

A Study on the Ethics in Modern Banking in India

LEEJIA GEORGE^[1] THANVEER SADATH T P^[2]

^[1] Assistant Professor, Department of Commerce, Don Bosco College, Sulthan Bathery

^[2] Student, Department of Commerce, Don Bosco College, Sulthan Bathery

Email - leejiaatwork@gmail.com, thanveersadath84@gmail.com

Abstract

The role of ethics in modern banking is becoming increasingly vital as the financial sector evolves with the rise of digital technologies and global interconnectedness. This study examines the principles of banking ethics, the ethical issues faced by Indian banks, and the impact of digital banking on privacy and governance. Despite regulatory frameworks and technological advancements, unethical practices persist, particularly related to customer treatment, fraud, and data privacy. The research utilizes secondary data to assess the current state of ethics in the Indian banking system, focusing on the challenges brought by digital banking. The findings indicate that while the Indian banking sector is advancing in ethical governance, issues related to transparency, accountability, and privacy require significant attention for sustained growth and consumer trust.

Keywords: Banking Ethics, Indian Banking, Digital Banking, Corporate Governance, Privacy, Ethical Issues, Financial Inclusion, Consumer Behavior.

1. Introduction

The word "ethics" is derived from the Greek term "ethos," which means character, and refers to the moral principles that guide behavior. In the banking sector, ethics involves upholding values like integrity, transparency, and fairness in the management of financial services. The Indian banking industry, one of the oldest globally, has undergone significant transformation, especially with the rise of digital banking, which has brought both new opportunities and emerging ethical challenges.[1][2]

The foundation of modern banking in India can be traced back to the establishment of early institutions such as The Bank of Hindustan (1770) and The General Bank of India (1786). Today, the industry operates under the regulation of institutions like the Reserve Bank of India (RBI) and the Banking Codes and Standards Board of India (BCSBI). Despite these comprehensive regulatory frameworks, the banking sector continues to face ethical challenges, including issues of fraud, corruption, and privacy breaches.[3][1]

2. Background of the Study

Banking ethics is crucial for ensuring the survival and stability of financial institutions. The Indian banking system is experiencing significant shifts due to digitalization and technological innovations. While digital banking offers immense potential for financial inclusion, it also raises ethical concerns about data privacy, customer security, and the fairness of services.[4][18]

With the increasing use of cyber-physical systems, there is a growing concern about the ethical implications of technologies like biometrics, digital wallets, and mobile banking. This study aims to explore these issues within the context of India's evolving banking sector.[6][5]

3. Research Methodology

This study adopts a **secondary data analysis** approach to assess the ethical issues in the Indian banking sector. The data is sourced from reputable academic journals, industry reports, government publications, and other secondary sources. The research methodology is qualitative, involving content analysis to identify key ethical concerns and challenges facing the industry.

Objectives of the Study:

1. To understand the core principles of banking ethics.
2. To identify ethical issues and challenges faced by the Indian banking industry.
3. To explore the ethical considerations in digital banking, particularly privacy concerns.
4. To examine the relationship between corporate governance and ethics in Indian banks.

4. Principles of Banking Ethics

The principles of banking ethics play a pivotal role in maintaining customer trust and ensuring the integrity of financial institutions. These include:[7][10][23]

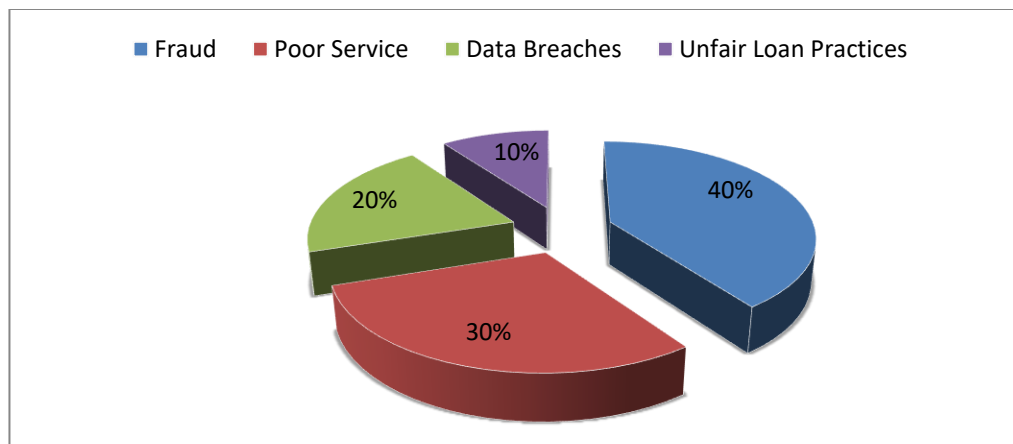
- **Integrity:** Banks should act honestly and fairly, prioritizing the welfare of customers and avoiding actions driven by personal gain.
- **Neutrality:** Banks must ensure they do not discriminate based on race, religion, gender, or financial status, offering equal services to all customers.
- **Reliability:** Banks must provide clear and accurate information, creating mutual trust and ensuring reliable service delivery.
- **Transparency:** Customers must be fully informed about the risks, benefits, and terms associated with financial products and services.
- **Information Abuse Prevention:** Banks should take necessary measures to prevent insider trading and misuse of customer data.

5. Ethical Issues and Challenges in Indian Banking

The Indian banking sector faces numerous ethical challenges, particularly as it adapts to the digital age:[8][11][22]

- **Poor Customer Service:** Instances of rude behavior, poor communication, and lack of cooperation from bank staff often lead to customer dissatisfaction.
- **Fraud and Scams:** The Indian banking sector has been plagued by scams, such as the Nirav Modi and Vijay Mallya cases, which have damaged public trust.
- **Technological Challenges:** Despite advances in digital banking, many banks struggle with adopting new technologies due to inadequate training and technological knowledge.
- **Regulatory Pressure:** Increasing regulatory compliance requirements put significant pressure on banks, forcing them to allocate substantial resources to meet new guidelines.
- **Privacy and Data Protection:** The advent of digital banking raises concerns over the privacy of customer data, with cases of data breaches and misuse becoming more prevalent.

Chart 1: Frequency of Ethical Issues Reported in Indian Banking



- ✓ **Fraud (40%):** This is the most reported ethical issue in Indian banks, including scams like **Ponzi** schemes, **fake loan offers**, and **credit card fraud**.
- ✓ **Poor Service (30%):** Customers report unethical behavior stemming from **rude behavior**, **lack of cooperation**, and **inadequate responses to customer concerns**.
- ✓ **Data Breaches (20%):** With the rise of **digital banking**, customer data breaches and **cybersecurity threats** have become a significant ethical concern.
- ✓ **Unfair Loan Practices (10%):** This includes instances where customers face **unfair loan conditions** or **bribery** to approve loans, which is often reported as unethical.

6. Impact of Digital Banking on Privacy and Ethics

Digital banking platforms have revolutionized the financial landscape in India, but they also present new ethical challenges, particularly in the areas of privacy and data security. The introduction of biometric authentication, digital wallets, and mobile banking has raised concerns about the protection of personal data.[1][12][16]

- **Privacy Concerns:** The use of biometric data and digital footprints has sparked debates on privacy rights, with critics arguing that such technologies can be abused for unauthorized surveillance.
- **Consumer Trust:** Studies show that consumers are increasingly concerned about the security of their digital transactions, with factors like trust, security, and speed playing significant roles in the adoption of digital services.
- **Regulatory Concerns:** India's data protection laws, such as the *Personal Data Protection Bill* (PDPB), aim to address privacy issues but remain a work in progress.

Table 1: Consumer Trust in Digital Banking Services

Factor	Importance (%)
Security	45%
Trust	40%
Convenience	35%

Speed	30%
-------	-----

7. Ethics and Corporate Governance in Indian Banking

Corporate governance ensures that banks adhere to ethical practices, promoting transparency, accountability, and fair treatment. The RBI has introduced several guidelines for ensuring good governance, including:[18][1][17]

- **Board of Directors:** A balanced board structure with a mix of independent and executive directors.
- **Risk Management:** Comprehensive frameworks to identify, assess, and mitigate risks.
- **Whistleblower Policies:** Encouraging employees to report unethical practices without fear of retaliation.
- **Audit Committees:** Ensuring that financial reporting and internal controls are thoroughly examined.

Chart 2: Ethical Governance Practices in Banks

Governance Practice	Percentage (%)
Transparency	30%
Accountability	25%
Fair Treatment	20%
Integrity	15%
Risk Management	10%

Explanation:

- **Transparency (30%):** This practice involves ensuring clear and open communication regarding the bank's operations, decisions, and performance. Transparency is key to gaining and maintaining customer trust.
- **Accountability (25%):** Holding all stakeholders, especially management and board members, responsible for their actions and decisions ensures that banks are operated ethically and responsibly.
- **Fair Treatment (20%):** All stakeholders, including customers, employees, and shareholders, must be treated equally, ensuring no discrimination on any grounds such as race, gender, or financial status.
- **Integrity (15%):** Upholding honesty and ethical standards in all business dealings is a crucial practice to maintain ethical banking behavior.
- **Risk Management (10%):** Banks must implement risk management frameworks to identify, assess, and mitigate various risks, ensuring the organization operates in a controlled and responsible manner.[19][20][1]

8. Conclusion

In conclusion, the Indian banking sector faces numerous ethical challenges, particularly with the rise of digital banking. Despite the positive developments in corporate governance and ethical regulations, the sector still struggles with issues such as fraud, poor customer service, and data privacy concerns. Addressing these ethical issues is essential for maintaining consumer trust and ensuring the long-term stability of the banking system. To mitigate these concerns, a stronger focus on training, regulatory compliance, and transparency is needed. Furthermore, the government must continue to ensure that ethical practices are reinforced across the sector, with particular emphasis on customer awareness and education.

Reference:

1. Bagus, P., & Howden, D. (2013). Some ethical dilemmas of modern banking. *Business Ethics: A European Review*, 22(3), 235-245. <https://doi.org/10.1111/beer.12025>
2. BusinessStandard. (2020, January 9). Privacy a fundamental right, says SC: All you need to know about the issue. *BusinessStandard*. https://www.businessstandard.com/article/current-affairs/rightto-privacy-sc-verdict-today-all-you-needto-know-about-the-issue117082301198_1.html
3. Connell, M. (2017). The challenge of assessing and shaping bank conduct, ethics, and culture: Insights from the social sciences. *Journal of Risk Management in Financial Institutions*, 10(1), 89-98.
4. Dierksmeier, C., & Seele, P. (2018). Cryptocurrencies and business ethics. *Journal of Business Ethics*, 152, 1-14. <https://doi.org/10.1007/s10551-016-3298-0>
5. Dwivedi, Y. K., Hughes, L., Ismagilova, E., Aarts, G., Coombs, C., Crick, T., Duan, Y., Dwivedi, R., Edwards, J., Eirug, A., Galanos, V., Ilavarasan, P. V., Janssen, M., Jones, P., Kar, A. K., Kizgin, H., Kronemann, B., Lal, B., Lucini, B., . . . Williams, M. D. (2019a). Artificial Intelligence (AI): Multidisciplinary perspectives on emerging challenges, opportunities, and agenda for research, practice and policy. *International Journal of Information Management*, 57, 101994. <https://doi.org/10.1016/j.ijinfomgt.2019.08.002>
6. Dumasia, J. (2021, November 17). 5 applications of artificial intelligence in banking. *IBS Intelligence*. <https://ibsintelligence.com/ibsi-news/5-applications-of-artificial-intelligence-inbanking/#:~:text=Artificial%20Intelligence%20enables%20banks%20to,for%20a%20broader%20customer%20base>
7. Fetiniuc, V., & Luchian, I. (2014). Banking ethics: Main conceptions and problems. *Annals of the University of Petrosani, Economics*, 14(1), 91-102.
8. Herzog, L. (2019). Professional ethics in banking and the logic of “integrated situations”: Aligning responsibilities, recognition, and incentives. *Journal of Business Ethics*, 156, 531-543. <https://doi.org/10.1007/s10551-017-3562-y>
9. Hollanders, M. (2020). FinTech and financial inclusion: Opportunities and challenges. *Journal of Payments Strategy & Systems*, 14(4), 315-325.
10. Kandpal, V., & Mehrotra, R. (2019). Financial inclusion: The role of fintech and digital financial services in India. *Indian Journal of Economics & Business*, 19(1), 85-93.
11. Kangwa, D., Mwale, J. T., & Shaikh, J. M. (2021). The social production of financial inclusion of Generation Z in digital banking ecosystems. *Australasian Accounting Business & Finance Journal*, 15(3), 95-118.
12. Kaygın, E., Topcuoğlu, E., & Ozkes, S. (2018). Investigating the Bitcoin system and its properties within the scope of business ethics. *Turkish Journal of Business Ethics*, 11(2), 165–192. <https://doi.org/10.12711/tjbe.2018.11.2.0020>
13. Lu, Z., Wu, J., Li, H., & Nguyen, D. K. (2022). Local bank, digital financial inclusion, and SME financing constraints: Empirical evidence from China. *Emerging Markets Finance and Trade*, 58(6), 1712–1725. <https://doi.org/10.1080/1540496X.2021.1923477>
14. Mascarenhas, A. B., Perpetuo, C. K., Barrote, E. B., & Perides, M. P. (2020). The influence of perceptions of risks and benefits on the continuity of use of fintech services. *Brazilian Business Review*, 18, 1-21. <https://doi.org/10.15728/bbr.2021.18.1.1>
15. Milligan, J. (2019). Banking is changing, but its traditional virtues shouldn't. *Bank Director Magazine*.
16. North-Samardzic, A. (2020). Biometric technology and ethics: Beyond security applications. *Journal of Business Ethics*, 167, 433–450. <https://doi.org/10.1007/s10551-019-04143-6>
17. Parakh, S., Ukhalkar, P., & Sanu, L. (2020). Digital wallet and mobile banking adoption among rural bank customers. *International Research Journal of Business Studies*, 13(3), 215-226. <https://doi.org/10.21632/irjbs>

18. Sadok, H., Sakka, F., & Maknouzi, M. E. (2022). Artificial intelligence and bank credit analysis: A review. *10*(1), 1-12. <https://doi.org/10.1080/23322039.2021.2023262>
19. Sayed, G., & Sayed, N. S. (2020). Customer experience with digital banking - A comparative study of private and public sector banks. *Productivity*, *61*(1), 19-33. <https://doi.org/10.32381/PROD.2020.61.01.3>
20. Steinberg, E. (2019). Big data and personalized pricing. *Business Ethics Quarterly*, *30*(1), 97-117. <https://doi.org/10.1017/beq.2019.19>
21. Stewart, D. W. (2019). The accountability crisis in advertising and marketing: Self-regulation and deeper metrics are needed to survive the digital age. *Journal of Advertising Research*, 385-390. <https://doi.org/10.2501/JAR-2019-042>
22. Yanagawa, E. (2019). Digital transformation in Japan's banking industry. *Journal of Payments Strategy & Systems*, *12*(4), 351-364.