

# EB — Certificate Course in Ethics in Banking

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## CH-1 Introduction to Ethics

### Topic 1 — Ethics and Why It Matters in Banking

- **Origin** — The word **ethics** comes from the Greek “**ethos**” (“**ethikos**”), meaning **character** or custom.
- **Morals** — The word **morals** comes from the Latin “**mores**”, meaning customs or manners.
- **Meaning** — Ethics is the **reasoned study and practice of what people ought to do**.
- **Questions** — It asks whether a decision is **fair, honest, responsible and respectful** of others.
- **Beyond profit** — It goes beyond asking whether an action is profitable or whether someone can avoid punishment.
- **Daily use** — A banker uses ethics when explaining a product, handling confidential information, responding to an error or resisting an improper instruction.

#### Banking depends on promises

| Who trusts  | What they rely on                                             |
|-------------|---------------------------------------------------------------|
| Depositors  | Records are accurate and withdrawals will be handled properly |
| Borrowers   | Costs and conditions are explained                            |
| Investors   | Information is truthful                                       |
| Other banks | Settlement commitments will be honoured                       |

A small dishonest act can damage more than one transaction, because it **weakens confidence in the institution** making the promise.

#### Nature of ethics

| Feature        | What it means                                                                                    |
|----------------|--------------------------------------------------------------------------------------------------|
| Normative      | It sets <b>standards</b> of right conduct; it judges behaviour, not only describes it            |
| Rational       | Judgments must rest on <b>reasons</b> others can examine, not on feeling alone                   |
| Voluntary      | It works mainly through <b>conscience and self-control</b>                                       |
| Varies         | It may vary across societies and over time, though core values such as honesty are widely shared |
| Applies to all | Individuals, professions, organisations and governments                                          |

#### Why ethics matters

- **Individual** — Self-respect, trust of others and a safe career; one lapse can end a banking career.
- **Bank** — Credibility, reputation, lower fraud and legal risk, better decisions, staff morale and long-term profit.
- **Society** — Stable finance, fair markets, protection of the vulnerable and public faith in banks.
- **Profit** — Ethics is not opposed to profit; it is opposed to profit made by **cheating, exploitation or concealment**.

#### Remember this

- Ethics = Greek *ethos* (character); Morals = Latin *mores* (customs)

### Topic 2 — Values, Morals and Ethics

| Term   | Meaning                                                                                                        |
|--------|----------------------------------------------------------------------------------------------------------------|
| Values | Beliefs about <b>what matters</b> , such as honesty, achievement, security, loyalty and fairness               |
| Morals | Beliefs or practices about <b>right and wrong</b> , often shaped by family, community, religion and experience |
| Ethics | A <b>disciplined way to examine</b> those beliefs and apply them to decisions                                  |

- **Shared value, different views** — People can share a value such as loyalty yet disagree about what it requires in a hard case.
- **Example** — One employee thinks loyalty means hiding a colleague's mistake; another thinks it means reporting it promptly so the colleague and customer avoid a bigger loss.
- **Reasoning** — Ethical reasoning examines the **consequences, duties and rights** involved instead of accepting the first emotional reaction.
- **Limit of loyalty** — Loyalty to a person cannot automatically override **honesty** or a customer's legitimate interests.

#### Rokeach's two types of values (Milton Rokeach, 1973)

| Type               | Meaning                                             | Examples                            |
|--------------------|-----------------------------------------------------|-------------------------------------|
| Terminal value     | An <b>end goal</b> ; a desirable state of existence | A comfortable life, wisdom, freedom |
| Instrumental value | A <b>means</b> or way of behaving to reach an end   | Honesty, politeness, self-control   |

- **Norms** — Shared expectations of conduct; **formal** norms are written (laws, rules), **informal** norms are unwritten.
- **Beliefs** — Inner feelings that something is true; they may be proven or unproven and they drive behaviour.
- **Virtues** — Good character traits built by practice, such as honesty, courage and fairness.

#### Sources of ethics

| Source                                | How it shapes ethics                                                                                |
|---------------------------------------|-----------------------------------------------------------------------------------------------------|
| Family and upbringing                 | The first school of values                                                                          |
| Religion and culture                  | Moral rules, e.g. <b>dharma</b> and the <b>Golden Rule</b> (treat others as you wish to be treated) |
| Philosophy                            | Reasoned theories — Aristotle, Kant, Bentham, Mill, Rawls, Gandhi                                   |
| Law and Constitution                  | Society's minimum standards; rights such as equality and life with dignity                          |
| Professional and organisational codes | Codes of conduct, policies and culture of the bank                                                  |
| Conscience and experience             | The inner voice, life events, training and role models                                              |

#### Remember this

- Values = what matters; Morals = right and wrong beliefs; Ethics = disciplined examination

### Topic 3 — Law, Policy and Ethics

| Element     | Role                                                                                          |
|-------------|-----------------------------------------------------------------------------------------------|
| Law         | Establishes <b>enforceable requirements</b>                                                   |
| Bank policy | Translates obligations and business choices into <b>operating standards</b>                   |
| Ethics      | Examines the <b>quality of the decision</b> , including matters a rule may not describe fully |

- **Legal is not enough** — Compliance with law is essential, but a legal action may still be **misleading, unfair or insensitive** in its circumstances.
- **Hidden disclosure** — If a fee is technically disclosed in a long document but staff deliberately distract the customer from it, the disclosure does not prove that communication was honest.
- **No self-made exceptions** — An employee's belief that a rule is inconvenient does **not** authorise ignoring it in the name of ethics.
- **Proper route** — Where a rule appears harmful or unclear, use an **authorised review or escalation** process.

| Basis       | Morals                       | Ethics                             | Law                             |
|-------------|------------------------------|------------------------------------|---------------------------------|
| Source      | Conscience, family, religion | Society, professions, philosophy   | Legislature, regulators, courts |
| Nature      | Personal, subjective         | Shared, reasoned                   | Formal, codified                |
| Enforcement | Guilt, shame                 | Codes, social approval, discipline | Fines, prison, licence loss     |
| Scope       | Wide                         | Wide; conduct in a role            | Narrow; only what is written    |

#### Four combinations of law and ethics

| Combination           | Banking example                                                                       |
|-----------------------|---------------------------------------------------------------------------------------|
| Legal and ethical     | Explaining all fees and risks before a sale                                           |
| Legal but unethical   | Burying a fee in fine print and distracting the customer from it                      |
| Illegal but ethical   | Rare; a moral motive never replaces proper channels such as protected whistle-blowing |
| Illegal and unethical | Taking a bribe to sanction a loan; opening accounts without consent                   |

#### Remember this

- Law is the floor; ethics is the higher standard; never the reason to bypass a rule

### Topic 4 — Ethical Issues, Dilemmas and Temptations

- **Ethical issue** — Arises whenever a decision affects relevant **values, duties or interests**.
- **Ethical dilemma** — A **genuine conflict** between important considerations, where **no option satisfies all of them completely**.
- **Bribe example** — Refusing a bribe is usually an ethical issue with a **clear duty**, not a balanced dilemma.
- **Harder case** — Protecting confidentiality while responding to a **lawful demand** for information: verify the authority, disclose only what is properly required and protect unrelated information.
- **Misnaming** — Calling every uncomfortable decision a dilemma can make clear misconduct look debatable.

- **First check** — Ask whether there is a genuine conflict or simply **pressure to violate a known obligation**.

| Term                    | Meaning and example                                                                                                                  |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| <b>Moral temptation</b> | The right course is clear, but personal advantage pulls towards the wrong one — e.g. hiding a known cash shortage to protect a bonus |
| <b>Genuine dilemma</b>  | Competing <b>legitimate</b> claims — e.g. privacy versus a properly established duty to disclose                                     |
| <b>Rationalisation</b>  | An excuse for wrong acts — “Everyone does it”, “No one is hurt”                                                                      |
| <b>Moral courage</b>    | Doing right despite pressure, fear or loss                                                                                           |
| <b>Moral agent</b>      | A person able to judge right and wrong and be held responsible                                                                       |

Naming the situation **accurately** prevents a convenient excuse from being treated as a difficult moral conflict.

#### Common right-vs-right dilemmas

- **Truth vs loyalty** — Reporting a colleague's error versus loyalty to the colleague.
- **Individual vs community** — Relief to one borrower versus protection of all depositors.
- **Short term vs long term** — This quarter's target versus lasting customer trust.
- **Justice vs mercy** — Strict recovery versus sympathy for genuine hardship.

### Topic 5 — Integrity, Honesty, Accountability and Trust

| Quality               | Meaning                                                                                            |
|-----------------------|----------------------------------------------------------------------------------------------------|
| <b>Honesty</b>        | Truthfulness and <b>avoiding deception</b>                                                         |
| <b>Integrity</b>      | Consistency between stated principles and actual conduct, <b>including when no one is watching</b> |
| <b>Accountability</b> | Accepting responsibility, <b>explaining decisions and correcting failures</b>                      |

- **Reporting errors** — A person who reports an error accurately and helps repair it shows more integrity than one who hides it to look perfect.
- **Not blame** — Accountability is not the same as blame.
- **Fair distinction** — A fair organisation separates **deliberate misconduct, reckless disregard, an honest mistake and a system defect**, and investigates each appropriately.
- **Fear hides problems** — If every reported error brings humiliation, staff may conceal problems until customer harm grows.
- **Learning culture** — Combines responsibility with a fair response.

#### Trust and professional responsibility

- **Trust** — A willingness to rely on another person **despite vulnerability**.
- **Earned** — Through **competence, reliability, honesty and fair treatment**.
- **Both needed** — A friendly employee who repeatedly gives wrong advice is not fully trustworthy; a skilled employee who conceals charges also undermines trust.
- **Know your limits** — If an unfamiliar transaction raises a legal or technical question, check with an **authorised specialist**.
- **No confident guessing** — Guessing to avoid looking inexperienced can harm the customer.

- **Competence** — Includes knowing when to seek help and how to communicate uncertainty without abandoning the customer.

### Remember this

- Integrity = consistency of principle and conduct; Accountability ≠ blame

## Topic 6 — Stakeholders and Unequal Power

- **Stakeholder** — A person or group **affected by** a decision or **able to affect** it.
- **Banking stakeholders** — Customers, employees, shareholders, creditors, regulators, service providers and the wider community.
- **Silent stakeholders** — Future customers and people who cannot easily complain may also be affected.
- **Not only the loudest** — A decision should not consider only the party with the strongest voice in the room.

### Unequal power creates responsibility

- **Information gap** — The bank often knows more about a product than the customer.
- **Control** — The bank controls access to essential services.
- **Signature** — A customer's signature does **not prove** that the customer understood a complex risk.
- **Duty to explain** — Explain material matters in a form the customer can use.
- **Autonomy** — Respect the customer's ability to make an **informed choice**.

**Example:** A branch serves many elderly pensioners who rarely complain. A new fee is planned for passbook updates. Because these customers may bear the harm **without an effective voice**, the manager includes their interests in the review and offers a free alternative.

## Topic 7 — Making Ethical Decisions

### Intentions, methods and outcomes

- **Methods matter** — A good intention does not make every method acceptable; an employee cannot falsify income records to help a deserving borrower.
- **Outcomes are not proof** — An unauthorised payment may reach the right beneficiary by chance, yet bypassing verification is still unacceptable.
- **Judge fairly** — Assess facts known at the time, alternatives, the method and foreseeable consequences; avoid judging only with **hindsight**.
- **Profit does not cleanse** — A dishonest decision does not become ethical because it earned a profit.

### A practical decision framework

| Step | Action                                                                            |
|------|-----------------------------------------------------------------------------------|
| 1    | Recognise the issue and <b>pause</b> any avoidable irreversible step              |
| 2    | Establish reliable facts, separate assumptions and identify missing information   |
| 3    | Determine the applicable <b>law, policy and professional duties</b>               |
| 4    | Identify affected stakeholders, especially the <b>vulnerable</b> and those absent |
| 5    | Generate <b>more than two options</b> ; many cases are not simply obey or resign  |
| 6    | Compare options for consequences, rights, fairness and integrity                  |
| 7    | Consult the proper authority without spreading confidential information           |
| 8    | Choose a defensible action, <b>document the reasons</b> and implement carefully   |
| 9    | Review the result and correct harm                                                |

Documentation should explain the real reasoning, not **manufacture a justification** after an improper act.

### Useful tests and their limits

| Test                 | Question                                                   |
|----------------------|------------------------------------------------------------|
| <b>Publicity</b>     | Could the decision be explained openly to affected people? |
| <b>Consistency</b>   | Would similar cases receive similar treatment?             |
| <b>Role-reversal</b> | How would it look from the customer's position?            |
| <b>Least-harm</b>    | Is there a less harmful effective option?                  |

- **Limits** — Tests reveal weaknesses but do not replace law or detailed analysis.
- **Popularity** — Public popularity does not make disclosure of private account information acceptable.
- **Fairness** — Identical treatment can be unfair when a disability needs reasonable assistance; fairness is **reasoned treatment, not mechanical sameness**.

**Example: Case 1 — an unnoticed excess charge.** A wrong setting charged a small fee twice to several identifiable customers. The manager says reversal will cut monthly income and few have complained. The right response: stop the faulty setting, verify the affected customers, make authorised reversals, communicate, assess compensation and report the cause and fix. Waiting for complaints unfairly favours those who notice and argue; targets never justify keeping money not due.

**Example: Case 2 — falsifying a record to help.** A colleague suggests recording a missing document as "checked" for a reliable long-standing borrower. This creates a false record and removes a control. Instead, explain the gap, seek a permitted alternative document or authorised exception and escalate the urgency; otherwise the file waits. Compassion should drive **practical help, not deception**.

## Topic 8 — Relativism, Absolutism and Branches of Ethics

- **Ethical relativism** — Moral judgements depend on culture or context; it reminds us to understand differences, but not every local practice deserves acceptance.
- **Ethical absolutism** — Certain principles apply regardless of context; it supports consistency, but

careless use can ignore relevant differences or competing duties.

- **In banking** — Respect context while testing practices against **rights, justified duties and applicable law**; neither custom nor personal certainty replaces reasoned judgement.

#### Branches of ethics

| Branch                    | Core question                             | Key ideas                                                                                     |
|---------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------|
| <b>Meta-ethics</b>        | What do “good”, “right” and “ought” mean? | Moral realism vs relativism; cognitivism vs non-cognitivism                                   |
| <b>Normative ethics</b>   | How should we act?                        | Consequences (utilitarianism), duty (Kant), virtue (Aristotle), justice (Rawls), rights, care |
| <b>Applied ethics</b>     | What is right in a specific area?         | Business, banking, bio-, environmental, data and media ethics                                 |
| <b>Descriptive ethics</b> | What do people actually believe and do?   | Surveys and studies; factual, not a guide to right action                                     |

#### Revision points

- **Distinctions** — Values identify what matters; ethics examines what ought to be done; compliance meets requirements; integrity aligns conduct with principles; accountability supports explanation and correction.
- **Dilemma** — A genuine conflict, not a convenient name for misconduct.
- **Case answers** — Avoid answers that rely only on **seniority, profit, customer signature or good intention**.
- **Best answers** — Often include verification, an authorised alternative, proportionate escalation and a record of the decision.
- **Purpose** — Ethics becomes useful when it **changes what the banker actually does**.

#### Remember this

- Meta = meaning; Normative = what we ought to do; Applied = specific issues

#### EB | Module 1 | CH-1 | MCQs

##### Q1. What best describes ethics? [Ref: Topic 1, p. 2]

- (a) A method of avoiding every loss
- (b) Reasoned judgement about right conduct
- (c) Only compliance paperwork
- (d) Only personal preference

##### Q2. A fee is hidden deliberately in a long disclosure, and staff distract the customer from it. Which statement is strongest? [Ref: Topic 3, p. 3]

- (a) Technical disclosure may still be misleading in context
- (b) A signature settles every ethical question
- (c) Only the font size matters
- (d) It is ethical if profitable

##### Q3. Which situation most clearly shows integrity? [Ref: Topic 5, p. 3]

- (a) Hiding an error to protect reputation
- (b) Changing a record after review
- (c) Accurately reporting and correcting one's own error
- (d) Following values only under supervision

##### Q4. Which is a genuine ethical dilemma? [Ref: Topic 4, p. 3]

- (a) Choosing whether to fabricate an invoice
- (b) Deciding whether to steal customer funds
- (c) Choosing whether to accept an obvious bribe
- (d) Balancing confidentiality with a verified lawful disclosure duty

##### Q5. Why are vulnerable customers relevant to stakeholder analysis? [Ref: Topic 6, p. 4]

- (a) They may bear harm without an effective voice
- (b) They always lack decision-making ability
- (c) They need no information
- (d) Their interests replace all others

##### Q6. A good outcome follows an unauthorised shortcut. What follows? [Ref: Topic 7, p. 4]

- (a) Controls no longer matter
- (b) The method must still be assessed
- (c) The shortcut was necessarily ethical
- (d) Only the profit matters

##### Q7. What should come first in a difficult decision? [Ref: Topic 7, p. 4]

- (a) Ask who has the highest rank
- (b) Choose the fastest option
- (c) Create a favourable explanation
- (d) Establish facts and applicable duties

##### Q8. Which statement about fairness is correct? [Ref: Topic 7, p. 4]

- (a) Fairness always means identical treatment
- (b) Fairness means favouring friends
- (c) Relevant differences can justify proportionate different treatment
- (d) Fairness ignores relevant needs

##### Q9. A known excess fee affected customers who have not complained. What is appropriate? [Ref: Topic 7, p. 4]

- (a) Correct the identified error through authorised processes
- (b) Wait until records are unavailable
- (c) Keep it unless challenged
- (d) Refund only influential customers

##### Q10. An employee lacks expertise in an unfamiliar transaction. Ethical competence includes: [Ref: Topic 5, p. 3]

- (a) Avoiding the customer indefinitely
- (b) Guessing confidently
- (c) Changing the purpose to a familiar one
- (d) Seeking authorised specialist guidance

##### Q11. A cashier hides a known cash shortage to protect his bonus and calls it “a tough dilemma”. This is best described as: [Ref: Topic 4, p. 3]

- (a) A genuine right-vs-right dilemma
- (b) A moral temptation, not a balanced dilemma
- (c) An act of moral courage
- (d) Ethical absolutism

##### Q12. A bank officer believes a rule is inconvenient and harmful to customers. The ethical course is to: [Ref: Topic 3, p. 3]

- (a) Ignore the rule in the name of ethics
- (b) Apply the rule only to new customers
- (c) Raise it through an authorised review or escalation process
- (d) Ask customers to waive the rule

### Q13. Which statement about accountability is correct?

[Ref: Topic 5, p. 3]

- (a) It means punishing every error equally
- (b) It is not the same as blame; honest mistakes and system defects are treated differently from deliberate misconduct
- (c) It applies only to senior management
- (d) It ends once the error is hidden

### Q14. According to Milton Rokeach, “honesty” and “self-control” are examples of: [Ref: Topic 2, p. 2]

- (a) Instrumental values
- (b) Terminal values
- (c) Formal norms
- (d) Meta-ethical values

### Q15. A survey that records how many bank employees think gifts from customers are acceptable is an example of: [Ref: Topic 8, p. 4]

- (a) Normative ethics
- (b) Meta-ethics
- (c) Applied ethics
- (d) Descriptive ethics

#### Answer key

| Q | Ans | Q | Ans | Q | Ans | Q  | Ans | Q  | Ans |
|---|-----|---|-----|---|-----|----|-----|----|-----|
| 1 | b   | 4 | d   | 7 | d   | 10 | d   | 13 | b   |
| 2 | a   | 5 | a   | 8 | c   | 11 | b   | 14 | a   |
| 3 | c   | 6 | b   | 9 | a   | 12 | c   | 15 | d   |

## CH-2

## Ethics, Business Ethics and Banking: An Integrated View

### Topic 1 — Business Ethics Is Part of Business Quality

- **Business ethics** — Examines how an organisation earns income, treats people, uses resources and accepts responsibility.
- **Profit is legitimate** — Business ethics does not ask a bank to abandon profit; profit supports capital, technology, employment and continued service.
- **The real question** — Is profit earned through legitimate, transparent and responsible activity, rather than deception, exploitation or hidden transfer of harm to others?
- **Life of the relationship** — Unsuitable sales may meet a short-term target yet create complaints, refunds, legal exposure and lost trust; a fair explanation may lose one sale but strengthen a lasting relationship.
- **Who judges** — Investors, employees, customers, interest groups, the legal system and the community often decide whether an action is ethical.

| Shareholder view — Milton Friedman (1970)                                                                                              | Modern integrated view                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| The social responsibility of business is to <b>increase its profits</b> , within the <b>rules of the game</b> (law and ethical custom) | Profit and ethics support each other; trust is a source of <b>long-term value</b> |
| Managers are agents of the <b>shareholders</b>                                                                                         | Managers serve <b>all stakeholders</b> while earning fair profit                  |

### Myths about business ethics

| Myth                                                        | Reality                                                                                |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Business ethics is for <b>philosophers</b> only             | It concerns the <b>daily operations</b> of every organisation                          |
| Most employees are ethical, so <b>no training</b> is needed | Complex dilemmas involve a <b>conflict of principles</b> ; training helps              |
| Ethics <b>cannot be managed</b>                             | It can be managed through codes, culture, incentives, controls and leadership          |
| Business ethics is the same as <b>CSR</b>                   | <b>CSR is only one part</b> of business ethics                                         |
| Business ethics is an <b>oxymoron</b>                       | Sustainable profit, fair treatment and sound risk management often support one another |

### Topic 2 — Why Banking Has Special Responsibilities

- **Critical role** — Banks hold deposits, allocate credit, operate payment channels and transmit information.
- **Dependence** — Households and businesses may depend on **uninterrupted access to money**.
- **Contagion** — Failure can spread through connected institutions and markets.
- **Not a simple sale** — Unlike an ordinary one-off exchange, the customer cannot easily inspect a financial product before buying.
- **Complex products** — They involve future outcomes, complicated terms and uncertainty that customers cannot always assess.
- **Conflicting incentives** — Staff may have sales incentives that conflict with customer needs.
- **Ethical response** — Address information and power imbalances through **clear explanation, suitable processes, sound controls and honest treatment** throughout the product's life.

#### Principles of ethical banking

| Principle             | What it means                                                 |
|-----------------------|---------------------------------------------------------------|
| <b>Trust</b>          | Money kept safe; customers treated fairly                     |
| <b>Integrity</b>      | Doing the right thing even when no one is watching            |
| <b>Neutrality</b>     | No bias among customers or employees                          |
| <b>Reliability</b>    | Clear, accurate and understandable information                |
| <b>Responsiveness</b> | Quick, courteous service and prompt grievance redress         |
| <b>Transparency</b>   | Customers told about rights, obligations, charges and changes |
| <b>Suitability</b>    | Only products that fit the customer's needs and risk profile  |

#### Remember this

- 7 principles: Trust, Integrity, Neutrality, Reliability, Responsiveness, Transparency, Suitability

### Topic 3 — Banker–Customer Relationship and Duties

The banker–customer relationship is mainly **contractual**, but it also carries **fiduciary** (trust-based) duties. Its nature depends on the service given.