

# TEN RECOMMENDATIONS FOR MORAL RENEWAL IN BANKING

**PROF. DOMÈNEC MELÉ**

Symposium director and holder of the Chair of Business Ethics  
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**T**he image of banking has been damaged, and it urgently needs to improve in order to regain trust. What the bank needs is moral renewal, but how? There are complex situations and it would be simplistic to try to resolve them without looking into each one thoroughly. However, it is possible to make some basic recommendations that are easy to understand and that can help bring about this much-needed moral rearmament. Some of these are already covered by law, others are not, but in any case morality doesn't reside in the letter of the law but in the justice that it represents. We propose the following recommendations:

- 1 Create a responsible business culture** in which the dominant ethos is not to maximize profits whatever the cost, but the ethical and social functioning of banking with reasonable financial and social benefits. The social function of banks is the prudent use of the capital that savers deposit and supplying credit to families and businesses that need it in order to grow, create employment and, as a result, wealth. It's precisely this social function that justified the bailout of the banks. It may not be popular, but the collapse of the financial system would have had devastating effects, not only on specific institutions but on all economic activity and could have led to social paralysis.
- 2 Operate transparently, explaining the necessary information**, even when not required to by law. Neither the securitization of mortgages or the existence of preferential shares are intrinsically bad, but they need to be explained and shouldn't be offered to people who find them extremely difficult to understand.
- 3 Administer funds prudently and transparently.** There are banks that have gone bankrupt through carelessness and negligence in their administration of funds, often accompanied by a lack of transparency. For example, the banks saw in real estate an enormous seam in which they could manage huge volumes of money and through this volume make profits. But the available funds do not just belong to the board of management, which often only controls a small percentage. There are hundreds of thousands of small shareholders and savers who have lost out.
- 4 Offer credit from the standpoint of ethical and social responsibility**, taking into consideration the activity that is being funded and its social value. Banking responsibility doesn't begin and end with profitability and solvency. There is also an ethical and social responsibility regarding the role of credit in creating employment and wealth in ethical conditions. Similarly, responsibility in offering credit means that it should be denied to unethical activities or sectors.
- 5 Don't use a position of power to take advantage of others in need.** Power may mean having more information or more negotiating power. Inserting abusive clauses into

mortgages or taking advantage of a saver's ignorance are among the abuses that can occur in banking.

- 6 Avoid incentives or perverse pressures in investment decisions.** Clients need to feel that they can trust the bank's employees and receive the information they deserve. A corporate policy driven by the bank's top management that recklessly puts pressure on employees can lead them to sell financial products without offering complete and clear information to clients or without offering them products better suited to their profile as an investor. It's important to avoid situations in which the trust invested in banking employees is abused.
  - 7 Behave with moral imagination and a social conscience.** Moral imagination leads to finding creative and ethically superior solutions. The lack of flexibility in solving a problem, such as house evictions, that directly affects the basic necessities of thousands of families points to a lack of social conscience. Perhaps it wasn't seen as the bank's problem, but the problem was there and in many cases the financial bodies have shown an excessive rigidity and the lack of imagination or ability to react.
  - 8 Don't turn a blind eye to bad behavior.** This includes giving technical help to money launderers or tax evaders. It's well known that money in tax havens is not taxed, or is taxed at a very low rate, and is also protected by banking secrecy. Banks should not be complicit in the bad behavior of their clients, however important they are.
  - 9 Behave like a good citizen.** This means the bank has to behave and be seen as a social force that doesn't ignore social problems even though they're not directly part of its mission. Many banks donate some of their profits to social projects, many of which have problems raising funds. Naturally this can be used to cover up bad practices, but it is laudable all the same. This is not just a way of giving something back to the society that helped you get it in the first place, beyond just paying tax. It's also a way in which the bank can act with a sense of community that will also usually be appreciated by people at large.
  - 10 Ensure compliance but opt for integrity.** Having well-established and applied codes of conduct and other means of self-regulation can help, but it's necessary to aim for a shared mentality of integrity that goes beyond compliance. It would thus be possible to avoid activities that comply with the letter of the law but lack real moral integrity.
- Business schools such as IESE want to help banks to work well, professionally and ethically, to offer a good service in a competitive market and, as a result, be profitable and contribute to progress and the humanization of society. But this begs the question: is it possible? Are being competitive and ethical compatible? It's a challenge that demands imagination and effort but honor and integrity, along with the trust they bring, are also important competitive elements.