon dioxide emissions arising from a typical household's energy consumption. Following customer consultation in 2003, offset money were used for reforestation in Uganda, a Bangladesh project that trains local people to build energy efficient stoves and a Bulgaria project supporting micro-hydro electricity generation.

Citizens Bank (Canada) allows its customers to choose between a variety of VISA cards that benefit Oxfam Canada, Amnesty International or their philanthropic Shared Interest program by donating \$0.10 to not-for-profit initiatives worldwide every time their VISA card is used. This enabled

Citizens Bank to donate thousands of dollars to Doctors. These are only a few of the wide range of services available at different ethical banks.

#### **Agri-Banking**

Alston (2004) argued that international and national events like globalization international policy manipulations such as the US farm bill, and national policy, are having a major impact on agricultural production in Australia. It is more likely that these issues are acting to continue and exacerbate a trend towards reduced viability for farm families evident in economic and social trends since at least the 1950s. It was further argued that social aspects of agricultural production in Australia noting social trends and drawing attention to the changing social relations of agriculture. It was concluded that there is dominance of farm families, the role of corporate agriculture, ethnic diversity, the importance of women, and the practice of farm transfers.

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Moreover, the report shows that the Bank has established two trusts viz., PNB Farmers Welfare Trust and PNB Centenary Rural Development Trust. These trusts are involved in running training centres which imparts training in farming and also other non-farm activities.

PNB Farmers' Welfare Trust was established in the year 2000 for welfare of the farmers, women and youth in rural areas. Under the aegis of the Trust, 8 Farmers' Training Centres (FTCs) have been made operational at villages. Apart from this Mobile Van is being used at FTC Sacha Khera for providing off-site training on improved package & practices of agricultural crops & allied activities, soil testing and Jatropha cultivation. In addition, the van is acting as an information kiosk.

#### **Rural Banking**

Ramachandran and Swaminathan (2002) examined the effect of financial sector reform on rural banking and rural credit transactions in India.

They reviewed the trends in selected indicators of rural banking at the national level over the last 30 years.

Moreover, they used longitudinal data for a village Tamil Nadu to examine changes in patterns of indebtedness and credit transactions among landless labour households. They concluded that the exploitation of landless households in the credit market has intensified with the introduction of financial reforms and lastly, the policy was envisaged as an alternative to the formal credit sector in the countryside.

Burgess and Pande (2005) evaluated the impact of a large state-led bank branch expansion program in India on rural poverty between 1977 and 1990. They used deviations and regression analysis and found that branch expansion into rural unbanked locations in India significantly reduced rural poverty.

#### **Global Banking**

Miller, S.R. and Parkhe, A. (2002) conducted empirical test of the liability of foreignness in the global banking industry, using Fitch-IBCA Bank Scope data for the period 1989-96 and their findings strongly support the liability of foreignness hypothesis.

Further, the data showed some evidence that the X-efficiency of a foreign-owned bank is strongly influenced by the competitiveness of its home country and the host country in which it operates. Moreover, it was found that in some environments U.S.-owned banks are more X-efficient than other foreign-owned banks in some environments, but less X-efficient in others. Like other industries, banking has become more global. Banking stands out, however, in its legal form and reliance on cross-border positions. Banks run special risks in lending abroad. McCauley, McGuire and Peter (2010) have shown that some banking systems are international in their organization while others are multinational, and that the multinational model can be operated with a greater or lesser degree of centralization. While much work remains to be done in assessing the performance of various banking models during the crisis, it does appear that local assets proved more stable under stress. Cross-border claims and liabilities proved less stable. These findings hold even if account is taken of the series break represented by US securities firms becoming reporting banks, exchange rate changes and distortions from mergers and acquisitions, some of which resulted from the crisis itself.

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These findings hold even if account is taken of the series break represented by US securities firms becoming reporting banks, exchange rate changes and distortions from mergers and acquisitions, some of which resulted from the crisis itself. Concerns. However, this can decelerate the economic and industrial growth but human race cannot afford the fast pace of growth at the cost of environmental depletion. For social banks, the responsibility for the whole of society is the most important measure for a good lending practice and is more important than profit alone. This is why social banking is often called “banking for social cohesion”, or “cooperative banking”, instead of the competitive banking approach, that has dominated the banking world in past decades. Apart from this, the concept of Globalization and Liberalization has been governing the world market. We have integrated ourselves with the world economy by adopting the respective concepts. In this scenario, it is right time to focus on the social and ethical issues in Banking Industry.

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