

PPB

Crash course

Module-D

Lecture – 2

ETHICAL DIMENSIONS:EMPLOYEES

ABUSE OF OFFICIAL POSITION:

INSIDER TRADING, PROPRIETARY DATA, BRIBES, ETC.

Employees are required to follow Code of Conduct laid down by the bank. Abuse of official position for personal gains or providing gains to friends, family members and others with selfish motive is unethical and would be violation of the Code of Conduct of the bank.

Examples of abuse of power can be

- ✓ Bank employee goes for a personal travel and claims reimbursement of expenses as official travel
- ✓ Showing preference to customers based on proximity to the employee (relatives, friends, etc)
- ✓ Use of official resources for personal use
- ✓ False claims beyond the fixed perquisites



(a) Insider Trading

Employees trading based on the internal information of the client which is not available to public amounts to insider trading. Say, just before a specific bank account of a large company is going to become NPA that is not announced officially, an employee knowing this sells the stocks of the company or advises friends to sell and get out of the stock, amounts to insider trading.



(b) Dealing with Proprietary Data ✓

Proprietary data refers to the information relating to the intellectual property rights and trade secrets of any company. All employees are expected to keep confidentiality of the data relating to all stakeholders, customers, vendors, promoters, investors and others who are associated with the bank. Key strategies and sensitive data are to be kept confidential and should not be revealed to competitors through unfair means.

Stakeholders

(c) Bribes

Bribes refer to paying money or gift to a person with a motive of getting some favour done. Bank employees conduct various operations of credit appraisals, loan disbursements, monitoring, recovery, marketing of bank products and services where element of bribery may appear.

Similarly, bank employees deal with many agencies for official purposes, any act of getting favorable treatment in such transactions by offering bribes to the concerned officials is an offence related to bribery. Taking or giving bribes both amount to unlawful activity and is punishable.

OBLIGATIONS TO THIRD PARTIES

When a bank outsources its functions to certain third parties, it needs to have clear, transparent contracts and agreements with all terms & conditions incorporated. Especially in service contracts, the service level agreements (SLAs) have to be defined minutely and ensure that the third party does not cause any inconvenience to the customer.

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JOB DISCRIMINATION

Job discrimination refers to differentiating employees based on religion, caste, sex or race. Right from the entry into the job, working conditions, emoluments and promotions, one may observe certain instances of discrimination, though there are laid down Rules and regulations that there should be no discrimination among employees. One needs to ensure proper HR practices and also employee conduct in inter-personal behaviours.

SEXUAL HARASSMENT

Indian banks have implemented elaborate system of handling the sexual harassment cases. One can observe increasing number of cases have been reported in the larger society in recent years. This can be attributed to the transparency in dealing with cases, and also awareness of the legal recourse amongst the employees.
About two decades ago, in February 1998 the RBI advised all commercial banks to implement the Guidelines given by the Hon'ble Supreme Court of India titled Sexual Harassment in Work Places "

- Guidelines by Supreme Court To Prevent Such Harassment.

Employees are to be made aware of the definition of sexual harassment and its express prohibition.

✓ The conduct rules governing the employees should cover these aspects, and provide for appropriate penalties against the offender. Banks need to ensure that appropriate work conditions are provided in respect of work, leisure, health and hygiene, and there is no hostile environment towards women at work places. A woman employee should not have grounds to believe that she is disadvantaged in connection with her employment. Banks should set up a mechanism in the entire bank to deal with complaints of sexual harassment.

Sexual harassment includes unwelcome sexually determined behaviour (whether directly or by implication) as:

- ~~(a)~~ Physical contact;
- ~~(b)~~ A demand or request for sexual favours;
- ~~(c)~~ Sexually coloured remarks;
- ~~(d)~~ Showing pornography; and
- ~~(e)~~ Any other unwelcome physical, verbal or non-verbal conduct of sexual nature.



Where any of these Acts is committed in circumstances where the victim of such conduct has a reasonable apprehension that such conduct can be humiliating and may constitute a health and safety problem. It is discriminatory for instance when the woman has reasonable grounds to believe that her objection would disadvantage her in connection with her employment or work including recruiting or promotion or when it creates a hostile work environment.

HRM ETHICS

✓ Human Resource Management refers to designing and managing formal systems to optimally utilise the people as human resources. With satisfied employees in a bank, the bank tends to optimise their utilisation with greater employee engagement. Unless the employees are satisfied with their conditions at work and compensation, recognition, promotion, etc.,

People
Human Resource

PRINCIPLES OF REPRESENTATION AND WORK ENVIRONMENT

A well laid down process of representation of any concern or whistle blower policy helps employees to work fearlessly. Work environment that is based on ethical principles makes employees more motivated and confident in delivering their duties and responsibilities.

whistle
blowers

EMPLOYEES AS ETHICS AMBASSADORS & MANAGERS AS ETHICAL LEADERS

The ethical culture from the senior leadership percolates down in the bank. However, the employees do not personally know the senior leaders. They form their opinions based on what they come to know through others or when they listen to the top leaders. Therefore, the senior leadership should convey the importance of ethics in a variety of ways and in such a manner as to reach to every employee in the organisation. If senior managers talk about ethics regularly and also walk their talk without exception, they will develop a reputation for their ethical leadership. Leading by example, they shall become role models for others. The employees, in turn, will also practice ethics in letter & spirit and turn into ethics ambassadors in their own ways.



WORK ETHICS AND THE WORKPLACE

WHAT IS WORK ETHICS? SOMETHING BIGGER THAN THE SELF

Work Ethics

It is tough to identify whether or not some employees are following work ethics. Work ethics does not have universally similar connotations across countries, religions, organizations, departments, etc. yet there is substantially common agreement on this aspect.

One can understand an employee's work ethics by observing and analysing: the way employee feels about the job (and thereby the responsibilities and authority), is engaged with the current organization, gets along with subordinates and superiors in work matters, values the tasks, communicates with the external stakeholders, etc.

Something Bigger Than the Self

There is a hierarchy in which human beings generally think about the purpose of one's life. The hierarchy can be as under: Self; Family; Community; Religion; Society; Global causes



ETHICAL BEHAVIOUR AT THE WORKPLACE: BENEFITS

- ❑ Actions that are warranted and are appreciated not just by the internal management and colleagues but even by external stakeholders can be considered as ethical behaviour. ✓
- ❑ Each employee, irrespective of position or tenor in an organization, can realize whether his actions augur well for the organization or not. ✓
- ❑ One is not required to spend much time on reflecting about ethicality of routine transactions that have already been determined to be ethical behavior. ✓
- ❑ Certain situations in which routine transactions are to be undertaken, or certain peculiar type of transactions would require decision making with ethics. ✓

RECOGNISING ETHICAL WORKPLACES

An ethical workplace can be identified easily by even ordinary persons who may not have any expertise in fields like organization theories, philosophy, law, communication, etc. Some of the indicators of an ethical workplace are:

- Respectful treatment of all categories of customers by the front-office personnel;
- Employees' awareness of the business processes and quick and to-the-point clear answers to queries;
- Giving correct and authentic information to customers on bank's products and practices;



- Acceptable body language of the employees at the workplace;
- High degree of energy level and commitment to work, and going the extra mile to help customers;
- Confining to work-related talks and avoiding other matters not relating to the work directly;
- No direct or indirect hints to customers to meet the employees outside the workplace;
- ~~No expectations or acceptance of gifts/favours (irrespective of the amount);~~ (12) - (5)
- Fair and appropriate treatment given to co-employees;
- Wherever necessary, parsing and defending the policies and decisions of the employer,

UNETHICAL BEHAVIOURS: CAUSES AND REMEDIES

Causes of Unethical Behaviours

The major causes for unethical behaviour at workplace are as follows:

✓ Non-availability of Code of Ethics Manual; Lack of fear of Action; Unrealistic Targets; Influence of Co-employees; Unprincipled Leadership; Means are not appreciated

- (a) Code of Ethics Manual: Some organizations keep a formal code of conduct manual. However, it does not take the shape of the Code of Ethics.
- (b) Fear of Action: Employees may behave differently if they find that the management practices ethics very seriously and even take actions against them if things go unethical.



(c) Unrealistic Targets: Due to competition, employees are pressurized to meet unrealistic targets. Some employees resort to short cuts by claiming work which was never done, etc. The cause is the pressure (external or self-created) to achieve unreasonably high targets.

(d) Influence of Co-employees: In some departments or even entire organizations, few of the employees may resort to corrupt or unethical behaviour at workplace. Like focus on personal work during office hours, leave workplace several times during the day, etc. This kind of behaviour has a bearing on the new recruits, who will be learning this from their superiors or colleagues.



(e) Unprincipled Leadership: If the regulators or investigating agencies enquire top managements of an organization and media reports poorly about their involvement the middle and junior level employees lose respect towards such leaders.

(f) Means are not appreciated: Let us take two situations where a sales department is dealing with two employees in comparable position with similar experience.



The following measures can be tried as some of the remedies:

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Developing Ethics Manual; Having conversations about ethics in the organization; Nipping of unethical behaviour in the bud; Frequent utilization of the Manual; Imitable behaviour by the Top Management; Appreciation and Rewards for ethical behaviour; Encouragement of counter viewpoints and discussions in meetings; Care for reputation rather than results. ✓

Some of the following practices give a perception about some of the common unethical practices found at the workplace: ✕

✕ Abuse of the official email; Pre-employment Tests; ✕ Personal Habits; ✕ Data Leakage; Helping Friends in Social Decisions

Nipping the bud.

CONDUCTING PERSONAL BUSINESS DURING OFFICE TIME ✕

TAKING CREDIT FOR OTHERS WORK ✕

ETHICS OF A BANKER

A banker can be evaluated for the ethical commitment at three stages of his/her career-

- i. at the initial stage (up to first 5-7 years of entry in banking), ✓
- ii. at the middle management stage (7-15 years into banking), and
- iii. at the senior management level (normally after 15 years into banking) ✓

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WHISTLEBLOWING IN BANKS

Whistle-blower policy for the public sector banks and RBI was brought under the purview of the Central Vigilance Commission (CVC) with effect from April 21, 2004, On April 18, 2007, the Reserve Bank of India brought out the 'Protected Disclosures Scheme for Private Sector and Foreign Banks' in the context of whistle-blower mechanism in these two categories of banks. Following are some aspects of the Scheme:



- ✓ **(a) Scope and Coverage:** The Scheme covers complaints of corruption, misuse of office, criminal offences, suspected/actual fraud, non-compliances with regulations etc., acts resulting in financial loss/operational risk, loss of reputation, and acts detrimental to depositors' interest/ public interest.
- Employees of the bank, customers, stakeholders, NGOs and members of public can lodge complaints.
 - Anonymous/pseudonymous complaints will not be entertained. ✓
 - RBI is the Nodal Agency to receive complaints under the Scheme. The identity of the complainant is kept secret, except if complaint turns out to be vexatious or frivolous and action has to be initiated against the complainant.

- The institution against which complaint has been made can take action against complainants for motivated/vexatious complaints, after being advised by RBI. An opportunity of hearing will, however, be given by the concerned bank to the complainant before taking such action.
- Final action taken by RBI on the complaint will be intimated to the complainant.



WHISTLEBLOWING LAW IN INDIA

- ❑ Those officers and staff who attempted in the past to expose the corruption and wrongdoings by some unscrupulous employees or other stakeholders like contractors/operators empanelled with their organisation were killed or injured or faced life threats.
- ❑ Many incidents took place in public works of government of India, public sector enterprises, cooperatives and police departments to name a few.

- ❑ **Whistle Blowers Protection Act, 2011** received the assent from the President of India in **May 2014**. It provides a mechanism to investigate alleged corruption and misuse of power by public servants and also protect the complainant who exposes alleged wrongdoing in government bodies, projects and offices.
- ❑ The wrongdoing might take the form of fraud, corruption or mismanagement. The Act provides punishment for false or frivolous complaints. The protection of genuine complainant is the responsibility of the CVC.



BANKING ETHICS: CHANGING DYNAMICS

ETHICS AND TECHNOLOGY

Role of Information Technology in Banking

Banking and financial services sector has been witnessing unprecedented changes and improvements with increasing use of Information Technology (IT), In fact, IT is driving financial services business. Now it is no more a matter of choice, but a matter of compulsion for banks and financial institutions to use state-of-the-art technology for survival and growth. Be it the highly educated and tech-savvy urban Indians or not so technology-familiar semi-urban or rural Indians, almost all bank customers today are open to taking the benefit of technology.



Role of Ethics in Technology

Each second, billions of data gets captured and transmitted in public domains, while some data remain accessible to a few authorised persons. Some of the data captured by a bank may be pure banking-related data (like opening or renewal of a term deposit, receipt of interest, salary or rental income credited to one's account, etc.) and other data could be pertaining to the services (like air ticket booking, hotel payment, online payment of insurance premium, mutual fund investment, etc.) for which bank's payment services are used..

As banks collect, store and access such customer data and information on a continuous basis, they have a primary moral obligation to prevent data leaks and data misuse. Customers must be assured that their data and information are handled in a secured and confidential manner for their trust and faith in the banking system.

DATA SECURITY AND PRIVACY

Online banking transactions on various digital platforms mean risks related to data security and privacy are much more critical. As technology based activities are outsourced to FinTech companies to a greater extent, banks need to have strict internal control system to ensure that FinTech companies adhere to the established internal procedures and compliance of the bank. The banks need to ensure that the staff/personnel of the bank and FinTech service provider have appropriate level of integrity, awareness and capability to ensure the compliance and privacy of banking data. Data privacy rules may vary from bank to bank and also geography to geography. Each bank needs to develop strong internal awareness, processes and capability to ensure data privacy.

Data Security

RBI provided "Guidelines on Information security, Electronic Banking, Technology Risk Management and Cyber Frauds" to all commercial banks. ✓

- i. To define and implement procedures to ensure integrity and consistency of all data electronic form (databases, data warehouses and data archives). ✓
- ii. To ensure uniform data protection within and outside the institution.
- iii. There should be secure storage of media. Controls could include physical and environmental controls such as fire and flood protection, limiting access by means like physical locks, keypad, passwords, biometrics, etc., labelling, and logged access.

- iv. Banks need appropriate disposal procedures for both electronic and paper based media.
- v. Banks should maintain security of media while in transit or when shared with third parties.
- vi. Banks should encrypt customer account and transaction data which is transmitted, transported, delivered or couriered to external parties or other locations.
- vii. A few other aspects include blocking, filtering and monitoring of electronic mechanisms like e-mail, printing, monitoring for unauthorised software and hardware like password cracking software, key loggers, wireless access points, etc.

Data Privacy

Some studies show that it is easier to track frauds undertaken through electronic means than physical fraud. FinTech companies can use technology and analytics to prevent and predict frauds. The onus could be on the FinTech players to utilize their technological expertise, and assist/ engage with regulators to draft appropriate guidelines to prevent fraud.

Q INTELLECTUAL PROPERTY RIGHTS, PATENTS AND PROPRIETARY RIGHTS

Intellectual property refers to creation of an asset by any individual or anyone using his or her creativity, innovation. Such intellectual property (IP) belongs to that individual and any unauthorised use of such IP is strictly prohibited under the applicable law of the land. Some examples of IP are artistic works; and symbols, innovative process, method, etc.

Intellectual property is divided into two categories:

- **Patents:** inventions, trademarks, industrial designs and geographical indications.
- **Copyright:** literary works, films, music, artistic works, and architectural design.

Rights related to copyright include those of performing artists in their performances, producers of phonograms in their recordings, and broadcasters in their radio and television programs.

Intellectual Property Rights (IPRs) are formal mechanisms by which the asset or the property is established in intellectual assets. IPR allows its creator/innovator to use the IP for his or her own benefit and prohibits any third party to use such work.

What is a Patent?

A patent is an exclusive right granted for an invention a product or process that provides a new way of doing something or that offers a new technical solution to a problem. A patent provides patent owners with protection for a limited period, generally 20 years for their inventions.



ETHICS OF INFORMATION SECURITY

The IT team of the bank or financial institution is the custodian of the information of its customers/dealings/ activities. Their work conduct and ethical conduct is of paramount importance for the organisation. Any failure of professionals handling the IT desk and data can result in major leakages of sensitive information, with huge losses to the banks, reputation risk, and expensive legal battles.

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Hence awareness of ethical conduct has become very important with every technological advancement. There should be proper training - orientation and refresher course for all employees to make them understand the importance and criticality of ethical behaviour. This applies to the employees posted not only in the IT department, but also in operations and various support functions..

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The following aspects relating to information security need particular attention: ✓

- ✓ Employees made aware of the professional obligations relating to information security
- Advising about various types of prevalent cybercrimes. ✓
- Making the employees (especially the IT employees) aware of the patterns of IT attacks
on bank customers/servers/other assets like ATMs, etc. and to familiarise with the profiles of
attackers and patterns of thefts and modus operandi. ✓

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Module-D PPB

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Thank You



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