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## “CUSTOMERS PERCEPTION VIS-À-VIS BANKING ETHICS: AN EMPIRICAL STUDY”

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### ABSTRACT

**B**anking ethics is all about loyalty and honesty to customers and other stakeholders, trustworthiness, impartiality, valuing principled business behaviour and functioning with a high degree of transparency. Banking is essentially based on trust where depositors entrust their funds to banks for safety and investment. Consequently, banking business must be done in a transparent and ethical manner to uphold the trust of the stakeholders. Banks entirely depends on the trust to sustain their business; failure to follow this will result into decrease in the number of customers. Thus, existence of ethics is imperative to a bank because the success or failure of one is largely dependent on the maintenance of customers' confidence and having an ethical culture will encourage the employees to do what is perceived as right. This paper attempts to highlight customer's perception regarding unethical practices in banks, increase of frauds due to e-banking, encountering of bankers unprofessional behaviour, failure of the bank to keep their commitment and the areas which are more prone to complaints relating to banking services.

**KEYWORDS:** Bank, Customers, Trust and Banking ethics.

### INTRODUCTION

It is presumed that ethics could have come into existence only when human beings started to reflect on the best way to live. This reflective stage emerged long after human societies had developed some kind of morality, usually in the form of customary standards of right and wrong conduct. The process of reflection tended to arise from such customs and accordingly, ethics began with the introduction of the initial moral codes. Many people deny the connection between ethics

and business, believing that the place of morality is within religion, while others perceive the interconnection between morality and religion. Every business activity has certain things in common with morality and moral actions of an individual or groups. During the initial period of Industrial Revolution it was considered that business and ethics do not go together. The popular concept was that if it is business then it is not ethical and if it is ethical it does not represent business. Even the private companies making profits were viewed with disclaim. Banks are not only a key vehicle for economic development but also ensure the financial stability of an economy and thus the success of the banks, both in short and long term depends



on trust and confidence between all the stakeholders. The number of ethical questions that the banking industry faces now-days is many and multifaceted. Banking ethics in general can be described as honesty, impartiality, trust-worthiness, compatibility and trans-parency. The imperative factor which plays an imperative role in building and enhancing the banker-customer relationship is conducting the banking business ethically.

## 2. OBJECTIVES OF THE STUDY:

**The main objectives of the study are:**

- i.To study the accountability of bank to the customers;
- ii.To examine customer's responsibility to bank; and
- iii.To make a comparative analysis between the customers of select public and private sector banks regarding their perception on banking ethics.

## 3.METHODOLOGY OF THE STUDY:

The study undertaken is ex post facto research design as the researcher was not able to control the variables and reported as they had occurred. The study is carried out in the metro city of Guwahati as majority of the bank branches are located within the vicinity. Two public sector banks (State Bank of India and Central Bank of India) and two private sector banks (HDFC and Axis bank) were randomly selected from the sampling frame for the purpose of the study. A pilot study has been done and the ratio of the bank customers as per the survey was 38:21:18:19 (SBI: CBI: HDFC: Axis) and for the study 300 bank customers are selected taking this ratio as a base. Therefore, 119 SBI customers, 66 CBI customers, 56 HDFC customers and 59 Axis Bank customers were distributed questionnaire following the above ratio. The number of questionnaires that were received back from the respondents of the respective banks was – 112 SBI, 61 CBI, 53 HDFC and 57 AXIS bank, totaling to 283.

For analyzing the data Chi- square test is applied (by using SPSS statistical software, version 20) as the study is qualitative in nature and the test is done at 5% level of significance.

## 4. RESEARCH HYPOTHESES TO BE TESTED:

H<sub>01</sub>: There is no association between the customers of public and private sector banks regarding the perception that unethical practices have shaken the confidence of the general public in the banking industry.

H<sub>02</sub>: There is no association between the customers of public and private sector banks regarding the perception that E-banking or online banking has increased the number of frauds.

H<sub>03</sub>: There is no association between the customers of public and private sector banks regarding the perception of encountering any impolite behaviour of any bank official.

H<sub>04</sub>: There is no association between the customers of public and private sector banks regarding the perception that their respective bank has failed to keep its commitment with them.

## 5. ACCOUNTIBILITY OF BANK TO THE CUSTOMER:

Banks, in their professional role as a fiduciary agent, owe a contractual duty to safeguard its customers from losses arising from providing banking services. The relationship between banks and customers has many duties, which banks have to perform for their customers.

- It is the duty of the banker to honour the cheques issued by the customer.
- The relationship between banker and customer is a confidential one, so it is the duty of the banker not to disclose the secrecy of his customer's account.
- The banker takes care of the property deposited by the customer with or without charge. It is the duty of the banker to look after the property diligently.
- The banker abides by the standing order by the customer in making payment on his behalf such as insurance premium etc. In case of purchase and sale of securities on behalf of the customer, it is the duty of the banker to obey the instructions of the bank too.
- Banks usually maintains a database of customer information, such as occupation, business, income and other circumstances, to enable them to spot the transactions that are irregular or not in the ordinary course of the

customer's business or otherwise suspicious.

However, a banker's duty of confidentiality is not absolute. There are few grounds on which the banks disclose their customers' information, viz:

- where the bank is compelled by law to disclose the information ;
- if the bank has a public duty to disclose the information ;
- if the bank's own interests require disclosure; and
- where the customer has agreed to disclose the information.

### **5.1 BANKS' OBLIGATIONS:**

#### **The Bank executes the following duties and responsibilities:**

- Bankers must act with a duty of care in opening a bank account for its customer and it is his duty to make satisfactory inquiry when opening new account for a customer.
- Banker has a duty to receive money and collect bills for its customer's account and money or bills so deposited should be credited to the customer's account. However, the banker should act with reasonable care and due diligence in collecting of cheques for the customer's account.
- There is an implied duty on the banker to honour his customer's cheques, if the cheques are drawn in the proper manner and presented during banking hours.
- Duty of secrecy is an important principle of the banking law. Thus the banker should not disclose information to a third party about the balance of its customers account and even any fact which arise with regard to the customer's bank account.

### **5.2 BANKER'S RIGHT:**

#### **The banker enjoys the following rights:**

- Banker's have a right to dishonour his customer's cheques where there is no sufficient fund for payment.
- In customary banking practice, bankers are entitled to the banker's lien.
- Banker could exercise the right of set-off. That is to say banker has a right to retain a credit balance in one account in place of a debt balance in another. This right enables bankers to combine his customer's accounts, if the customer-borrower has defaulted in paying a debt having an account in the bank with a credit balance.

### **6. CUSTOMER'S RESPONSIBILITY TO THE BANK:**

A customer has a number of duties to the bank which can help in curbing unethical practices, such as:

- Customer has an implied duty to exercise reasonable care in drawing cheques.
- The customer had an implied duty to inform the banks if he discovers a cheque purporting to have been signed by him have been forged.
- Reporting any suspected fraud;
- Not participating in any fraudulent activities;
- Not behaving in any way that enables others to commit fraud;
- To behave honestly with the bank and not to participate in any forms of malpractice;
- Adhering to the bank's policies including paying penalties that have been incurred because of unauthorized overdrafts or other breaches of those policies.
- Updating personal records so that bank correspondence and statements can be sent to the right person at the correct address;
- Complying with all the provisions of the agreement on account of availing any loan or buying any insurance policy; and
- If the customers feel that they are being asked to comply with terms that are not reasonable, or that they have been coerced into something that they did not want, they can file a complaint at the bank's grievance cell. If a satisfactory conclusion is not reached, the customer has the right to take his complaint to the banking ombudsman for a fair judgment.



**6.1 CUSTOMER’S RIGHT:**

A customer must present cheques for payment and collection during the bank hours.

The customer should draw the cheques very carefully and in such a way that there is no room left for any fraudulent practice. If the customer finds any forgery in the amounts of the cheque issued, it is his duty to inform the banker at the earliest opportunity.

**Customer’s rights in customer-banker relationship are:**

- Customer has a right to receive money in his account on his demand.
- Customer has a right to close his account.
- It is a right of a customer to receive the interest on his deposits.
- Customer has a right to draw cheques on his current account.

**7. ANALYSIS OF DATA:**

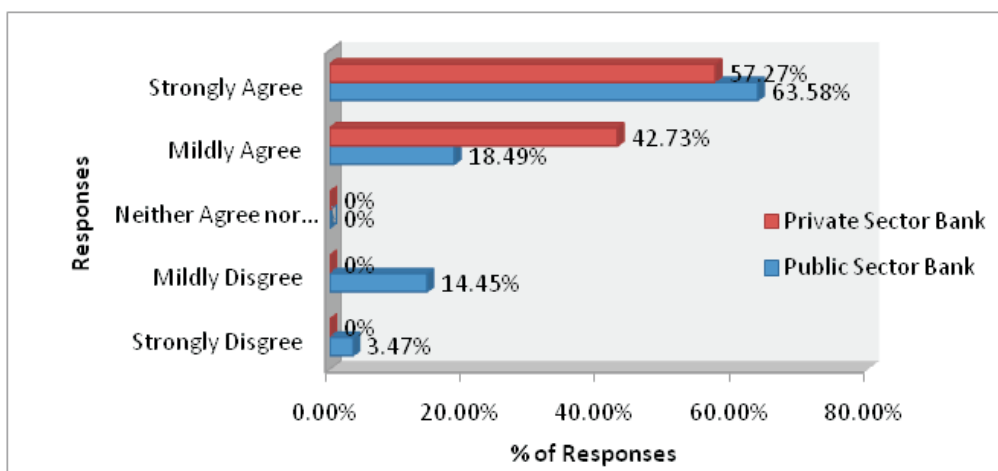
1. Unethical practices have shaken the confidence of the general public in the banking industry

**Table 1 (iii): Responses to Question 1**

Response	Public Sector Bank	Percentage	Private Sector Bank	Percentage
Strongly Disagree	6	3.47%	0	0%
Mildly Disagree	25	14.45%	0	0%
Neither Agree nor Disagree	0	0%	0	0%
Mildly Agree	32	18.49%	47	42.73%
Strongly Agree	110	63.58%	63	57.27%
Grand Total	173	100%	110	100%

Source: Field Survey, October-November 2012

**Chart 1: Unethical practices have shaken the confidence of the public in the banking industry**



Source: Table 1

63.58% customers of public sector banks and 57.28% customers of private sector banks respectively had agreed strongly that unethical practices have shaken the confidence of the general public in the banking industry. However, 18.49% of public sector bank and 42.72% of the private sector bank mildly agreed; 14.45% and 3.47% customers of public sector bank disagreed mildly and strongly to the statement above. The number of customers of private sector banks disagreeing the statement strongly or mildly were found zero. The responses

to the question that unethical practices have shaken the confidence of the general public in the banking industry were different with respect to different banks.

( $\chi^2$  34.292, df = 3, p = 0.00)

**Result:** Since the value of p is below 0.05, we reject the null hypothesis.

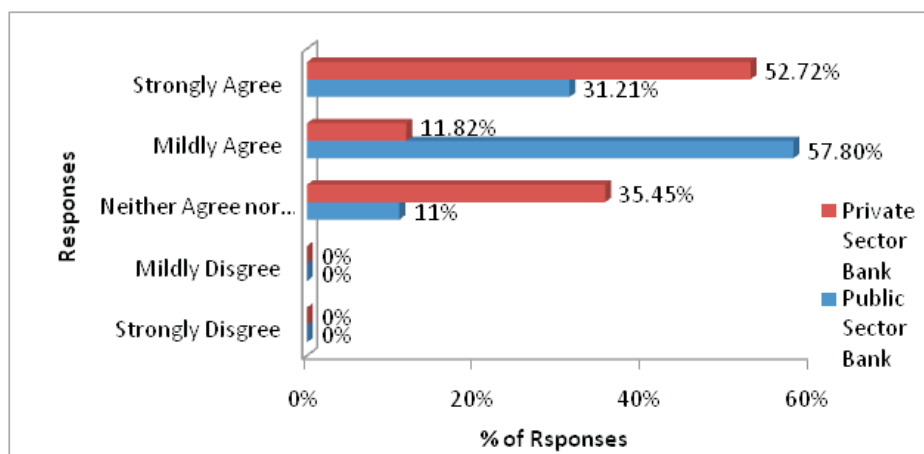
## 2. E-banking or online banking has increased the number of frauds

**Table 2: Responses to Question 2**

Response	Public Sector Bank	Percentage	Private Sector Bank	Percentage
Strongly Disagree	0	0%	0	0%
Mildly Disagree	0	0%	0	0%
Neither Agree nor Disagree	19	11%	39	35.45%
Mildly Agree	100	57.80%	13	11.82%
Strongly Agree	54	31.21%	58	52.72%
Grand Total	173	100%	110	100%

Source: Field Survey, October-November 2012

**Chart 2: E-banking or online banking has increased the number of frauds**



Source: Table 2

31.21% customers of public sector banks and 57.72% customers of private sector banks respectively had agreed strongly that e-banking or online banking has increased the number of frauds. Yet, 57.80% of public sector banks and 11.82% of the private sector banks had mildly agreed; 11% and 35.45% customers of public sector banks and private sector banks had neither agreed nor disagreed to the statement above. The number of customers of both type of banks disagreeing the statement strongly or mildly were found zero. The responses to the question that e-banking or online banking has increased the number of frauds were different with respect to different bank.

( $\chi^2$  63.125, df = 2, p = 0.00)

**Result:** Since the value of p is below 0.05, we reject the null hypothesis.

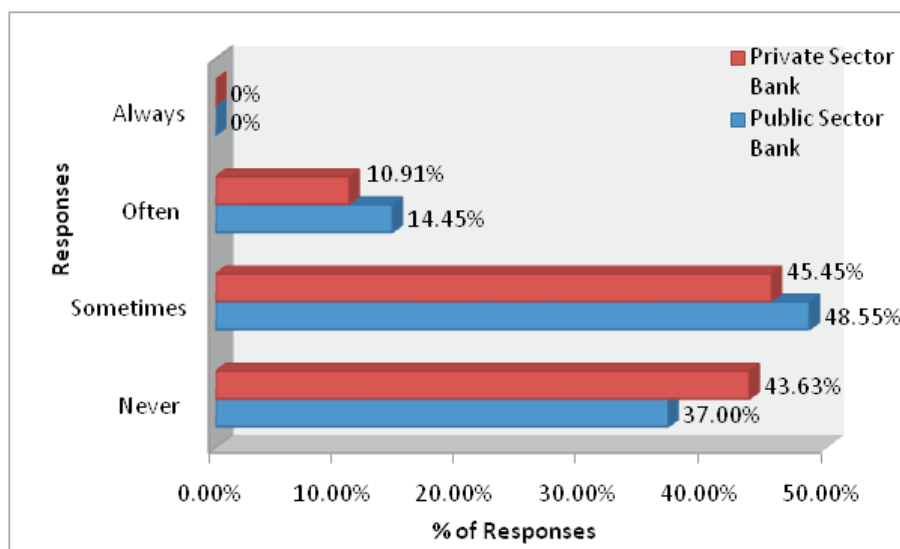
3. Have you encountered any impolite behaviour of any bank official?

Table 3: Responses to Question 3

Response	Public Sector Bank	Percentage	Private Sector Bank	Percentage
Never	64	37%	48	43.63%
Sometimes	84	48.55%	50	45.45%
Often	25	14.45%	12	10.91%
Always	0	0%	0	0%
Grand Total	173	100%	110	100%

Source: Field survey, October-November 2012

Chart 3: Encountering of any impolite behaviour of any bank official by the customers



Source: Table 3

37% customers of public sector banks and 43.63% customers of private sector banks respectively had never encountered any impolite behaviour of any bank official. Yet, 48.55% customers of public sector banks and 45.45% customers of private sector banks had encountered 'sometimes' and 14.45% customers of public sector banks and 10.91% customers of private sector banks 'often' encountered impolite behaviour of any bank official. Numbers of customers always encountering impolite behaviour of any bank official in both kinds of banks were zero. The responses of the customers were independent of the type of banks they worked.

( $\chi^2$  1.531, df=2, p=0.465)

**Result:** Since the value of p is above 0.05, we accept the null hypothesis.



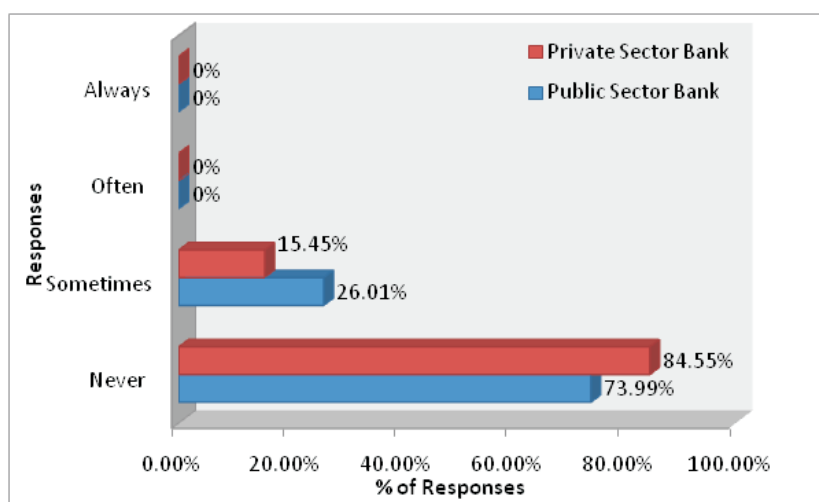
4. Has your bank failed to keep its commitment with you?

Table 4: Responses to Question 4

Response	Public Sector Bank	Percentage	Private Sector Bank	Percentage
Never	128	73.99%	93	84.55%
Sometimes	45	26.01%	17	15.45%
Often	0	0%	0	0%
Always	0	0%	0	0%
Grand Total	173	100%	110	100%

Source: Field survey, October-November 2012

Chart 4: Failure of the bank in keeping its commitments towards its customers



Source: Table 4

Majority of the customers were for the statement that their respective bank’s had ‘never’ failed to keep its commitment to them (public banks = 73.99%, private banks = 84.55%). Yet, 26.7% customers of public sector and 15.45% were in support of the statement that their bank had ‘sometimes’ failed to keep its commitment to them. Significant association was found between the responses of customers and the type of banks. ( $\chi^2$  4.380, df =31, p= 0.036)

**Result:** Since the value of p is below 0.05, we reject the null hypothesis

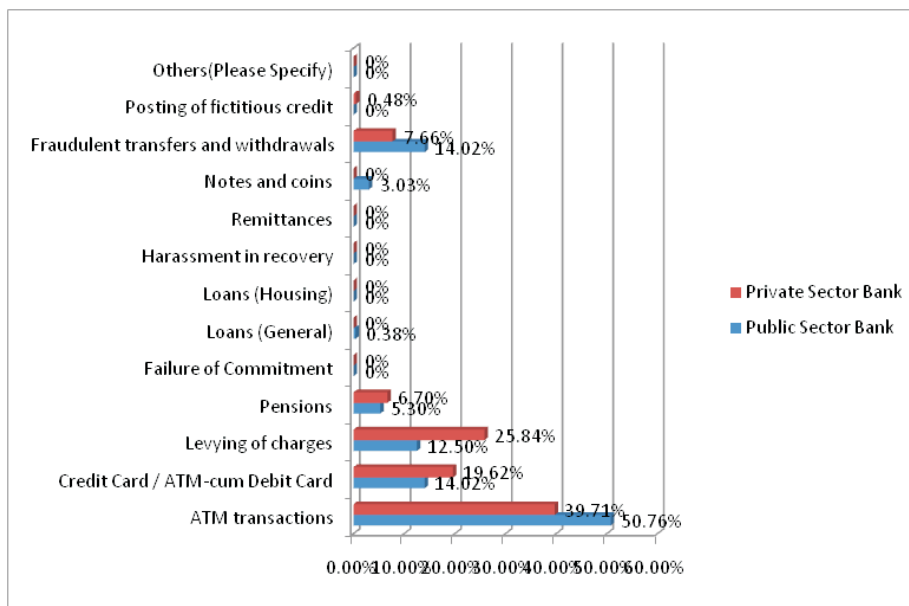
5. According to you what are the areas which are more subjected to complaints relating to the bank services?

Table 5: Responses to Question 5

Areas/Subject for complaints	Public Sector Bank	%	Private Sector Bank	%
ATM transactions	134	50.76%	83	39.71%
Credit Card / ATM-cum Debit Card	37	14.02%	41	19.62%
Levying of charges	33	12.50%	54	25.84%
Pensions	14	05.30%	14	06.70%
Failure of Commitment	0	0%	0	0%
Loans (General)	1	0.38%	0	0%
Loans (Housing)	0	0%	0	0%
Harassment in recovery	0	0%	0	0%
Remittances	0	0%	0	0%
Notes and coins	8	03.03%	0	0%
Fraudulent transfers and withdrawals	37	14.02%	16	07.66%
Posting of fictitious credit	0	0%	1	0.48%
Others(Please Specify)	0	0%	0	0%
Total Responses	264	100%	209	100%

Source: Field survey, October-November 2012

Chart 5: Areas more prone to complaints regarding bank services



Source: Table 5

Both the public and private sector bank customers have given multiple responses and has rated ATM transactions (50.76% and 39.71% respectively) as the highest prone area for complaints, followed by credit/debit card by the public sector bank customers (14.02%) and levying of charges by the private sector bank customers (25.84%).

**7. FINDINGS:**

1. Lately, the banking sector is experiencing a number of unethical practices either by the bank officials and staff or from the general public. These may be in the form of misappropriation of funds, manipulation of accounts, fictitious transfers, bank frauds, mismanagement; money laundering etc. which has shaken up the confidence of the customers. 63.58% customers of public sector bank and 57.28% customers of private sector bank agreed strongly that unethical practices have shaken the confidence of the general public in the banking industry.

2. Certainly E-banking has saved time from standing in the queue for long hours just to withdraw or transfer money or just to check the balance amount. Most of the vital banking transactions can now be done from anywhere with much ease and comfort. But however e-banking from mobile to web has created the customer education gap and young consumers as well as old find it difficult to operate it. A smart training regarding the operation and precautionary steps are essential to be advertised and informed to the customers before they go for online banking. Lack of both the factors has resulted into gullible customers falling into the trap either by making online purchases or through phishing. Around 31.21% customers of public sector bank and 57.72% customers of private sector bank agreed strongly that e-banking or online banking has increased the number of frauds. There were none of the respondents who disagreed that e-banking has increased the numbers of frauds.

3. 3.37% customers of public sector and 43.63% customers of private sector bank never encountered any impolite behaviour of any bank official. Yet, 48.55% customers of public sector and 45.45% customers of private sector bank encountered sometimes and 14.45% customers of public sector banks and 10.91% customers of private sector bank often encountered impolite behaviour of any bank official. Bank employees do have an impolite way of handling it customers and they usually blame it on two factors viz; excessive work load and long hours of work. These are a mere excuse which shows lack of professionalism and professional attitude amongst the bank employees. But generally speaking this is the same scenario in almost all other organisations apart from banking. Though the young private bankers are seen to give due importance in maintaining professional behaviour, it is still way behind in case of public sector banks. Most of the public sector bank customers in one way or the other had experienced impolite behaviour from the bank employee.

4. Majority of the customers were for the view that their bank had never failed to keep its commitment to them (public sector banks = 73.99%, private sector banks = 84.55%). Though, 26.7% customers of public sector and 15.45% were in support of the statement that their bank had sometimes failed to keep its commitment to them.

5. Both the public and private sector customers have given multiple responses and rated ATM transactions (50.76% and 39.71% respectively) as the highest prone area for complaints, followed by credit/debit card by the public sector bank customers and levying of charges by the private sector bank customers.

**8. SUGGESTIONS AND CONCLUSION:**

It is imperative that the customers are conscious relating to the ethical practices of their respective banks. The customers, investors- both individual and institutional can play a vital role by exerting pressure on the banks and regulators that banking practices and ethics will have to go side by side. From the study, it has been observed the Indian banking system will further grow not only in size but also in complexity in the years to come. As competition gains further momentum, banks are expected to get more integrated with the economy both domestically and globally. As the activities of the banking system expand, there would be a further need to focus on the ethical standards and practices of banks. In the coming years the concept of ethics in banks will attract more attention, whereby, complying of applicable rules and regulations from the regulator as well as the bank itself will become the prime requisite.

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