

Ethics in Banking

(Concluding Part)

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IN light of the scenario described above, it is evident that ethics in banking is of supreme importance for the economy and the society. In my judgment, ethics in banking must be firmly anchored on four pillars.

First, banks must comply with all laws, rules and regulations that are usually framed in any country to ensure soundness of operations and to enhance confidence of the society. These laws, rules and regulations may relate to, among others, capital adequacy, maximum shareholding by members of a family, qualifications and tenure of members of the Board of Directors and Managing Directors, representation of depositors on the Boards, credit rating requirements, maximum limits on single party exposure, liquidity and credit/deposit ratios etc. Banks are additionally subject to provisions of company law, tax laws and securities laws. Any attempt to circumvent any legal provisions must be considered unethical. The universe of law and the universe of ethics are not necessarily coterminous, but violation of law is rarely, if ever, ethical.

Second, banks must ensure fair and equitable treatment of all stakeholders. The interests of various stakeholders such as shareholders, depositors, borrowers and employees do not necessarily coincide. For example, banks may be inclined towards offering low returns to depositors and charging high interest rates from the borrowers in order to maximize profits and dividend for the shareholders. Such conflict of interest must be ethically balanced keeping in view the greatest good of the greatest number.

Third, the banks must ensure full, truthful and transparent disclosure of their financial health. As noted before, many of

the assets which turned out to be toxic were treated as off-balance sheet items. The concerned stakeholders were thus deprived of the right to get a transparent picture of the true financial health and the risks that were being assumed.

Fourth, banks must behave as socially responsible corporate citizens. Milton Friedman, a nobel-laureate economist and an ardent proponent of free market economy wrote in 1970 that there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profit so long as it stays within the rules of the game. One may interpret this statement to mean that business is simply about maximizing profit without violating laws and regulations. This is obviously an untenable position. It may be observed here that banks did not apparently violate any prevailing laws and regulations, yet their activities inflicted severe negative externalities upon the society, as noted earlier. In this context, it may be mentioned that many of our corporate entities, including banks, gloat with satisfaction about fulfillment of social responsibility by offering a few scholarships, making donation to some clinics or offering some support for some charitable activities. While such initiatives are welcome, these touch only the fringe. Social responsibility must be viewed from a wider perspective, taking into account the impact of banks' activities on growth, employment and emphatically in our case, poverty alleviation as well.

With the above hindsight, I would suggest a few do's and don'ts for banks to meet ethical standards. This list is by no means exhaustive.

- Do's:
- Ensure a fair return to the depositors and safety of deposits.
 - Minimize spread between cost of funds and lending rates.

- Engage in transparent accounting practices.
- Comply with all laws, rules and regulations promulgated by relevant regulatory authorities.
- Develop effective risk management systems.
- Treat clients with courtesy.
- Offer services promptly.
- Make proper use of information and communications technology to enhance efficiency in providing services.
- Protect minority shareholders' interest.
- Set up management systems which clearly specify the functions of the Board, key management personnel such as the Managing Director, Chief Financial Officer, Company Secretary, Heads of Divisions and Departments etc.
- Treat employees fairly and compassionately.
- Arrange for requisite employee training.
- Ensure non-discrimination in personnel practices and support employees' and their family members' access to basic health, education and housing needs.
- Finance activities which contribute to environmental protection, employment creation, poverty alleviation and women's empowerment.
- Devise innovative products without assumption of undue risk.
- Arrange flexible mortgage payments for poor people's housing.
- Try to expand operations to unbanked or underbanked sectors, regions and population groups.
- Emphasize recovery, but with a human face.
- Develop an internal code of ethics and set up an institutional arrangement to monitor compliance and suggest remedial actions, where needed.

Don'ts:

- Don't prove Mark Twain's statement

"banks will lend you money if you can prove you don't need it."

- Don't reschedule loans at the last moment to enable powerful, but delinquent borrowers to participate in elections.
- Don't permit sexual discrimination with respect to depositors, borrowers and employees.
- Don't be lavish in branch decorations and perks for Board Members and senior management personnel.
- Don't engage in unhealthy competition to steal qualified employees or wean away depositors from other banks.
- Don't engage in collusive interest rate fixing.
- Don't finance activities which aggravate pollution, employ child labour and injure human health.
- Don't finance unsustainable bubble in real estate or stock prices.
- Don't bow down to illegitimate pressures exerted by political personalities, bureaucrats or musclemen.
- Don't appoint pliable auditors to prepare opaque, non-transparent financial reports.
- Don't be an accomplice to money-laundering activities or illicit trade.

As mentioned already, this is by no means exhaustive. Yet it possibly sounds like a tall order. One can, therefore, legitimately ask why banks should behave in an ethical manner. There are several justifications.

Banks' Benefits from Ethical Conduct:

A symbiotic relationship is likely to emerge between ethics and competitive advantage. Through pursuit of ethical practices, banks can acquire brand reputation. This should help them expand customer base and increase income.

The brand name reputation is also likely to attract ethically conscious clients. As a result, the banks will be greatly relieved of

the problem of non-performing loans.

The banks well-known for ethical conduct should be able to attract and retain bright and honest employees. Thus, they will be relatively free from the problems created by quick employee turnover or inability to hire smart and honest employees. Human resource management would be easier, internal governance would improve and operational efficiency would increase.

Brand reputation would make it easier to raise additional capital in a cost-effective manner, as and when needed.

Relevance of External Conditions:

While the responsibility for implementation of ethical principles lies primarily with the banks themselves, certain elements in the external environment confronting them would be helpful in generating necessary inspiration or compulsion.

An independent, honest and competent judiciary is of seminal importance in this regard. If the banks are convinced that they would get a fair treatment in legal disputes, they are unlikely to indulge in unethical practices. Moreover, the judiciary can play an important deterrent role against violation of ethical principles.

Active civil society groups focusing on the operations of banks can also be helpful. Similar comments would apply to the media.

Most importantly, the regulatory authority must play a vigorous role to ensure real time monitoring and surveillance over the banking operations. The authority should have the competence to promptly identify violations of ethical norms and initiate remedial measures, including legal actions, without being influenced by political pressure or any other extraneous consideration.

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Life expectancy and service length!

M. SHOEB CHOWDHURY

AFTER the independence of Bangladesh, retirement age for public servants was fixed at 57 years. It was based on average life expectancy, which was 46 years then. In the last four decades we have developed our health sector to the standard of World Health Organization's guideline. Proper vaccinations and consciousness about life are the main reasons for development of this process. Prime Minister Sheikh Hasina recently received United Nations award for Bangladesh's outstanding achievements in attaining the Millennium Development Goals (MDG), particularly in health sector.

In this circumstance, civil servants have been demanding extension of their retirement age as the average life expectancy had gone up to 67 years. I think this is a logical and appropriate demand from the government or civil servants. However, the retirement age of judges is 67 years, while it is 65 years for teachers. The retirement age of public servants is 62 years in India, Pakistan and the USA, 65 years in the UK and 60 years in China and Russia.

Given the rise of life expectancy in Bangladesh, the government has amended the Public Service Retirement Age Act 1974 to raise the age limit. Now the retirement age for public servants is 59 years. In the present context, it is a good initiative that average life expectancy and work capability of Bangladeshis have been taken into consideration. But some problems may arise in the first two years of its enforcement. In this connection, the government needs to clarify a few issues urgently.

The eligibility age limit for government service should be raised, as we know most students complete their studies between the ages of 25 and 27. Moreover, apprenticeship or internship is very important for students after completion of their studies, which is ignored in our government and private sectors. We must allow our students to combine earning and

learning. It helps them render better service to the government and private sectors. In this regard, it will be helpful if the recruitment age limit for government service is raised to 32 years, which it already is for freedom fighters' children.

Those who have already gone on leave prior to retirement would get the benefit. They are already treated as immediate beneficiary group. Akbar Ali Khan, former finance adviser to a caretaker government, said that there were pros and cons regarding the extension of retirement age of public servants. The public administration ministry is under the guidance of the prime minister herself,

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although her dynamic adviser, who was cabinet secretary during 1975, is controlling the administration. He declared that the extension of retirement age was a New Year's gift for civil servants. So, it is his responsibility to ensure the transparency of the whole process.

We won an historical victory in 1971 and the freedom fighters are our pride and asset. We have to show respect and honour to them. So, their retirement age should be increased to 61 years. The government is very conscious about the freedom fighters' rights. Most of them had been ignored during the autocratic governments. It is high time they are given priority and privilege.

Joint service instruction for Bangladesh defense forces has to be amended for raising the age limit for their services. Average life expectancy is also applicable to the defense forces; older people have the right to get equal benefit regarding life expectancy issue. We know that Bangladesh is playing a vital role in the United Nations peace missions and earning foreign currency for the nation. They are projecting a good image of the nation. The armed forces are already engaged in different public activities, like election management, disaster management, traffic management, commodity rationing management, etc. Recently, an international survey identified them as the most trustworthy institution in Bangladesh. Policy makers of our government need to take this into consideration. Otherwise, it may create discrimination between civil and military servants.

Finally, I would like to draw attention to the unemployment problem, which has been the major problem of the country since its inception. As citizens of Bangladesh we need to find ways to reduce unemployment. Unfortunately, the stock market crash leading to economic and political turmoil has become a threat to social security. To avoid the chaos and conflict, all business houses, government agencies, academies, and nonprofit organisations need to work together. It's only the cornerstone for improving access to employment and training services via one-stop career centres. This approach, coupled with technology-based self-service, can make it possible to serve a greater number of people than ever.

The prime minister had given us the Vision 2021 and committed to ensure employment for every family during her election campaign in 2008. I believe that she will try her level best to achieve this goal to make a better Bangladesh.

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Cold war

MARUFA HAQUE

BANGLADESH as a tropical country usually enjoys a reasonable winter, but since December 7, 2011, the country has been hit by a severe cold wave with dense fog. Generally in December, the average temperature for most of the country is about 10 degrees C. But, according to the Meteorological Department, the temperature this year has been 2 to 5 degrees C lower than the normal average temperature. The current temperature of 4-6 degrees Celsius is considered to be very low for Bangladesh, and in some parts the temperature went down to 4.5 degrees C, which is, according to the Meteorological Department, the lowest-ever temperature recorded for last 45 years. Arguably, this may be a result of climate change and perhaps the developed carbon-emitting countries are to blame, but regardless of the cause, the results are ours to deal with.

Many people in our country live under the poverty line and do not have the resources to deal with this devastatingly cold weather. They do not have warm clothes or blankets, and many have no roofs over their heads.

During the 3rd week of December there was another severe cold wave, especially in the northern parts. The poorest people living there are withering away with untold sufferings. The sun has disappeared, and fog covers the sky from morning to night. Temperature goes below 8 degrees C in rural areas. In December, 12 people died due to the cold weather.

Day by day the number of patients affected by pneumonia and other cold-related diseases is increasing, especially among chil-

dren and elderly people. Breast feeding has decreased. Almost all the babies under treatment at Dhaka Medical College Hospital are suffering from respiratory tract infections with fever.

Not only are the poorest least equipped to deal with the cold, they also have very little money to deal with cold-related illnesses. Their livelihoods also become



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extremely vulnerable as they depend on their ability to sell labour or agricultural/livestock produce.

Livestock are also adversely affected by the cold. Cattle are affected by coughing and lack of fodder. Milk production has decreased. Goats are also affected by colds, with nasal secretion and poor health. Poultry birds are also affected, taking in less feed and producing fewer eggs.

Fishermen are totally workless at this time.

Agricultural products are affected due to heavy fog. Potato, mustard, country bean, bottle gourd and sweet gourd have also been affected by fungicide. The seedbed of boro rice is severely damaged by foggy weather. Paddy

cultivation will be late and production will be much smaller. As a result, day labourers also suffer because of this situation. There is less work for them to do, and they have neither enough warm clothes to face the cold nor support to buy warm clothes to work outside. In this circumstance, employers are also not interested to give them work now, so they are jobless.

Finally, silent hunger descends on their families and further reduces their immunity or resilience to cope with the cold. After already suffering seasonal hunger (monga), they now have to suffer this severely devastating cold wave.

The pain of the poorest people caused by bone chilling cold and thick fog is immeasurable. They are yet to receive support from either the district administration or the non-government organisations. At community level, some individuals have distributed warm blankets at Shaghata, Gaibandha town. A local NGO has distributed a few hundred blankets. Another NGO has organised 5 health camps in Sundarganj upazilla to provide health services to over 500 patients, mostly children and women.

I can't change what has happened, but I choose not to turn a blind eye to the neediest members of our community. I am writing to share with you their untold stories, and I hope you will join us to fight the cold. Surely this sort of basic problem can be overcome if we work together. Come forward...

"The will of God is never exactly what you expect it to be. It may seem to be much worse, but in the end it's going to be a lot better and a lot bigger" -- Elisabeth Elliot.

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