



9th Nurul Matin Memorial Lecture on *Ethics in Banking*

Organized by **Bangladesh Institute of Bank Management**
Ballroom of Dhaka Sheraton Hotel
01.00 p.m., Tuesday, 08 December, 2009

Rounding up comments by Dr. Atiur Rahman, Governor, Bangladesh Bank **Chairman of the Event**

We are deeply thankful to Dr. Akbar Ali Khan for his paper on banking ethics presented before this audience representing the banking community in Bangladesh. In his erudite and important contribution on the subject Dr Khan has delved deep into the epistemological roots of the notion of ethics in banking identifying various strands of thoughts; recounted recent episodes of ethical lapses and slippages in the global and domestic scene; and suggested ways for deepening and safeguarding ethical conduct in banking business in Bangladesh. Drawing from the divergent strands of thoughts and approaches his paper identifies integrity of financial intermediation as the primary ethical obligation and reduction of 'manifest injustice' (following Amartya Sen's *Idea of Justice, 2009*) as the secondary ethical obligation in banking, both 'conventional' and 'alternative'(Islamic banks, MFIs, cooperatives etc.).

The urge for ethical conduct originates from the core values of civilized social life (including justice, fairness and trust) that are common across varied structures of social organization (religious, secular, democratic, totalitarian, capitalist, socialist and so forth); usually enshrined in state constitutions. Regulated and supervised financial service providers of all descriptions including 'conventional' and 'alternative' banks operate in the same market and therefore need a common set of ethical codes, drawn from the core values of civilized social life.

Ethical banking behavior at the institutional level is enjoined by standards of good corporate governance with transparency and safeguards against collusive dealings between insiders or with connected/related interests. Clearly laid out accountabilities and mandatory disclosure requirements facilitate the watchdog role of market discipline, besides usual supervisory oversight. Ethical conduct in banks at the personal level is enjoined by binding clauses in service regulations/employment contracts, with clearly laid out accountabilities and disclosure requirements about connected/related interests as and when occasions arise.

Besides the basic ethical concerns for integrity and trust in financial dealings, financial inclusion opening up blocked advancement opportunities for the poorer population segments is a social obligation based on ethical concern for fairness and justice. Conducting business in environmentally sustainable ways is likewise another obligation based on ethical concern for fairness to our younger and future generations. Banks in Bangladesh are yet to embrace financial inclusion and environmental sustainability wholeheartedly as an ethical and social imperative. Even in traditional financial intermediation, although the quality of bank lending has been improving steadily; episodes of improper collusive lending and undue favors to influential connected/related parties, driven by perverse incentives, still show up quite often in offsite and onsite supervision routines; evidencing deficiencies and lapses in ethical codes and practices. We in BB shall be very happy to see and support collective initiative of banks and financial institutions in Bangladesh in revisiting their vision/mission statements and their corporate governance, lending and environmental policies and practices towards clearer, sharper restatement and observance of ethical goals and standards at institutional and personal levels. To be inspiring and effective, the initiative will need to be bold and ambitious, aiming at matching, and where feasible even surpassing current international best practices. Clauses espousing commitments to financial inclusion with high priority for lending for productive pursuits generating income and employment, and to shun entrapping individuals and households into spirals of non essential consumer debt could be among such pioneering inclusions in ethical codes of banks. Adoption of IT based processes and practices now in progress in banks will facilitate the functions of market discipline and regulatory oversight; the possible role for a banking ombudsman's office may also be mulled over.

Dr. Khan's paper is replete with important insights on strengthening the various aspects of market discipline and regulatory oversight towards ensuring ethical practices in banking; some of these dwelt upon further in the valued speech of our chief guest the honorable finance minister. I would like to limit myself here to a few general observations.

Firstly, we in BB do not see 'conventional' and 'alternative' banking as mutually exclusive, involving any tradeoff. Promoting financial inclusion by reaching out to the poorer under-served population segments is at the same time an ethical

obligation (opening up advancement opportunities for the disadvantaged) and a business case (forgone current income if any actually being investment in expanding customer base for potential future income). Secondly, we need to ensure just and ethical conduct in all regulated financial service providers regardless of the market segments they operate in, so that none can profit from unethical conduct without facing penalty from market discipline or from regulators. In regulatory oversight to ensure ethical behavior, preventive safeguards requiring transparency and clear accountability in institutional practices and processes are likely to be more effective than heavy post-offence deterrent penalties. Lastly, I have some unease about viewing reduction in 'manifest injustice' as a secondary obligation in banking ethics. 'Manifest injustice' is too glaringly wrong for us to be content with merely reducing; earliest possible elimination of such injustice warrant being as much a primary obligation as integrity in financial intermediation. As I have tried to explain earlier; integrity in financial intermediation is fully compatible with socially and environmentally responsible banking enjoined by the ethical obligation of combating manifest injustice, and need not be viewed as mutually exclusive. It is of course not for banks alone to fight and eliminate all manifest injustices in social life, the government and the civil society have their roles and responsibilities. It is important that we bankers accept the obligation to play our due role with prudent, responsible use of resources provided by depositors and equity holders. Embracing of social and environmental obligations in ethical codes, and enhanced transparency and accountability in financial intermediation enabling effective market discipline and supervisory oversight will be the way forward in deeper ingraining of ethical conduct in banks and other regulated financial service providers in Bangladesh.

I would like to conclude here with my thanks and deep gratitude to Dr. Khan for his erudite paper, and to our honorable finance minister for kindly gracing the occasion with his august presence as chief guest.

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