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RELEVANCE OF THE BANKING ETHICS

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«The nature of our people determines the quality of our organizations, which means that the trust or faith in the ethical standards is essential to the existence of our society».

Dennis Ueterson [3, p. 820]

Banking ethics is moral or ethical principles that some banks have decided to comply with. These banks often look for investment opportunities that encourage environmental or social enterprises. A number of ethical issues faced by the banking sector are multi–sided, but broadly speaking banks should have ethical policy that takes into account issues related to globalization, social and environmental problems [1].

In order to support the prestige of the profession, all people engaged in the banking business should take care of their personal and professional behavior. Professional ethics of all employees should comply with the following principles:

• the principle of legitimacy, competence, confidentiality, initiative, sequence and activity in achieving the goal;

• the principle of high personal responsibility for entrusting work;

• the principle of universal human values.

Following business ethics is not only a moral norm, but the protective function of the bank's risk, guarantee of success, formation and maintaining of high business standing [2].

The first international code of conduct was created by Roundtable in Caux. The aim of the Code is to establish global standards that allow people to evaluate business behavior, suggest a pattern according to which each company can make up its own code. Market and law forces are essential but insufficient forces which guide the conduct of any business. Also it is relevant to include moral values in business decision–making. Due to the absence of such values stable business relationships and secure global economic system are impossible.

Despite the well–known rules and stated principles of morality there are examples of unethical behavior in banking and financial service industry all over the world:

• S & L crisis which costs $ 150 billion to the taxpayers.

• Fraud and abuse of insiders caused one–third of banks' bankruptcies in the period from 1986 to 1988.

• Bank of Japan acknowledges the publication of false information.

• Creative accounting and wishful thinking filled up the financial system.

• Some banks pay their credit managers additional commissions if they can obtain a higher loan rate than the relevant one [3, p.820].

But there are such organizations that put moral principles above their financial results. Such examples include:

• Bank of England which refuses to invest in companies involved in the arms trade, companies that contribute to climate change, animal testing, genetic engineering and sweatshop labour.

• Co–operative Bank, which in 2005 refused to invest $ 20 million dollars because investors had been involved in what they called unethical behavior.

Banks operating in accordance with the ethical standards are situated all over the world: Triodos Bank (UK), Co–operative Bank (UK), ShoreBank (USA), RSF Social Finance (San Francisco and New York , USA), common interest (UK) UK–based , Wainwright Bank (USA), La Nave (France), GLS Bank (Germany), Banca Popolare ETICA (Italy and Spain) [1].

Unethical behavior in banking and financial services industry is a form of fraud and misrepresentation of information.

Companies can not maximize profit in the long term, if their behavior is unethical. Although sometimes this behavior gives short–term profits, the disclosure of malicious causes economic and social punishment. Stakeholders are becoming the governors who punish fraudulent companies and reward those which operate in compliance with ethics.

This good reputation is an important intangible asset of any company, but it is especially vital for banks and other financial sector companies, which operate successfully only if there is confidence in their system [3, p. 827].

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