

PRINCIPLES OF BANKING

Module E

Business Ethics and Banking Ethics

Chapter-45 Business Ethics and Banking

Business value are the principles and Ideals, that help in making judgement of what is more important.

- Business ethics refer to the guidelines for conduct, that address question about morality
- Business ethics and business values are distinctive in certain respects.

Business Ethics	Business Values
▪ These are applied uniformly	▪ These are different for different persons / business
▪ A system of moral principles	▪ A stimuli for thinking
▪ These tell as to what is morally correct or incorrect	▪ These guide as to what the business wants to do and achieve
▪ These determine the extent of being right or wrong	▪ It measure the level of significance.
▪ It puts restrictions	▪ It motives
▪ Example : For failed ATM transaction, customer should not suffer loss	▪ Example : Customer should be given compensation @ Rs.100/day so that customer remains satisfied and continues to deal with the bank

Business Ethic- Myth and Reality

Business myth is a mental obstacle that must be removed in order to prepare the ground for rational thinking on the ethical aspect of business conduct.

Myth	Reality
Ethic modifies behaviour and restrict realization of potential	Actually, business ethic is about managing values and conflict resolution.
Most people are already ethical. They do not need training	Logical choices in a business, can be challenged by organizational ethic. This can be handled by trained/experienced people only
There is no pre-determined business ethic.	Business ethic has lot to do with daily operations of the business. To conduct is properly, ethic is needed
Business ethic is already known and all aspire for that.	Business ethic safeguards interest of stakeholders. Organizations cannot ensure non-violation of code of conduct, in the absence of business ethic.
Business ethics cannot be managed	Priorities of organization suggest as to what ethic should be followed. Sales oriented organizations have to be aggressive. Service oriented organization have to be different.
Ethics are social responsibility	Corporate social responsibility includes business deals and interface with the society

Business ethic is ethical standard which regulates business persons in performing business activities.

Business ethic relies on: theological principles like good behaviour, sincerity, welfare of society.

These are dynamic in nature and test the norms and moral principles.

Business ethics are integration of day to day morals and ethical norms to business and applies to all types of business.

Principles of Business Ethics

- **Dignity**
- Treat others with professional respect and courtesy irrespective of divergence.
- While dealing with customer, objective should not be to earn profit only. Customers' interest should also be looked into.
- **Fairness:** Organisation should display concern through actions, processes and outcomes which are morally correct. If a level playing field is provided, organization should not conspire to lessen a fair competition.
- **Honesty** Honesty in business practice helps in building foundation of trust with stake holders. Firms should be honest in financial disclosures to all stake holders, so that they express confidence in the business organization.
- **Openness:** Things should be, as these are supposed to be and concealed. If a firm is not able to reveal vital details, reasons should be given for that.
- **Reputation / goodwill:** Business should work on building goodwill and reputation along with high morale of staff. It should not undertake activities which have adverse impact.
- **Prudence:** Based on the experience a firm needs to be prudent in business operations such as inventory management, staff recruitment, offers to customers etc.
- **Empathy:** Business should be conducted in such a manner which ensures economic gains to the business and provides benefits to society, from where it draws the sources. This responsibility is towards stakeholders (internal group) and consumers and community, as a whole (external group)

Mahatama Gandhi's Philosophy

- Wealth in possession of rich persons, is result of hard work, effort and sacrifice of workers and capital provided by capitalists.
- Capitalist persons should hold the wealth as trustee.
- Similar view was expressed by Peter Singer.
- Gandhian philosophy of trusteeship has origin from Bhagwat Geeta, which tells about non-possession (Aparigraha) and selfless work (nishkaam karmyoga)
- Gandhiji's trustee have to create, preserve, increase the wealth, without expecting enjoyment of wealth.
- He thought that the industrialists (who supplies capital) and labour (who supplies the workers) are equal partners.
- Together they produce wealth.

Business Ethic practices in India

- Ethic (say Corporate Governance) as a concept started evolving during 1980s, when corrupt business practices were observed.
- In 2005, with addition of clause 49 of Listing Agreement, business ethic gained importance.
- Many other committees were set up later, including Uday Kotak Committee of 2018.

Responsibility of directors of companies relate to:

- Create wealth for all stakeholders
- Improve corporate governance
- Avoid unethical misconduct
- Restrict opportunities for employees to make unethical decision (for this most companies have system of oversight, accountability, control)

Major Unethical Issues

- Bribery

- Deceptive advertising
- Price collusion
- Product safety
- Environment conservation

Ethical Crisis in Business

- Crisis events : Unforeseen business events that pose threat.
- These are a) pre-crisis, b) event of crisis and c) post-crisis
- Pre-crisis : Every thing under control. Management well placed to tackle tough situation. Focus on making profit

Prevention of crisis :

- Ethical audit on regular interval should be conducted for internal reasons of ethical crisis.
- It helps in identifying weak ethical areas.
- Preparation of crisis management plan to combat crisis situation
- Internal screening of events include relationship with stakeholders, rising customers complaints.
- External screening include factors beyond control of the firm. If these factors turn adverse, these can create crisis situation.

Crisis Events

- Fraud
- Computer data theft
- Terrorist attack
- Bankruptcy
- Industrial accident
- Economic or political instability
- Natural calamities

Whistle-blower policy

- It encourages employees to come forward to provide information related to illegal or unethical activities or violation of company policy. Whistle Blower Protection Act 2011 gives protection to individuals who provide information

Ethical Crisis in Business

Crisis situation

- A particular event which creates crisis, is recognized as crisis situation.
- Example : Bankruptcy or failure of a company, which raised loan from bank (Say Kingfisher Airlines, Satyam Computers).
- Prime responsibility to communicate the crisis to stakeholders, is that of CEO.

Role of Ethical Leaders:

- Recognition of the crisis situation
- Cautioning others about the grave danger.
- Implementation of crisis management plans which include focus on damage control

Post Crisis

- An effective leadership moves on with corrective measures.
- Company starts analyzing the situation.
- Investigation and identification of key reasons is done till recovery phase.
- Image and reputation of the organization is affected, due to which effective leadership is important in rebuilding of the image.
- All stakeholders have to assured that the organization will continue to exist.

Is Business Ethics an Oxymoron?

Oxymoron

Dictionary meaning of oxymoron :

It is an expression where 2 opposite Ideas are joined together to create an effect.

Example – Open Secret or Tragic comedy, Business success by following ethical practice.

- Is it possible that business should follow ethical practices and still remain profitable/successful.

- For success of business, sometimes unpopular practice may be followed.
- Situations like layoff, which affects many people or Hiving off of unprofitable business, are unpopular options.
- In the long run, these steps help in improving the business operations.
- Ethical organizations compensate the redundant staff.
- When ethical practice is followed, sometimes the organizations have to incur huge extra cost.
- Example – Many times in the recent past, a no. of car manufactured called back to the sold cars, when they found that there was some basic issue with some component of the car manufactured by them.

Ethical foundation of banking business

Ethics stands for

- moral dependability
- punctuality of fulfilling obligation
- honouring of terms of contract

Like any other business, banking operations should be based on just and truthful relationship with stakeholders.

- Ethical practices help banks to build credibility.
- Fair Practice Code, Customer Service code of BCSBI, office of Banking Ombudsman, help banks to follow ethical practices.
- Confidence Rating in banks depends upon skilled supervision of banking staff.

Need for and importance of Ethics in Banks

Dealing with dilemma:

- Banks confront moral dilemmas (situation of difficult choices).
- They have to deal with complex dilemma through decision making.
- These decisions are taken by distinguishing what is right and less right (instead of what is right and wrong) taking into a/c ethics.

Reputation or goodwill:

- Ethical practices help banks to take care of interest of depositors, maintain stability of system and enhance their own reputation.
- By following ethical practices, employees are able to prevent breach of law or corrupt activities.

Risk avoidance

- Ethical standards followed by seniors, improve decision process, as these are preventive and corrective measure to manage risk.
- It refrains employees to follow unethical practices like loans with unjustified conditions, delay in deciding a loan application etc.

Ethics help

- In dealing with dilemmas
- Guarding reputation
- Avoid risk

Principles of Ethical Banking

Principles of ethics, provide a guideline to bankers which help them to deal with ethical issues.

Principle of Trust : Trust means trustworthiness. It inspires customer, investors, regulators and lenders to feel confident about bankers, banking products and banking organizations.

Principle of integrity: It means that there is no intention to treat business partner in an immoral way.

Principle of neutrality: Not to differentiate between employees (internal customers) and customers. No bias in behaviour.

Principle of reliability: Information being provided to customers is understandable, clear and accurate, while offering services.

Principle of transparency: Customers should be updated about their rights and obligations. Banks must assess customer's financials, status and need, before offering the services, in a transparent manner.

For a professional, ethical decision making is most valuable virtue.

1. Must possess knowledge of Law, to comply with all legal requirements
2. Must be careful in maintaining their independence and objectivity. Should not compromise by accepting gift, benefits, compensation
3. Must not engage in conduct of dishonesty, fraud, which can affect reputation and Integrity
4. Must not make misrepresentation regarding offers of products

Case Study Enron

Background : Enron, a US energy giant (7th largest Fortune 500 company) with revenue of over USD 100 billion.

Whistle Blower (a senior executive) highlighted issue of accounting discrepancies, inflated financial statements, fraud and other unethical practices.

Large amount liabilities was managed in off-the-book entity by a SPV backed by Enron stock.

Towards end of 2001, company failed to pay dues and its stock value slipped from USD 90 to 0, by Dec 2001.

Auditors (Arthur Anderson) also lost their credibility.

Reason for crisis

- Promoters targeted fast pace growth
- Rapid diversification undertaken
- Non-core activities also ventured into

Lessons

- Unethical accounting policies and misrepresentation in financial statements cannot be used to achieve ambitious targets
- Companies must avoid unfair practices and poor transparency
- Good corporate governance only can help achieve success in long term
- Pre-crisis preventive measures should be used.

Global Financial Crisis (GFC) 2008

GFC became evident in 2008, when major banks faced immense financial stress in US and world over.

Modus operandi:

1. Due to upwards movement in property prices, real estate investment became lucrative.
2. Lower interest rates offered on mortgage loans attracted a large no. of mortgage investors.
3. In order to increase the portfolio, banks lent money to borrowers with lower credit rating.
4. Lender pooled these loans and created asset backed securitized assets and sold to hedge funds/investors.
5. Soon the sub-prime loans faced default, which lead to GFC, world over
6. Top investment bank like Lehman Brothers, Bear and Stern and Merrill Lynch, vanished.

Unethical dimension

- Failure to adhere to principles of ethics and absence of transparency caused CFC
- Mortgage brokers did not bother about creditworthiness of borrowers.
- Banks did not conduct proper scrutiny of loan applications, in order to build business volumes.
- Rating agencies gave biased rating.

Failure of Satyam

Satyam was major IT company. Management acquired large stake in real estate and infrastructure company. The shareholder did not approve this.

A whistle blower alerted the Board members about financial misrepresentation by the company management.

This resulted in resignation of merchant bankers, external auditors.

Later it was discovered that corporate governance structure was weak, in monitoring actions, policy and decision making.

Independent directors' role was ambiguous. They could not detect the manipulations by executives.

Learning points

- Scanning of inaccuracies must be carried out, regularly.
- Reputation of whole industry adversely affected and other players were placed under scrutiny by regulator
- There is need to follow effective corporate governance practices.

- Selection of top management should be done carefully

Failure of Global Trust Bank –GTB (India)

GTB was a new private sector bank with state-of-the-art technology. Bank collected deposits of Rs.27 billion within 3 years. Later bank faced stressed loans worth Rs.15 billion.

It could not maintain regulatory capital. This led to imposition of moratorium, which affected depositors.

Promoters sold their stake and opted exit.

Findings by SEBI and RBI:

Promoters were connected and resorted to insider trading and were part of stock market scam.

Financial accounts were manipulated. CAR was negative.

Capital market exposure of bank was much beyond the exposure limits of RBI.

On RBI's suggestion, bank was merged with OBC.

Learning points

- Key reason for failure was unethical practice followed by management.
- Staff also extended special favours to certain customers without proper evaluation.
- Bank ignored potential risk.
- The principle of trust was violated by the bank, so far customers were concerned.

Chapter-46

Ethics at Individual Level

Values represent desirable behaviour. Values are derived from norms present in our society and culture.

- Values are the standards or measures to make judgment about right and wrong.
- Values are taught during childhood by parents, teachers, family members.
- A person continues to learn the values even sub-consciously, which are imbibed in a person's personality and becomes integral part of actions and thoughts.

Characteristics of Values

- Values provide standard of competence and morality
- A person has selective values (and not a large no. of values)
- Values act as a measure
- Values are perpetual (strong beliefs) and change over a period and not quickly
- Values are at core of personality of a person. Persons are distinguished on basis of their value-system
- Values carry judgmental element (as subjective or objective).

Terminal Values

- These are desirable state of existence.
- It is enduring belief that certain end-state is worth attaining (say peace)

Instrumental Values

- These are tools to acquire terminal value.
- These are in the form of behaviour.
- These are core & permanent values

Example : Polite, obedience

Norms

Norms are expectations of appropriate behaviour.

- These are manners, expected by a person from other persons, to act in a given situation.
- Are not published. Hence may be obeyed or may not be.

- Can be made mandatory by sanctions of a group through penalty.

Beliefs

- Beliefs are standards of thoughts
- Beliefs may evoke or may not evoke action
- Beliefs are most primitive and central of mental constructs.
- Beliefs are key constituents of personality and sense of individuality.
- Our reactions to others are based on beliefs and perceptions.
- Beliefs like racism, religion, prejudice are difficult to understand

Values, Norms, Beliefs: Role in management

- Corporate culture is a set of values, beliefs, norms & goals and the manner to solve problems.
- An important component of organization is the ethical culture, which represents ethical principles of the organization.
- It also exhibits the influence of its co-workers and possibilities for unethical behaviour.
- More ethical employees are likely to make less unethical decisions.
- Corporate culture and ethical culture are closely related.

Core Values

Core values are the fundamental beliefs of an organization or a person.

They direct behaviour and help companies understand the difference between right & wrong and whether they are on right track.

Organizations managed by value have 3 elements: (1) identification (2) communication (3) alignment with practice.

Morals

Morality is the standard, an individual has, about right or wrong, good or evil.

Example : Honesty is the best policy or Anger is bad.

Moral standards start being absorbed as a child through parents / family friends.

Different moral standards emerge from different value systems, which people hold.

Personal Values

Personal values provide internal interface for what is good, beneficial, important, useful etc.

Ranking of these values may provide the order in which people do certain things.

Personal values denote as to what is right or wrong, good or bad.

When personal values are held rigidly, these can also give rise to conflict situation.

Purpose served by personal values in organizations

1. Standard of behaviour
2. Guidelines for decision making and conflict resolution
3. Values affect thoughts and actions
4. Influence on perception and motivation of employees
5. Strong influence on behaviour and attitude

Personal ethics and Business Ethics

Personal ethics

These govern individual's beliefs about morality.

These are basic values or standards which impact interaction amongst individuals.

These are different from business ethics, legal ethics as they come from outside and not from inner conscience of a person

Business ethics

These are formal or informal codes of guidelines or values, which impact decision making.

While developing ethical code, it should align the business ethics with personal ethics.

If discrepancies occur between the two, employee may value freedom and autonomy and organization will follow rule-bound hierarchy-oriented conduct.

These situations can increase conflict

Conflict between personal & business ethics

Corporate decisions are taken on business goals which exclude individual goals. Clash may arise

1. Individual ethics may clash with pre-dominant group ethics

2. Individual ethics of single dominant person if good, will generate positive outcomes and vice-versa
3. In certain case, employees may be told to ignore the issues, considered unethical

Individual integrity and responsibility

Individual Integrity

Integrity stands for complete adherence to code of values.

- Without integrity a person is incomplete / divided.
- When a person fails to keep his commitment, he gets out of integrity.
- To restore integrity, 1st accept that there is failure and then complete the commitment by recommitting or by altering the commitment
- Restoration of integrity is important as it gives ability to deal with situations effectively.

Responsibility

It stands for moral, legal & mental accountability.

- A responsible individual need not blame others for failure or feel guilty.
- When an individual fails to accept responsibility, he looks for alibi or gives explanation, to prove that it was beyond control.
- In a business situation, the responsibility is that of the entire team, where individual has to be supportive.
- Apologies are not important. Recombitment is important.

The Golden Rule

Moral principle is also known as Golden Rule.

It is also known as ethic of reciprocity.

Reciprocity stands for return of small favours, almost equal in value.

- Rule suggests that people should aspire to treat others, as they would like to be treated by others with tolerance, consideration and compassion.
- Golden rule has universal acceptance and application.

3 Golden Rules of Ethics

- While developing and identifying core values, these rules are kept in focus.
- These rules have not been propounded by any one author or philosophy or religion.
- Everything you want others to do to you, you should do to others
- Do not do to others, that you do not wish them to do to you
- Do not do anything to others, which if done to you, can cause harm to you

Doing right things after understanding

- Through morality, we understand right and wrong conduct. Leaders learn it very early.
- Actions which take into account rules defining our duties and rights of others, are right.
- Tendency to do right, indicates ethical behaviour

Ethical reasoning and real-world application

Ethical reasoning is a process to recognize, as to which decision require ethical judgment, determine and find support for potential reasonable course of action and applying the best supported course of action.

All thinking has following ingredients:

General purpose: Individuals try to determine ethical goals which he/she wants to achieve

Raise questions : Identification of issue being faced and formulation of key ethical question embedded in the issue

Utilise concepts : Identification of ethical definitions, theories applicable for reasoning on the issue

Make assumptions: Assumptions should be justified and evaluated from understanding perspective of ethical issue

Draw conclusions : This on basis of reasons for ethical issues.

Find implications : View implications of conclusions and evaluating conclusions from perspective of consequences.

Theory of moral judgment

L. Kohlberg developed the theory of moral judgment, based on objectivity, fairness and justice. There are 3 levels of development i.e. pre-conventional, conventional and post-conventional

Application of Business Ethics:

Ethics for HRM: These are highly important because HRM is associated with human issues such as health, safety, skill development and compensation

Ethics for Marketing: These are philosophy that promotes honesty, fairness and responsibility in activities.

Ad should not be misleading. It should create balance between self-interest and social responsibility

Ethics for production: It should focus on wellbeing of consumer and society, by providing best quality products. Production process should be updated.

Ethics for finance: Customers and company should be served with honesty and integrity.

Conflict of interest should be avoided. Information to customer should be accurate, fair and timely

Resolution of Ethic Dilemmas

A company has 2 divisions, A and B. Division A is in profit and B is loss. Company is in profit, but increasing losses of B are a burden and can result in overall loss in near future.

Choices before the company?

- Close Division B and remain in profit and continue to provide employment to Division-A
- Do not close B, because employees will be rendered jobless.
- Should the company be closed? It is ethical dilemma. Both solution are right. Which one is more right ?
- Ethical dilemma occurs where there is clash between 2 rights (and not between right and wrong).
- A bigger dilemma occurs when there is conflict between economic goals/performance and social performance. Resource allocation here is large dilemma

Alternatives in Ethic Dilemma

- ED exists when choice is to be made among following alternatives
- Significant value : there can be conflict between different interests
- Real alternatives – These can be equally justifiable
- Significant consequences: These can be on stakeholders, in that situation

Resolution of Ethic Dilemmas (ED)

ED needs to be resolved as a win-win situation and not as a win-lose situation.

For this, ingenious thinking is required to generate alternatives.

It is possible after complete and comprehensive understanding of problem/situation, in a most objective manner.

Steps involved

- Acceptance that there is moral issue
- Ascertain the people who shall be affected.
- Collect facts about sequence of occurrence
- Ascertain test for right and wrong
- Ascertain test for more right and less right
- Work through 3 approaches i.e. thinking based on end-do, rule based thinking and care based thinking.
- Investigate if there is any other alternative
- Make decision
- Take decision
- Revisit the decision
- Individual factors + organizational factors influence, a manager's response to solve ED. These factors include the following

Organizational Factors

- Company policy, rules, systems and work procedure
- Organizational culture and values
- Organization structure and hierarchy
- Attitude of top management
- Revisit the decision

Individual Factors

- Manager's perception

- Personal background and characteristics
- Personal value system

Framework for Ethical decision making in Banks

Bankers' decisions have implications for revenue, cost, profitability. These decisions affect all stakeholders.

Traditionally 4 factors are taken into a/c for ethical decision making:

- Desired outcome
- Means used
- Motivation behind
- Possible consequences

Even if a single factor is not acceptable, decision cannot be made.

Character-based decision making model

It is from Josephson Institute of Ethics. It involves 3 steps:

- Decisions should take into account interest and well-being of all stakeholders (help when you can, avoid harm when you can)
- Ethical values & principles to take precedence over non-ethical ones. (what is needed, what should be denied)
- One ethical principle can be violated, to advance another truly ethical principle, to create greater balance of good, in the long run

4-part Moral Compass of Lynn Paine (Harvard professor)

Lynn suggested 4 frames:

- Purpose – to be worthwhile
- Principle – to be consistent
- People – action should respect legitimate claims of affected people
- Power – if have authority for the action

3 more lenses can be added

- Prescription – action should not violate bank's policy
- Public- can the action be made public
- Person- can the action set good example for others

Chapter-47

Ethical dimensions: Employees

In the context of ethics in banking, there are 2 dimensions:

- Internal – it relates to honesty, integrity, transparency, corporate governance, well-being of employees
- External – it refers to cooperation with society, environment friendly practices, commitment to customers etc.
- Ethical dimensions of employees include : person-situation interactions, unethical tendencies, role of managerial ethical leadership.

Bankers' obligations

- To honour cheques
- To maintain secrecy
- To follow customer instructions
- To honour vendors' claims (no pick-choose)
- To keep records in order (updated and correct)
- To give notice before closing an account
- Compliance with regulatory and govt. directions and law

Rights of banks

- Right of lien for the amount due to be recovered
- Right of set-off against deposit in same name same capacity, to recover due amount
- Right to charge and change interest and commission, with proper notice
- Closure of accounts, after giving notice to the customer.

Obligations to 3rd parties – Fiduciary Responsibility

Under KYC Directions of RBI, for customer due diligence (CDD), banks can rely on 3rd party (including CKYCR), subject to conditions:

- CDD record to be obtained to be obtained within 2 days from 3rd party.
- Copies of ID and other documents for CDD are made available from 3rd party, on request
- 3rd party is regulated entity and monitored and supervised in line with PML Act 2002.
- 3rd party should not be based in a country assessed as high risk
- Ultimate responsibility of CDD will be of the bank

Other requirements of CDD

- A/c in Benami/fictitious names not to be opened.
- A/c not to be opened in absence of CDD or non-cooperation of customer or non-reliability or non-submission of required documents
- Mandatory information should be obtained in all cases. Optional information, which customer consent only.
- CDD procedure shall be applied at Unique Customer Id Code (UCIC) (i.e. CDD required only once)
- CDD in joint a/c to be done for all joint holders
- ID of a person not to match ID of persons whose name appears in list of sanctions circulated by RBI.
- Circumstances should be spelt out, where a person is acting on behalf of other party.
- CDD should not result into denial of service.

Outsourcing activities at NBFCs

Outsourcing refers to use of 3rd party to perform activities on continuing basis that can be normally by NBFC.

- Outsourced activities should be within regulatory purview to:
 - Protect of interest of customers
 - NBFC and RBI access to records of service provider.
 - Directions are applicable to material activities.
 - Service provider can be part of NBFC group or independent
 - Service provide to provide same standards of service, as NBFC.

Risk in outsourcing

- Strategic risk,
- reputation risk,
- compliance risk,
- operational risk,
- legal risk,
- counterparty risk,
- concentration risk,
- systemic risk

Activities not to be outsourced

- Internal audit
- Compliance function
- KYC compliance
- Loan sanctions
- Investment portfolio

Material outsourcing arrangement

- It stands for those activities, which, if disrupted impact operations, reputation, customer service, profitability. It is based on:
 - Level of importance to NBFC
 - Impact of outsourcing on NBFC's earning, solvency etc.

- Likely impact of reputation
- Cost of outsourcing, as % of total operating cost of NBFC
- Aggregate exposure to single provider
- Significance of outsourced activities in customer service

NBFC role and regulatory/supervisory requirement

Outsourcing does not reduce obligations of NBFCs.

- NBFC is responsible for outsourced activity including DSA/DMA/ Recovery agents
- NBFC must perform due diligence
- Outsourcing does not affect rights of customers, in any manner.
- Service providers not to impede ability of NBFCs to effectively oversee and manage its activities.
- NBFC to have robust grievance redress mechanism.
- Service provider will not be controlled /owned by any director of NBFC.

Risk Management Practices

- NBFC to put in place a comprehensive outsourcing Board approved policy.
- Role of Board
- Approval of risk framework
- Approval of approval authorities
- Establish suitable administrative framework
- Regular review
- Decision material activities

Role of Senior Management

- Evaluation of risk and materiality
- Developing/implementing sound & prudent policy
- Periodic review of effectiveness of policy
- Ensuring contingency plans are in place
- Enduring independent review and audit
- Undertaking periodic review of outsourcing arrangements.

Risk in outsourcing

The NBFCs shall evaluate and guard against the following risks in outsourcing:

- Strategic Risk — Service provider (SP) conducts business on its own behalf, inconsistent with NBFC.
- Reputation Risk — Service provided is poor and customer interaction is not consistent NBFC.
- Compliance Risk — Privacy, consumer and prudential laws are not adequately complied with.
- Operational Risk — Technology failure, fraud, error, inadequate financial capacity to fulfill obligations and/or to provide remedies.
- Legal Risk — NBFC has to pay fines or punitive damages due to supervisory actions.
- Counter party Risk — Inappropriate underwriting or credit assessments.
- Contractual Risk — Not able to enforce the contract.
- Concentration and Systemic Risk — Overall industry has considerable exposure to one service provider. Hence NBFC may lack control over the service provider.
- Country Risk — Due to the political, social or legal climate creating added risk.

Evaluation of System Providers in Outsourcing

Appropriate due diligence is required on the basis of quantitative and qualitative, financial, reputational and operational aspects.

Important factors are:

- Past experience and competence
- Financial soundness and ability to service the commitment
- Business reputation and culture, and compliance
- Security and Internal controls, business continuity management

- Due diligence of employees' of service providers by service provider.

Outsourcing agreement

- Clearly spell out what activities are covered
- Authority to NBFC to have access to books of service provider
- Continuous monitoring and assessment by NBFC of service provider
- Termination clause
- Protection to customer data secrecy during and on expiry of contract
- Contingency plan to run the business
- Approval or consent by NBFC for use of sub-contractors by service provider
- Right to conduct audit by NBFC
- Authority to RBI to have inspection and access to books of NBFC and service provider

Abuse of Official Position

Employees are required to follow Code of Conduct prescribed by bank. Following shall be included in abuse of official position:

- Claiming reimbursement for personal travel, as official travel
- Showing discrimination to customers based on proximity
- Use of official resources for personal use
- False claims beyond prescribed perquisites.

Insider Trading

- Trading in stocks of a company, based on privileged information accessed by employee
- Example : An employee having information about loan account of large listed company to be declared NPA by bank, buys/ sells shares to make profit.

Proprietary Data

Employees to keep data confidential which relates to intellectual property rights or trade secret or stakeholders, vendors, customers, promoters etc.

Bribes

- Bank employees are not supposed to take or give bribes.
- Officials, due to their position in loan departments, are expected to keep away from accepting favours or gifts from their clients.

Bank's service regulations should clearly specify the rules regarding this.

Sexual harassment

Banks in India have implemented appropriate system of handling these cases.

RBI had notified rules in 1998 based on Supreme Court rules called *Sexual Harassment in Work Place*. As per these, banks are to:

- Bring to notice of employees, definition of sexual harassment
- Modify conduct rules accordingly, if needed
- Appropriate working conditions be provided
- Establish mechanism to handle harassment cases

What is included?

- Physical contact
- Demand for sexual favour
- Sexually colored remarks
- Showing pornography
- Other unwelcome physical, verbal, non-verbal conduct

Consequences

It will be deemed discriminatory when a female has reasonable ground to believe that her objection would disadvantage her in connection with her employment or work or recruitment or create hostile behaviour towards her.

Job discrimination

- It refers to differentiating employees based on religion, sex or race.
- Large no. of cases have been lodged by employees seeking justice in Indian context.

Management of Conflict of Interests and Disclosure requirements

Conflict of interest refers to a situation where a person can derive personal benefits from official position. These leads to unethical behaviour.

These can be between a bank & customers, among employees or employees and clients.

Prevention:

- Identification and prevention of such situations
- Setting up an institutional mechanism and control the situation as per degree of risk (one with highest risk to be addressed first)
- Full disclosure to parties likely to be impacted.

Fair Accounting Treatment

In its circular of July 2012, RBI advised banks about disclosures about accounting practices. 2 major disclosures relate to:

- Min disclosures: Banks should make comprehensive disclosure in addition to those listed in the circular, which aid in understanding of financial position and performance of bank.
- Summary of significant accounting policies: Banks should disclose this in Schedule 17.
- Disclosures cover transactions in forex, loan provisions, investment portfolio, fixed assets, depreciation, revenue recognition, employees benefits etc.
- Disclosure requirements: Under Pillar-3 of Basel Committee, disclosure to be made to encourage market discipline for CAR, risk exposure, ICAAP, while complying with AS1.
- Accounting standard 18 : It relates to related party transactions. The format is based on suggestions of ICAI. It covers parent, subsidiaries, JVs, key management persons for borrowing, deposits, investments, non-fund commitments, leasing etc.

HRM Ethics AND Fair practice code for Lenders

Banking is a people's business. Hence emphasis on HRM.

HRM relates to a process to design and manage formal system to optimally utilize the human resources.

Activities include staffing, compensation, job descriptions, training & development etc.

Satisfied bank employees are motivated ones, in performance of banking functions.

Retention of talent depends upon compensation as well as environment provided, in the form of ethics, governance, knowledge enhancement etc.

Fair practice code for Lenders

- RBI had issued guidelines in 2003. Mains aspects are:
- Loan application for PS Loans up to Rs.2 lac should be comprehensive.
- Acknowledgement should be given along with a time line for disposal.
- Need for additional documents to be conveyed immediately.
- Reasons to be given in writing for rejection of application
- Security and margin not to be used as substitute for proper appraisal.
- Terms & conditions of loans to be conveyed and got accepted
- Terms should be mutually settled.
- Copy of loan agreement to be provided
- Consortium members should evolve appraisal procedures.
- Disbursement should be made on time.
- For loan up to Rs.2 lac, lenders should be constructive to take care of genuine difficulty of borrower

Chapter-48

Work Ethic and Workplace

Work ethic can be assessed by observing and analysing:

- How an employee feels about the job
- How he values the task
- How he is engaged in, with organization.
- Whether he feels sense of purpose and considers himself part of organization's vision and mission
- How he is engaged with peers, subordinates and seniors
- How he communicates with customers (external stakeholders)
- A person who clearly identifies through his belief, feeling and actions, he engages with the organization productively. He can be said to be high on work ethics.
- Work ethic can be imparted in employees having low commitment and low values at work place

Inappropriate Behaviour

Inappropriate behaviour at workplace

- causes difficulties
- Anguish to customers
- Results in reputation loss for the organization
- Inappropriate behaviour can be corrected and some positive attributes can be developed through fair treatment (as done with prisoners Netherlands by creating cells)

Something bigger than The Self

There is hierarchy in which one needs to think about purpose of life.

Self : Individuals remain busy in personal achievement. They realize that they have ended active part of life. Some feel, that due to some reason, they could not help others financially or emotionally.

Family : Issues concerning core family members (spouse, children, parents), consume substantial time of active life of a person. The issue range from health to education, care, assistance in settlement,

Community : There is expectation of community to help people. While doing so, a person needs to remain ethically conscious. Help should be limited to motivating, financial assistance, receiving training, etc. A person should not go out of way

Religion : Those having faith in a particular religion can also render free services in places of worship. They can participate as devotees. The religious faith should not be canvassed at work place.

Society at large : Larger social issues such as helping the under-privileged, physically challenged, mentally retarded, rural poverty also need support of individual, as Govt. alone can not do it.

Individuals who are settled in their life, can make voluntary contributions in terms of money, time, effort etc. for this cause.

Global cause: issues like solving environment problems, international child trafficking, money laundering, sustainable development, global ethics, need attention of all individuals.

Polluting industries and entities which use outdated processes and technologies, use child labour, should be financed by banks.

Summary : In short we can conclude that employees of organizations can think beyond salaries, pay-rise, promotions etc. A person in mid-30s can start working on "*something bigger than the self*".

By moving out of narrow perception of self growth, a person can contribute to well-being of society for larger growth.

Let us remember Gandhiji, Mother Teresa, APJ Abdul Kalam.

Acceptable Ethical behaviour at Work Place

Actions that are appreciated by management and other stakeholders in an organization, can be termed as ethical behaviour. It can be in the form of:

- Completion of a task as early as possible, if it is fully legal, within organization's policy and does not violate guidelines or code of conduct.
- Talking high about the organization and its policies is part of ethical behaviour.
- Resolution of conflict or difference between employees to be done after working hours and not in front of customers.
- Not to speak about salary, work condition, stress matters in public. It can be done redress meetings.

Acceptable Ethical Behaviour of Employee

- It involves general set of beliefs, values and behaviour which is shaped up for day to day method of delivery of service, to all types of customers.
- It can be by extending help and courtesy to the customer.

Ethical Work Place - Identification

Such places can be identified on the basis of:

- Respectful treatment by front-office personnel
- Awareness of employees about business processes and quick and to the point response to customer queries
- Providing accurate and updated information to customers regarding charges, interest etc.
- Strict adherence to documentation prescribed by bank policy and regulators.
- Appropriate attire as per profession of employee which should provide comfort to customers
- Appropriate body language and gesture displayed.
- Confining to work related issues.
- No expectation of gifts/favours from customers
- Fair treatment to all co-workers
- Display of details of senior officers of the bank

Causes of Unethical Behaviour at work place

Major causes can be classified as under:

- *Code of Ethical Manual* – If organization does not keep such manual and employees fault, they can pretend ignorance and plead innocence.
- *Fear of action* : If employees feel that management is strict about unethical behaviour, they behave differently. Other employees do not take chance of unethical behaviour if some one is punished for such behaviour. Such visible action, will arouse fear.
- *Unrealistic targets* : To meet competition, employees can be pressurized to meet the targets. Products may be sold by misrepresentation. Some employees may use short-cuts and claim credit for work done by some other employee.
- *Influence of co-workers* : Some workers focus on personal work at work place during working hours. They bring ill repute to the organization. Hardworking employees are belittled by such employees. Such behaviour influences new employees.
- *Unprincipled leadership* : If top management is found to be involved in unethical actions, juniors lose respect for them and their advice.
- *Means are not appreciated* : To achieve business targets, if employees follow unethical behaviour, they may be appreciated for results and those who display ethical behaviour, but fail, do not get any applaud. This emits bad signal about organization. Employee may focus on ends only and not on means.

Case Studies on Unethical practices

1. Abuse of official E-Mail

Mr.X joined a private bank 3 years ago. Bank provided personal e-mail ID to him, like other employees, to meaningfully communicate.

- Senior management was receiving complaints about X at work place, but did not take any action.
- An e-mail was received by few colleagues from ID of Mr.X. One of them (A), took print and shown it to Vice-President Mr. VP.
- E-mail contents were found highly critical about functioning of top management and lack of knowledge of Board Members. He raised objection about Mr.Z (a senior functionary) stating that he is making lot of money by diverting bank's money and has been given bonus also, whereas other employees are not getting any thing for hard work, they are doing to generate profits.
- VP decided to initiate enquiry and constituted a 3-member committee, to give report within 4 weeks. Committee asked X provide proof, which he could not, except suggesting that entire bank knows these facts.
- Committee recommended exemplary punishment.

- X has options (1) to take legal action against the hotel by approaching the court. But that may take long time to decide (2) to seek compensation from hotel and settle the matter (3) to stop staying at the hotel chain and suggest his friends not to go to that hotel.

Hotel management can initiate some action against staff, who leaked the information. It is also possible that staff concerned, might have left the job.

Issues

1. If lack of ethics involved?
2. If so, who is unethical and why?
3. What suggestion can be given to employees, internal management and Board?

Answers:

1. There is lack of ethics on part of the hotel management in not ensuring confidentiality of customer data
2. Staff that leaked the data. Internal management and Board failed to ensure leakage of data. Hence all responsible.
3. Board should re-visit the processes, to ensure that this does not happen again. Further they should start dialogue with X to redress his grievance.

5. Helping friends by disclosing classified data:

Ms. Z joined a reputed bank 4 years ago, in IT section. In recruitment process, she got lot of help and guidance from F, father of her classmate, G. Z feels very obliged to F.

Recently she got a phone call from F, seeking some favour from Z. F is in process of finalizing a bridegroom for G out of short list of 2 persons, having accounts Z's bank.

F is specifically interested to know whether debit or credit card transactions of these 2 persons are normal or have some flaw. Some of the transactions may be related to their habits i.e. payment of bills from pubs and bars.

Issues

1. How she should deal with the request (give information or deny it)
2. If information is disclosed, whether it amounts to breach of trust?
3. She is not getting any consideration out of this deal. If she provides information, will it still be justified?

Answer:

1. Disclosing customer information to outsiders is not allowed by banks and is specifically prohibited through Code of Conduct.
2. Violation of code of conduct is breach of trust. Further it will also be deemed unethical.
3. If information is disclosed and management comes to know about this, she can be punished.
4. In the light of this, she must explain the position to F and not provide any information.

Personal Work during Office Time

All time monitoring of all employees is not possible in a medium or large size organization. Some employees may be doing personal work at some point of time, during office hours. Type of personal work could be:

- Filing of tax returns of family members
- Taking up assignments for clients
- Online shopping searches
- Guiding their own employees in their small business
- Helping in completion of assignments of their children
- Working for other organizations informally

Reasons for engaging in personal work

1. Low on work ethics
2. Least respect for customers
3. Intention to earn more money
4. Unquestioned job security available
5. Not finding family members capable to carry their own tasks
6. Demotivation and distract due to not getting promotion on time

Consequences

- X was called by Management and was asked to submit resignation stating personal reasons. Initially, he was not agreeable. Later, on advice of his relatives, he submitted the resignation.

Preventive action

- Committee recommended to incorporate e-mail etiquettes in Code of Ethics. Management promptly acted upon this advice, by revising the Code.

2. Pre-employment Test

Ms.B, 25, qualified in the common test and interview and GD in a large financial institution (FI). As part of pre-recruitment condition, she was to undergo a medical test, which involved pregnancy test also. When she disclosed to Medical Officer (MO) that she is pregnant, she was told to get it terminated. Since she did not want to miss the job opportunities, she got the pregnancy terminated.

On getting the medical report and other documents, she was allowed to join the FI. After 5 years' service, she found the job uninspiring and joined another FI.

She enquired from MO at the time of shifting to new job, as to why pregnancy is a disqualification.

MO disclosed that due to pregnancy, the FI had to pay large amount of extra premium for her medical insurance, which was part of compensation package. Further, she would also require maternity leave.

This type of problem does not arise in case of males or females already having 2 or more kids.

Issues

In a service career of 30-35 years, one or 2 maternity leave, really matters to organization?

Ans: Should not be.

Is it gender discrimination, illegal or unethical.

Ans: It is not illegal. But it is unethical and gender discrimination.

Can such employees be asked to bear extra premium on health for pregnancy risk and allowed to join.

Ans: Yes. It can be a workable solution

Males may be spending more time in office, compared to female. Are they more valuable simply on the basis of time they spend?

Ans: Time spent in office is one criteria but productive long time spent is another.

3. Personal habit

Medical examination of about 200 employees of a Company was got conducted from a Path Lab to know whether they were alcoholic or smokers. These reports were shared with insurance company, which provided health cover to employees, as part of compensation package. These details are also incorporated in employee data, by adding a new column, by HR Department of the company.

Employees protest, claiming that they are following code of conduct within office and company should not be concerned with their social and personal life. Further their privacy is violated since information is included in employee data & with insurance company.

The company management informs the employees that insurance company has to incur huge expenses on employees having such habits due to higher incidence of kidney failure, lung or throat cancer, compared to those, who do not have such habits.

Company management appreciates the concern and assures them that the findings of Lab test will not be shared by company with outsiders. Employees are not convinced and tussle is going on.

Issues

1. Is it ethical to have such have such tests?
2. Is it OK to put such information in employee data, which violates privacy?
3. Should the company negotiate with insurance company not to ask for such information, while getting the group insurance policy?

4. Data Leakage

During visits to different places, X stays with a particular Hotel Chain (a listed company) for the last 10 years. The Hotel chain offers good discount to such clients who patronize them.

On day, X came to know that his wife got specific information about what food or drinks he enjoys during his stay and places he visits during site-seeing. His wife, a working women also uses the services of this hotel chain. How she got the information, is unknown.

Dealing with complaint:

- If required, RBI will ascertain from the person, whether he/she has made the complaint
- If identity of complainant is concealed, RBI will make discreet query before proceeding further.
- If RBI finds substance, it would call response from CMD/CEO of concerned bank
- After such response or independent scrutiny by RBI, if RBI finds that allegations are substantiated, it will recommend appropriate action, to concerned bank.

Whistle Blowing Law in India

- It was observed the whistle blowers faced life threats or injured or even killed.
- To provide legal sanctity, Whistle Blowers Protection Bill was introduced in Parliament in 2010. After study by Standing Committee, it was passed by Lok Sabha in 2011 and by Rajya Sabha in 2014.
- President gave assent to Whistle Blowers Protection Act, in May 2014.
- It provides mechanism to investigate alleged corruption and misuse of power by public servants and protect the complainants, who expose wrong doings in govt. organizations.
- CVC has responsibility for protection of complainants

Chapter-49

Banking Ethics: Changing Dynamics

Banking services delivery has undergone substantial change during last 2-3 decades, with increasing focus on customer and customer needs.

- Mergers of banks further increased the competition.
- Single most important factor behind this is use of IT.
- IT is broadly used through communication & connectivity and business process re-engineering.
- IT helps in sophisticated product development, better market infrastructure, control of risk and cover geographically distant market places.
- IT has 3 important aspects of banking i.e. access to liquidity, transformation of assets and monitoring of risk.
- IT and communication networking has crucial bearing on efficiency of money market, capital market and forex market.
- Earlier to 1990s, a bank was considered customers friendly when services in branches were offered efficiently. Now customer rate the banks, through their mobile screen to express satisfaction or otherwise.

Role of IT In Banking Operations

- IT changed the way, banks communicate with internal and external customers.
- IT provides low cost and economical options without compromising on quality of service to customers, leading to increased customer satisfaction and profitability.
- Many IT-based tools such as internet, emails, mobile phones and other digital channels provide excellent platform for cost-effective, personalized and interactive communication between banks and customers.
- Process of computerization started with 1st C.Rangarajan Committee in 1984 followed by 2nd C. Rangarajan Committee in 1988.
- Later on WS Saraf committee in 1994 recommended establishment of EFT & ECS.
- Banking sector achieved a no. of milestones over the years in use of IT by way of ATM network, CBS, RTGS, NEFT, ECS, Internet banking, Mobile banking, E-Payment instruments.
- Focus has shifted to adoption of latest technology for analysis and business intelligence to improve CRM, MIS etc.

Role of ethics in IT:

- Banks capture, store, analysis and make use of large amount of data related to customers.
- Banks have primary responsibility to ensure against data leaks and data misuse.

- 7. Inadequate work load related to a role
- 8. Unassertive supervisor

Ethics of a banker

For ethical commitments, bankers can be evaluated at 3 stages:

- Initial stage : Within 5-7 years of entering into banking career
- Middle management : 7-15 years
- Senior management : > 15 years
- In 1st stage bankers need to be groomed in ethical professionals through adequate training & informal interactions.
- Those having intension to stay on have to be engaged in ethical behaviour.
- Trainers and coaches should be of younger age for young employees, to enhance communication.
- Employees with > 15 year experience, can try to resolve inter-personal issues, create environment of free dialogue, familiarize new employees about pressure on senior management and Board for performance.

In 2012, OECD Observer (*a magazine from OECD*) conducted a survey of bankers covering US, UK.

Findings of the survey pointed out that:

- 1 out of 6 was ready to break law relating to insider trading, if it earned \$ 10 million.
- 1/4th of them had 1st hand knowledge of misconduct.
- 1/3rd are convinced that to move up, unethical or illegal conduct is helpful.

There have been scandal also such as trader across 20 banks in 3 continents colluded to manipulate calculation of lending rate LIBOR, which is used for Interest calculation in millions of mortgage loans.

These instances reduce confidence in banking system.

It is true that employees with high ethical conduct do not fall prey to attractions in the form of money or material.

Ethical Qualities of bankers

- Honesty and integrity
- Commitment to customers' interest
- Confidentiality of information
- Fair treatment to all stakeholders
- Transparency in dealings
- Duty minded-ness

Whistle Blowing in India

Policy for PSBs and RBI is under purview of CVC since 21.04.04. In 2007, RBI introduced Protected Disclosure Scheme of Private and Foreign Banks.

Scope and coverage:

- Employees, customers, stakeholders, NGO or members of public, can lodge the complaints
- Anonymous complaints will not be entertained
- RBI, to receive complaints as Nodal Agency.
- Institutions can initiate against complainants which are found to be making motivated or vexatious complaints
- Final action to be intimated to complainant.
- Complaints can be lodged with Department of Banking Supervision, in RBI, Mumbai.
- Identity of complainant to be kept secret.
- To protect the complainant, RBI shall not issue acknowledgement.

Areas covered

- Corruption
- Misuse of office
- Criminal offences
- Suspected frauds
- Actual frauds
- Non-compliance of RBI regulations resulting into loss of reputation, financial loss, operational risk

- Customers need to be assured that customer data is handled in a fair and transparent manner, so that customers have trust in banking system.
- Banks should have system in place to ensure that data is not shared with 3rd parties, for selling and marketing purposes. Misuse of data in this manner, can bring ill repute to bank.

FinTech and RegTech

- Fintech refers to financial technology that describes the emerging financial services sector.
- RegTech stands for Regulatory Technology created to address regulatory issues through technology.
- As per IDRBT (of RBI), FinTech entities are accelerating are reshaping the financial services sector, radically.
- Banks and FIs have been adopting various FinTech innovations.

Report on FinTech and Digital Banking (2018)

Committee headed by S.Sen, submitted report to RBI in Feb 2018.

Major recommendations include:

- Need for deeper understanding of FinTech products (example smart phone for mobile banking or crypto currencies)
- Regulatory actions may include disclosure to light-touch regulation and supervision to tight regulation & Full-fledged supervision.
- Need for more understanding of risk in platform based FinTech
- Regulators to identify sector specific FinTech products and regulatory approach.
- Adoption of digital channels to replace manual processes
- Innovation labs be set up to combine products with technology.
- Insurance entities may collaborate with InsurTech.
- Regulators to engage with FinTech entities to develop regulatory path.
- Provide an environment to develop FinTech innovations.
- To bring regulatory and legal framework for FinTech products.
- Regulators may use RegTech to effectively regulate the system

Data Security and Privacy:

With banks moving from offline to online operations the risk related to data security is critical.

Further, a part of such operations is handled by FinTech entities, which exposes this data to more risk.

Management of this risk critical. Hence bank staff should have appropriate level of integrity, awareness, and capability to ensure compliance and privacy.

RBI provided Guidelines on Information Security, E-Banking, Technology Risk Management and Cyber Frauds.

Important points are provided.

- Banks should define and implement processes to ensure integrity and consistency of data in data base, data warehouse or data archives.
- To protect data in a uniform manner, tools like data classification and protection profile be used.
- Policies related to media handling, disposal and transit should be implemented to enable use of protection profiles.
- There should be secure storage of media. Controls can be physical or environmental, to limit access.
- For more sensitive information (application source code) more extensive control be in place.
- Banks need appropriate disposal procedure for electronic and media waste.
- Security of media or customer data in-transit should be ensured using encryptions.

Data Leak Prevention (DLP)

It provides comprehensive approach covering people, processes and system which identify, monitor and protect data in use (end point actions), data in motion (network actions) & data at rest (stored data)

DLP solutions facilitate 3 objectives:

- Locate and catalogue sensitive information through out the bank
- Monitor and control movement of sensitive information across bank network.
- Monitor and control movement of sensitive information on end-user systems

Data Privacy

- Working Group headed by S.Sen recommended FinTech companies should invest in technology and analytics to prevent and predict frauds.

- Govt. appointed committee headed by Justice BN Srikrishna gave its report in 2017 and submitted draft of Data Protection Bill in July 2018.
- Report identified 7 principles for data protection law i.e. technology agnosticism, data minimization, informed consent, accountability of data controller, penalties and enforcement of data protection framework.

Intellectual Property Rights and Patents

Intellectual property (IP) stands for creation of assets, by use of one's creativity and innovation.

IP is owned by creator. Unauthorized use is disallowed by law.

It is divided in 2 parts:

- IP such as patents for inventions, trademarks, industrial designs, geographical indications etc.
- Copy rights such as literary work, films, music, drawings, paintings, architectural design etc.
- IPR is a formal mechanism, in which IP is formally established and recognized as an asset.

Patents

- An exclusive right given for an invention or process, which provides a new path of doing something.
- It offers a new technical solution to a problem.
- When a patent is registered, it provides protection to the owner for invention.
- It is also an incentive to the creator by recognizing the creativity.
- Patent is granted for a limited period around 20 years.

Ethics of Information Security

Technology has taken over most of banking functions and IT team is custodian of information related to customers and their transactions.

Failure to check sensitive data leak can create huge losses for banks, cause reputation risk and legal battles.

Hence, awareness about ethical conduct is very important.

IT professional need to be imparted proper orientation and training, to make them understand, ethical behaviour required, to handle such assignments.

Information security rules to be followed

- Creating awareness amongst all employees about information security
- Notifying them existing law and crime events and also the amendments taking place in law and regulations, from time to time.
- Informing the employees of IT attacks on customer information and familiarizing them with profile of attackers, pattern and modus operandi.
- Developing cyber forensic expertise within the bank and nominating IT employees for specialized trainings.

These steps can help to provide shield to avoid such attacks in future.

Cyber Threats

A large no. of bank customers are not well-versed with cyber security threats, despite effort, to educate them.

Precautions : Customer need to set password carefully. 4 features are suggested by banks to customers, while setting PW.

- PW should be Personal, Unique, Secret and Complex.
- PW should not be in form of date of birth/name (self/spouse/child) or in simple format like ABCD/1234.
- It should not be easy to crack.
- It should not be one common PW for all accounts.
- Different PWs for different transactions can be jolted down somewhere, secretly.
- Customer should not respond to calls or SMS on registered mobiles to provide sensitive information.
- During 2017, the hackers gained access to server of Central Bank of Bangladesh and got millions of dollars transferred.

BIS (Bank for International Settlements) Survey

- It identified highest no. of frauds take place in payments, clearing and settlement category.
- Within payment system, retail payments are most vulnerable.

Cyber Security Framework in India

During Jun 2016, RBI advised banks to put in place, the policy on cyber security.

- Policy should be distinct and separate from broader IT/IS policy
- Identify inherent risk and controls for cyber security in line with size, digital products, technology complexity.
- Inherent risk should be classified as low, moderate, high and very high.
- While evaluating controls, aspects like Board oversight, cyber risk management architecture, preventive, detective and corrective security controls, vendor management etc. should be outlined.
- Banks should ensure to remain sustainable while driving productivity and innovation.

Enabling measures include:

- Creation of cyber threats awareness program
- Taking preventive steps
- Providing guidelines in simple format
- Engaging state-of-the art IT security protection system
- Building confidence amongst staff and customers

Digital Rights Management

Digitization involves conversion of information into digital format (which could be read by computer), by organizing the information into bits.

Digital rights means access and control of information in digital format.

Digital rights management involves enforcement of security policy, which uses digitally coded material specified by content owner on computer (and not physical control).

There are 2 categories of contents

Small rights management

- It stands for protecting personal information of customers, financial information related to them, communication of individual or corporate customers.
- Example: web content, protected information

Large rights management

- It deals with mass content such as books, videos, audios.
- User may be charged per view fee.