

The ethical dilemmas faced in banking

[Finance](#), [Banks](#)



Banks play important roles in the modern day's society, these roles include opening accounts, save money in those accounts and have peoples money available at all times so they can take it out of their accounts. These roles also include giving out mortgages, giving out loans, savings, investments and protecting rights and interests of many depositors. Banks are expected to operate with responsibility, reliability, honesty and most of all banks should operate ethically.

In 1921, in the Joachimson case a bank is defined as “ The bank undertakes to receive money and to collect bills for its customer's account. The proceeds so received are not to be held in trust for the customer, but the bank borrows the proceeds and undertakes to repay them. The promise to repay is to repay at the branch of the bank where the account is kept, and during banking hours. It includes a promise to repay any part of the amount due against the written order of the customer addressed to the bank at the branch..... Bankers never do make a payment to a customer in respect of a current account except upon demand.”

A bank is an organisation, where people deposit their money to keep it secure however, this is only a small part of how a bank operates.

There are different types of banks, there is the retail bank, the central bank and the investment bank. Retail banking deals directly with individuals and small businesses. Investment banking is a financial intermediary that carries out variety of services. This includes underwriting, acting as an adviser between an issuer of securities and the investing public and smooth the progress of mergers and other corporate reorganizations.

Central bank is the government's banker. The central bank sets the interest rates, is the bankers bank, the lender of last resort and prints money

According to Smith and Smith, (2003), Ethics is the integrity measure, which evaluates the values, norms and rules that constitute the base for individual and social relationships, from a moral perspective. It's very important for a bank to be ethical as it deal with people's money. All banks should have social responsibilities towards their customers.

Ethical dilemma is any situation where the moral principles can't determine whether the action taken is ether right or wrong.

In banking there are a lot of right and wrongs. In modern day society have banks have ethical policies they have to obey. These ethical policies include human rights some banks may not invest in any businesses who fail to support basic human rights, also other ethical policies are Arms trade, social responsibility and global trade, social enterprise, animal welfare and customers consultation. These are some of the ethical policies a bank has to uphold. However, the question is do all the banks support and obey these policies?

Unfortunately, ethical policies are still not firmly followed in the banking system. A lot of banks accept bribes in return for loans, still lend to cheating customers and most of all many banks are still convicted for money laundering.

Nowadays the banking business is becoming more complex and the borderline between what is legitimate and illegitimate becomes more

indistinct (Carse, D 1999). Therefore, banks have to stick to a strong set of ethics which will help them to get through all the ethical choices they face in everyday's life.

Banks make peoples live a lot easier, they do this by sorting out all the funding and transactions. Many people are not very good with money and that's when bank come into play. They help people save their money, they offer advice about mortgages and investing, they give out loans and they make it easy for people to pay their bills. Now image if banks didn't exist, there wouldn't be a place to deposit your money where it save, it would have a big impact on the economy, companies who have millions and billions of money have no where to keep this money and could be exposed to thief's and mafia and all sorts of crimes and people would just have a much harder life without banks. So as you can banks play a very important role in modern day's society.

Many people, when they think of banks, they think of all the negatives things however, banks are not bad at all. Nowadays, there is no form of economy that doesn't have a banking sector. Banks enable transactions to take place without actually coins changing hands, they enable people to borrow money and today, we have the electronic transfer system which has made peoples life much easier and many now also issue stocks, bonds and other securities.

Many have banks have recently introduced an ethical policy a good example of this the co-operative bank. The co-operative bank believes that by introducing an ethical policy they can invest for the long-term benefit of

customers and, at the same time, as an investor they can improve their environment and society (co-operative bank 2002).

Since the co-operative bank introduced the ethical policy many banks looked to pursue this policy and by doing this they will attract customers and gain more profit.

Banks deal with numerous depositors, they enable people to deposit their money and keep it in a safe place, they give advice on investing and mortgages, most importantly they give out loans. Giving out loans is a very risky business this is because people may not pay the money back to the bank. Basically the money people put in a bank is the money a bank uses for loans and they charge interest on that loan so when someone doesn't pay their loan the bank has to cover the loan in order to have enough money available for depositors to take out. Banks also offer overdrafts, this is where the bank provides a short term loan to pay off for example bills.

Loans can be secured or unsecured, unsecured loans are when people pledge some assets such a car or property as collateral for the loan. Many people use their house as a security when they take out a loan. Now for those who don't pay the loan back the bank will take possession of the asset and maybe sell it to recover the debt. Before the bank takes possession of the asset, the bank will give the borrower reasonable notice. They don't just turn up one day and take possession of the asset. Also, a bank is unable to close a customer's account without giving them reasonable notice.

Reasonable notice could be two weeks or month nobody knows how long

reasonable is. Is it argued that reasonable is “ that which is reasonable in the circumstances”.

So how do banks make profit? Well when people deposit their money in a bank the money doesn't just stay their. The bank will use this money to make loans. Now the amount of money a bank can lend is influenced by the reserve requirement which is set by the federal services. At the moment the reserve requirement is from 8% - 10% of the bank's total deposit. If we think about it the bank is using our own money to lend to other people, this might sound unfair however, this has a very positive impact on the economy because, lets say for example we go to the bank and deposit £100, the bank will keep 10% of that amount and lend £90. That £90 is going to go back in the economy, purchasing goods and services or deposited in another bank. That bank will then go on and lends £81 and keep 10%. That £81 goes bank in the economy and goods and services are purchased or it's deposited at other bank that proceed to lend a percentage of the total amount. Banks charge an interest on those loans and that's where some of their profit comes from.

So if we just refer back to the question, Banking, an ethical dilemma? We shall see that banking is not an ethical dilemma at all. There many banking activities which have a positive affect on the economy and which make peoples live much easier. Banks do this by enabling people to deposit their money and keep that money in a safe place, they provide advice to customers, they offer long term and short term loan, provide customers with plenty of information and inform them on the consequences when not

repaying a loan and they give people a reasonable notice before taking possession of their asset. As we can see there are many good processes a bank sees to. However, even though banking seems all perfect there is a dark side to banking.

Banks all over the world graft to make profit. Banks make profit by using their customer's money, basically how it works is we deposit our money in the bank, they will then go on and lend a big percentage of that money to other customers. Banks charge interest on the loans which is a big part of their profit. Some banks charge excessive interest rates on loans without informing their customers of better deals.

Also, in the modern day society, many people complain of unfair bank charges. This is when the bank decided to charge the customer when exceeding an overdraft limit or when bouncing a cheque. These bank charges are unfair because the office of fair trading believes that charges more than £12 are “ significantly higher level that is legally fair”

(Office for Fair Trading)

Banking is becoming more and more complex and some bankers may have trouble explaining their business this may raise trust issues because if bankers don't know what they're doing people won't trust banks with their money. Complexity of banking also raises the ethical dilemma issues. In modern day's society many banks are guilty of ethical dilemmas. According to a study carried out by Mitchell et al (1992) there were seventeen kinds of

unethical behaviour that banks were guilty off and here are a couple of them: bribery, defrauding government, interest fraud, deception, insider trading, discrimination and environmental harm. These