

OVERVIEW OF BUSINESS ETHICS AND PROFESSIONAL CODE OF CONDUCT

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***At the One-day Sensitization Programme: Code Of Conduct In The
Nigerian Banking Industry***

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Introduction

- ▶ The banking industry plays a critical role in the smooth functioning of the economy.
 - ▶ It facilitates the flow of funds and is often times called the lifeblood of economic activity.
 - ▶ Banks are also a key component of the financial system via their intermediary role between lenders and borrowers and the provision of specialized financial services.

Introduction

- ▶ There are variables which determine the soundness and stability of the industry.
Among these variables are the existence of **good ethical conduct**
- ▶ Such attributes when implemented would ensure confidence in the industry while unethical conduct could result in market failure or even a financial crisis.



Introduction

*“Doing the right thing doesn’t necessarily bring success.
But compromising Ethics almost always leads to failure”.*

- Erika Andersen

Introduction

What is a code of conduct?

- ▶ A code of conduct can be defined as a written set of guidelines issued by an organization to its workers and management to help them conduct their actions in accordance with its primary values and ethical standards. (Business Dictionary)
- ▶ It can also be defined as principles, values, standards, or rules of behavior that guide the decisions, procedures and systems of an organization in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations. Simply put, a code of conduct defines acceptable and unacceptable behaviors. (Basel Committee for Good Governance, 2015)



Introduction

What is Good Ethical Conduct?

- ▶ Ethical conduct is described as acting in ways consistent with what society and individuals typically think are good values.
- ▶ Ethical behavior tends to be good for business and involves demonstrating respect for key moral principles held paramount in society. (Business Dictionary)

Introduction

- ▶ In recognition of the importance of maintaining a good conduct in the banking industry, The Chartered Institute of Bankers of Nigeria in May 2014 released **the Professional Code of Ethics & Business Conduct in the Nigerian Banking Industry.**
- ▶ The aim of the Code is to instill discipline in the banking profession and further maintain and ensure compliance of banking institutions to ethics & professionalism while guaranteeing safeness and soundness of the industry.
- ▶ Would be discussed further in the next section

The Code of Conduct In The Nigerian Banking Industry

- ▶ On December 19, 2000, the Bankers Committee, which comprises of 15 member banks established a Sub-committee on Ethics and Professionalism.
- ▶ This committee synthesized inputs from all the banks and financial institutions in Nigeria and by 2014 developed the Professional Code of Ethics and Business Conduct for the Nigerian banking industry, otherwise known as Code.
- ▶ The Code contains a list of acts, conducts, commissions and omissions classified as unethical and unprofessional as well as the framework for addressing these in the business of banking and finance in Nigeria.
- ▶ The Code also provides the procedure for dealing with complaints and the sanctions for violations of its provisions.



What is Unethical Behavior?



- ▶ Unethical behavior is described as the abuse of the confidence, trust and interest the customers and public repose in the directors, managers and staffs of the commercial banks. Ogechukwu, 2013



What is Unethical Behavior?



Insights into Unethical Behavior

Misuse of Information

- ▶ Misuse, manipulation or non-disclosure of material information on products/services and operations provided to the Regulatory and Supervisory Authorities in order to derive some benefits or avoid liability.
- ▶ It could also be the deliberate rendition of inaccurate or incomplete returns to the Regulatory and Supervisory Authorities with intent to mislead.



Nick Leeson



- ▶ Nick Leeson brought down the oldest bank in Britain, Barings Bank
- ▶ He was charged with fraud for deceiving his superiors about the riskiness of his activities and the scale of his losses incurred at the time.
- ▶ In 1995 due to his unethical activities, losses to Barings Bank totaled 830 million GBP

Insights into Unethical Behavior

Offer and Acceptance of Gratification

- ▶ Another unethical activity is the offer and/or acceptance of gratification (otherwise known as bribes) to/from customers respectively and potential customers to do business or to earn undeserved favor.

Johnny Gutierrez



A former loan officer of the Export-Import Bank of the United States, Johnny Gutierrez pleaded guilty to accepting more than \$78,000 in bribes in return for recommending the approval of unqualified loan applications to the bank



Mr Andrey Ryjenko



European Bank
for Reconstruction and Development

- A former employee of the European Bank for Reconstruction and Development, Mr Andrey Ryjenko was found guilty of accepting more than £2 million in bribes in return for approving large loans.
- Between July 2008 and November 2009 alone, he had also been found guilty of accepting bribes totaling over \$3.5 million

Insights into Unethical Behavior

Abuse of Trust/Office

- ▶ achieved when exploiting the ignorance of unsuspecting customers through excessive or unwarranted charges (fees, commissions, etc.) incurred on a product or service. This could also be achieved through the abuse of ones position to enrich oneself.



Subprime Lending



Banks

Prime Loan -
Low Interest

Subprime Lenders

wanna make quick bucks

Subprime Loan -
High Interest

Subprime Borrowers

People with bad credit rating / unstable income

Take high interest loans to buy home,
since banks won't give them loans

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For example, prior to the 2008 Financial Crises, bankers targeted poor and low income lenders for sub-prime/predatory loans. Such loans carry higher interest rates than traditional loans as well as higher fees and prepayment penalties resulting in a higher contingency for foreclosure.

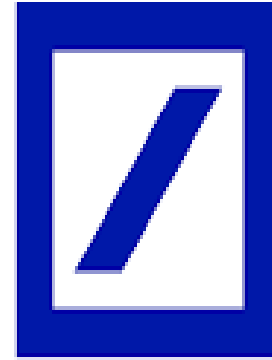
Insights into Unethical Behavior

► Insider Trading

Is the illegal practice of trading on the stock exchange for personal advantage through access to confidential information.



Martyn Dodgson



Deutsche Bank

In 2016, former Managing Director of Deutsche Bank, Martyn Dodgson was convicted of insider trading deals worth over £7 million. He is one of the most senior City figures ever to be charged. He has been sentenced to Dodgson was given a four-and-a-half-year prison sentence, the longest ever imposed for insider trading in the United Kingdom



Insights into Unethical Behavior

Other Unethical Attitudes/Infringement of the Code of Conduct

- ▶ Knowingly or recklessly disseminate false or misleading information
- ▶ Being sanctioned by another recognized professional body e.g. ICAN, SEC etc.



Sanctions/Consequences of Unethical Practices

Fines

- ▶ In the period between 2012 and 2016 alone, the world's top 20 banks were fined with conduct charges totaling £264 billion, an increase of nearly one-third compared to 2008-2012. (Business Insider)
- ▶ The following are some examples of fines given to banks:

Sanctions/Consequences of Unethical Practices

- ▶ **Wells Fargo & Company** – In 2016, Wells Fargo, one of the world's largest banks by market capitalization was found guilty of fraudulently opening approximately 1.5 million bank accounts and issuing over 500,000 credit cards for existing customers without their knowledge. In September of that year, the bank was issued with a \$185 million fine for the fake accounts and for consequently firing 5,300 workers.
- ▶ **Bank of America** – In 2014, Bank of America was fined approximately \$17 billion as settlement for marketing Mortgage-Backed Securities which were fraudulently secured by properties with inflated appraisals.



Wells Fargo fake account scandal, by the numbers

\$24

The average amount charged to customers whose phony accounts had fees.

\$2.4 million

it earned from the phony accounts.

.02%

The portion of revenue Wells Fargo makes from deposit account service charges, card fees and other fees represented by the \$2.4 million it earned from the phony accounts.

\$2 million

Total fees charged to 85,000 of the phony deposit accounts. They included overdraft fees, service charges and other fees.

\$185 million

The amount Wells Fargo will pay in fines, including \$100 million to the CFPB, \$35 million to the Office of the Comptroller of the Currency and \$50 million to the City and County of Los Angeles.

\$400,000

Total fees charged to 14,000 of the unauthorized credit card accounts. These included annual fees, interest charges and overdraft protection fees.

5,300

The number of employees fired by Wells Fargo since 2011 for creating phony accounts for existing customers in order to meet sales quotas. In a 2015 lawsuit, Wells Fargo was accused of driving its bankers to commit fraud by imposing unrealistic sales quotas. The bank has approximately 265,000 employees worldwide.

2 million

The number of fraudulent accounts opened by Wells Fargo employees, including 1.5 million deposit accounts and more than 500,000 credit card accounts.

\$23 billion

Wells Fargo's profits in 2015

\$5 million

The amount Wells Fargo is required to refund affected customers.

Sanctions/Consequences of Unethical Practices

- ▶ **The Central Bank of Nigeria Vs MTN Group** - The Central Bank fined 4 Nigerian Banks for allegedly assisting MTN Group, the South African Telcoms Service Provider with illegally transferring \$8.1 billion out of the country in a breach of foreign exchange regulations. The banks were fined as follows:
 - ▶ Standard Chartered – N2.4 billion
 - ▶ Stanbic IBTC – N1.8 Billion
 - ▶ Citibank – N1.2 billion
 - ▶ Diamond Bank – N250 million



Sanctions/Consequences of Unethical Practices

Imprisonment

The Natwest Three

- ▶ In 2008, three staff of the National Westminster (NatWest) Bank, David Bermingham, Gary Mulgrew and Giles Darby were charged with stealing \$7.3 million from their employer through fraudulent activities in connection with the now defunct and US Based - Enron Corporation. The bankers of British decent were sentenced to 37 months each in jail and served the time in Allenwood prison based in Pennsylvania, United States.





The NatWest Three



Kweku Adoboli

- ▶ Mr Adoboli, a former stock trader for UBS, a Swiss Investment Bank traded away US\$2 billion. He worked in the UK branch of the bank based in London and his illicit activities are reported as the largest unauthorized trading loss in British history.
- ▶ Mr Adoboli was found guilty of booking fictitious trades to cover up losses during the financial crisis between 2008 and 2011. In 2011, he was charged with two counts of fraud and four counts of false accounting. He was imprisoned in 2012 and served four out of a seven year jail sentence.
- ▶ In November 2018 Adoboli was deported back to Ghana, his country of origin.



Sanctions/Consequences of Unethical Practices

Termination of Employment

- ▶ In 2004, the then Governor of the Central Bank of Nigeria, Mr. Charles Chukwuma Soludo expressed his desire to rid Nigerian banks of their major problems which he believed to include weak corporate governance and falling ethics.
- ▶ By 2009, years after the consolidation policy took place, five of the biggest banks in the country had been found guilty of unethical practices and illegal activities. The banks which include Afribank Plc, Finbank Plc, Intercontinental Bank Plc, and Oceanic Bank Plc had become insolvent with cumulative non-performing loans of 40.81% of in the industry.
- ▶ The CEOs/MDs of each of these banks were subsequently sacked under the leadership of the newly appointed CBN Governor, Emir Muhammadu Sansui. Eventually, the license of Afribank Plc was revoked, while the remaining were acquired by other banks.



Sanctions/Consequences of Unethical Practices

De-registered as Member of the CIBN

- ▶ Among the maximum penalties for infringement of the Code of Conduct for the banking industry is being de-registered as a member of the Institute. This resolution would be taken by the CIBN Investigating Panel



Ethical Conduct

Now that we know the bad/unethical Code of Conduct, what is good/ethical conduct?



Ethical Conduct

Ethical conduct is described as acting in ways consistent with what society and individuals typically think are good values. (Business Dictionary)



Ethical Conduct

Core Principles for Individual Bankers

Among the core principles for individual members are as follows:

- ▶ Honesty
- ▶ Integrity
- ▶ Diligence
- ▶ Credibility
- ▶ Transparency



Ethical Conduct

Other Behaviors Expected Under Code of Conduct

► Confidentiality

Banking professionals are expected to observe the strict duty of confidentiality regarding their customers' and former customers' affairs. The Code states that Bankers shall not disclose details of customers' accounts/transactions or their names and addresses to any third party, including other companies in the same group.

► Accountability

In the discharge of his/her duties, a banker is accountable to his employers, customers/consumers, regulatory authorities, governments, the Institute and the general public.

► Responsibility

A banker is expected to conduct himself in a responsible and professional manner at all times. One of the ways to achieve this is to report major irregularities observed in the work place to designated officers in line with the existing Whistle Blowing Policy where applicable



Ethical Conduct

- **Association**

Bankers should not do business or engage persons of questionable character and integrity.

- **Dressing**

Banking professionals are expected to dress in line with the dress code of his/her institutions without provoking the opposite sex.



Ethical Conduct

For Corporate Members

Governing Principles for Banks

► Terms and Conditions to Customers

Banks are expected to provide customers with clearly written and legally enforceable terms and conditions, expressed in simple language, on the various types of financial products and services offered by them.

► Charges and Interest Payable by Customers/ Consumers

Banks are expected to disclose to Customers/Consumers in sufficient details, the basis and amount of charges incidental to the operations of their accounts/transactions. Such charges include but are not limited to - changes in interest rates or other rates/charges when accounts are opened, booking of new transactions or changes in earlier agreed terms and upon request by customers/consumers.



Disciplinary Bodies

For Corporate Members

► Handling Customers' Complaints

Customer complaints should be fairly and equitably handled. There should also exist internal policies, structures, guidelines and procedures for handling customers'/consumers' complaints expeditiously.

Complaint Desks should be set up in all their branches of the bank as well as other platforms whereby customers could be informed of internal policies, structures, guidelines and procedures for handling complaints.

► Confidentiality of Customers' Information

Banks should observe strict duty of confidentiality about their customers' and former customers' affairs and shall not disclose details of customers' accounts/transactions or their names and addresses to any third party, including other companies in the same group



Disciplinary Bodies



Disciplinary Bodies

For Individuals

► The CIBN Investigating Panel

The CIBN Investigating Panel was established under the Chartered Institute of Bankers Of Nigeria Act, 2007 a re-enactment of the CIBN Act, 1990. The aim of the Investigating Panel is to among other duties conduct a preliminary investigation into any case where it is alleged that a member of the Institute has violated the provisions of the Professional Code of Conduct. Depending on the severity of the case, the Panel would decide whether the case should be referred to the Disciplinary Tribunal

► The CIBN Disciplinary Tribunal

Also established under the CIBN Act, 2007 the Disciplinary Tribunal is charged with the duty of considering and determining any case referred to it by the Investigating Panel. A person who commits an offence and is found guilty by the decision of the Disciplinary Tribunal shall be liable to the maximum sanction of having his name struck out from the register of members.



Disciplinary Bodies

For Corporations

Banker's Committee Sub-Committee on Ethics and Professionalism

- ▶ The Bankers Committee established a Sub-committee on Ethics and Professionalism on December 19, 2000. The aim of this Sub-Committee is to serve as vehicle through which discipline is instilled in the industry. The Committee is responsible for releasing the Professional Code of Conduct for the Banking Industry.

Bankers Committee Investigative Panel

- ▶ Petitions are submitted to this panel through the CIBN which serves as the secretariat. This panel calls for mediation whereby cases between banks or between a bank and a customer are deliberated upon. It is the duty of this panel to make recommendations for resolution. Such recommendations are forwarded to the Bankers' Sub-Committee on Ethics & Professionalis approval and subsequently to the Banker's Committee for ratification.



Disciplinary Bodies

Cases Resolved

- ▶ In 2018, a total of 126 cases comprising of 40 cases in 2018 and 86 cases from previous years were fully resolved. The total claim by the Petitioner was N9.6billion Naira and \$16.5m respectively.



Disciplinary Bodies

Establishment of Mortgage Bankers Sub Committee on Ethics and Professionalism.

Mortgage Bankers Subcommittee for Ethics and Professionalism was established in June 2018, as self-regulatory committee to handle cases involving Mortgage Institutions and their Customers.

The Chartered Institute of Bankers of Nigeria should was named the Administrative office for the Mortgage Bankers Subcommittee for Ethics and Professionalism.



Benefits of Obeying The Code of Conduct

Now we know the penalty for Unethical Conduct, but what are the rewards for ethical conduct?



Benefits of Obeying The Code of Conduct

- ▶ Good Company Reputation
- ▶ Improves Bottom Lines
- ▶ Legal Benefits
- ▶ Builds Long Term Customer Relationship



Conclusion

- ▶ Good ethical conduct far reaching impacts on the banking industry and the economy as a whole.
- ▶ The success or failure of the banking industry is not only dependent on our ability to give quality products and services to the end customer or our ability to meet targets or achieve deliverables set by employers.
- ▶ Rather the success and failure of the industry is also highly dependent on the manner in which these targets/deliverables are fulfilled and the conduct of those fulfilling them.



Conclusion

“To give real service you must add something which cannot be bought or measured with money, and that is sincerity and integrity.”

Douglas Adams



Thank you

