

Can banking be ethical?

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On the day that the American investment bank JP Morgan Chase was fined by four separate supervisory authorities a total of \$ 920 million for a trading scandal that had already cost the bank \$ 6 billion, I attended a session of a meeting of international monetary law experts devoted to ethics in banking and banking supervision.

[Lees de column in het Nederlands: Is ethisch bankieren mogelijk?](#)



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A fellow traveller on board the airplane back showed a sceptical reaction: can banking be ethical, he asked. Or was this about [Grameen Bank](#), the Bangladeshi bank that provides microfinance for the poor? Or about [Triodos Bank](#), a niche bank in The Netherlands whose brand is sustainable banking?

These questions asked reveal how low the standing of banking has become, and how bankers are regarded in general. Even mentioning ethics in the context of banking leads to these kinds of embarrassed reactions. Legislators and supervisors issue regulations to force a necessary change in bankers' conduct. The attitude of the media and the general public further serves to nudge bankers towards a more service-oriented approach with less emphasis on short-term profits and more on societal benefits.

Is there a place for ethics?

Beyond rules, is there a place for ethics? Understood as non-legal norms that constrain behaviour or, more generally, influence behaviour, ethics may help to avoid an overly legalistic approach to what needs to be remedied in banking. Norms emanating from legislators can never cover all issues that are relevant for a cultural change and for avoiding another crisis even if legislators can hold the banking lobby at bay.

Whilst supervisors may not be sufficiently familiar with the business to be able to fine-tune conduct, if that even should be an objective in a free market economy. Finally, conduct that is intrinsically motivated rather than externally circumscribed may better suit the interaction between banker and customer. Which means that, just as compliance with the law may not degenerate into a box-ticking exercise, infusing ethics should go beyond formalities and processes. [Recent academic writing](#) explores the role of ethics in financial sector regulation.

Human wisdom

In defence of all those who work in banking or in banking supervision, ethical issues are not confined to this business line. The furore over pay-outs in the case of corporate mergers ([Nokia-Microsoft's promise of almost €19 million to the former's CEO](#)) is a useful reminder that the bonus culture extends beyond banks. From the garment industry (imports from unsafe factories) to the food industry (human health concerns and the treatment of animals killed for human consumption) and the euphemistically called 'defence industry' (producing weapons to kill) ethical considerations are never far off.

My perspective is that banking can be ethical as well as compliant with the law. In all activities, people need guidance beyond the strictness of the law. When it comes to conducting our affairs, rules and ethics each have their role but, as [American psychologist Barry Schwarz in his TED talk on the post-crisis avalanche of regulation admonishes us](#), we should not forget our human wisdom.

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