

THE ETHICS OF BANKING: ANALYSIS AND ESTIMATES

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Abstract. *With the banking business developing, the system of bank values is becoming increasingly relevant. Adherence to the norms of the bank's ethics helps developing and improving ties among the bank's employees as well as relations with the clients. Appropriate behaviour and social culture on the part of the staff shape the image of the bank and stimulate loyalty in the clients. The sophisticated and reliable operation of banks can be judged both in terms of its legal and economic aspects, and ethics. The article addresses the ethics requirements for banks' staff, deals with the analysis and assessment of the application of ethical norms in the process of rendering financial services, and reveals the principal provisions laid down in banks' codes of ethics and estimations.*

Key words: *ethics of banking, ethics code, financial services, client*

Introduction

Just like other financial and credit institutions, banks have an important role in a country's economy, accounting for more than 80 per cent of the financial market. Banks try to perform a wide range of financial services to the best of their ability. These services include acceptance of deposits and other refundable moneys; lending (including mortgages); leasing; payment services; investment services; issuing e-money, and so on. In today's banking, like in any other type of business, everything rests on relations: banks' relations with clients, employees, business partners, the state. Business success depends on the morals of entrepreneurs and on the trust earned on that basis. The Greek thinker Aristotle wrote about the morals of decorum and was the first to use the term *ethics*. Many authors differ on the definition of this term. Vyšniauskienė, Kundrotas (2002) defined the ethics of business as the domain of ethics that results from the interaction of business and ethics, the whole of the principles, norms and rules of morals that aid the world of business. The work of many authors has led to the development of the conception that ethical behaviour equals adherence to the norms of ethics. Ethical behaviour is one that does not violate the interests of others and does not aggravate the situation. Ethics help reveal key actions that may be just or unjust, good or bad as well as

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provide their reasoning or narrow the arguments down. The banking experience shows that success is driven by high ethical standards when it comes to the quality of services, the culture of customer service, the management, the qualifications of the staff and the appreciation of their work. Failure to abide by the norms of ethics and, in some cases, lack of business transparency was among the reasons that caused the global financial crisis, which has led to banking difficulties for some countries. Confidence in banks is a key to successful banking. Banks can only work well when the public trust them. Ensuring safety of banking activities is a challenging task indeed. It depends heavily both on the economic condition of the country and, in the environment of an open economy, the tendencies of development of countries worldwide as well. The ongoing processes of global integration, internationalisation, the continuous financial innovations bring the possibilities to directly affect banking operations to a minimum. As a result, the solution of banks' problems depends on the attitude and confidence of market players. Among other things, the rating of confidence in banks greatly depends on skilled supervision.

Matters pertaining to business ethics have been addressed in detail by domestic and foreign business people. The nature and essence of business ethics, the norms of moral behaviour, the problems of ethics in business and ways to make ethical decisions have been investigated by Pruskus (2002), and business ethics have been analysed by Vyšniauskienė, Kundrotas (2002), Vasiljevienė (2000,2003), Koslowski (2008), Badaracco (1995), Lewis (1999), Paulavičiutė (2004), De George (1990) and others. In the meantime, the principles of ethics in banking have never been given too much attention. Recently, there has been but one book that thoroughly described the principles of ethics in banking, elaborating on the situation with adhering to the principles of ethics as it is and should be in relation to banking services or other operations, and painting a picture of how conflicts are handled (Koslowski, 2011).

The goal of this study was to overview the ethical codes of Lithuanian banks as well as the compliance with the norms embedded therein, based on analysis and research. What are banks' requirements for their existing and future staff in the field of ethics? How do banks approach conflicts? Other topics that are dealt with in the article are banks' relations with clients, the relevance and fairness of information disclosed, keeping banks' secrets. On top of that, the article examines the influence of compliance with the principles of ethics on the success of banking business as well as the issues related to non-compliance, reviews the role of bank supervision in the process of meeting legitimate targets for the stability and reliability of the banking system and ensuring adherence to the ethical norms.

For the purpose of obtaining a deeper insight into the above and other questions related to the ethics of banking, they were presented to every bank that holds the licence issued by the Bank of Lithuania and one branch of a foreign bank. A summary of the material, a set of conclusions and a list of references are presented in the article.

Application of ethical norms to banks' staff

Banks' activities are closely related to the confidence of the public, which is to a great extent driven by the degree of responsibility with which banks' management and employees treat clients, the competition and cooperate with one another. Another important factor is how honest and fair they are in performing their duties, whether they are reliable, principled, benevolent, loyal to the bank, work transparently, place the interests of the bank above their own. There are a lot of models designed to explain the way people make decisions and the factors that affect the degree of ethics. The stages of a person's moral development that one progresses through while seeking personal advancement and the judgements that one makes are addressed by Kohlberg's model of moral development (Pruskus, 2002).

Kohlberg has identified six stages: obedience and punishment orientation; self-interest orientation; interpersonal accord and conformity; authority and social-order maintaining orientation; social contract orientation; universal ethical principles. It is obvious that the level of moral development affects the moral attitudes and values of an individual. For instance, two people might share the views of life, yet the moral values they uphold may differ by far. Hence, every stage clearly defines the way in which a person can develop, and the degree of such development defines the person's judgements, their reality and validity.

The image and reputation of a bank as well as people's confidence in the bank depend heavily on the behaviour of its employees, their ability to interact with and show attention to their co-workers and clients. The Human Resources Policy of Danske Bank (2010) contains many tips and requirements for the staff. An employee must seek the right decision both for the client and the bank, and try not to make irresponsible promises that may not be fulfilled. Interaction while maintaining eye-contact with the person you are talking to is a very important principle of social behaviour. Probably the most important thing that is missing in interaction is the ability to listen, defer challenging another person's opinion, try finding positive aspects, look for a compromise, see and appraise both what is good and bad. One way to develop communication skills is to attend special training courses at banks. The exterior image of the employee – the way they are dressed, how tidy their workplace is – is very important.

The management of the banks that hold licences issued by the Bank of Lithuania and a foreign bank branch have been surveyed anonymously, without disclosing the names of the banks in this paper, about their priorities for the existing employees and new staff members to be recruited. They were asked to rank (on a 100-point scale) the following qualities of employees pertaining to ethics: professionalism and competences; honesty and thoroughness; transparency and accuracy while maintaining bank secrecy; possession of views and criticism; ability to communicate, conflict avoidance; fairness

and impartiality; loyalty to the bank’s management; knowledge of foreign languages; interest in the bank’s activities and deliverables; responsibility; appearance and etiquette knowledge; too much confidence in one’s correctness. A summary of the results is shown in Fig. 1.

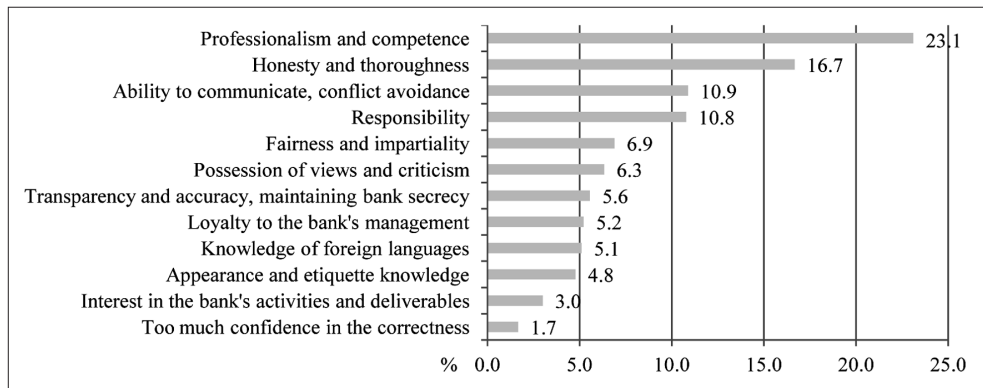


FIG. 1. **Priorities for staff on ethical issues**

Source: author's calculations.

As we can see in this figure, every bank prioritises professionalism and competence, except one bank that ranked the ability to communicate and conflict avoidance just as high as professionalism and competence. The banks see honesty and thoroughness as the second most important thing, followed by ability to communicate, conflict avoidance and responsibility on the third and fourth places. Nearly every bank gave lowest grades to appearance and etiquette knowledge and interest in the bank’s activities as well as too much confidence and correctness. It should be noted that the priorities of all banks were very much similar.

Analysis and estimations of application of ethical norms in the process of rendering banking services

Banks provide services to their clients while following the norms and requirements fixed in the legislation. The relationship between their banks and the clients should be based on mutual loyalty, trust and long-term cooperation. While providing its services, the bank considers the client’s interests to the best of its abilities, based on the acceptable risks. Loans make up the biggest part of the services of a bank. Figure 2 shows that loans have been the predominant portion of assets for years.

The agreement with the client, establishing mutually beneficial terms of lending and the benevolence of interaction, is the backbone of the success of the bank. Even though lending business generates the highest profit for banks, it is also the one that is the riskiest. Therefore, accepting and managing credit risks is the cornerstone of a bank’s

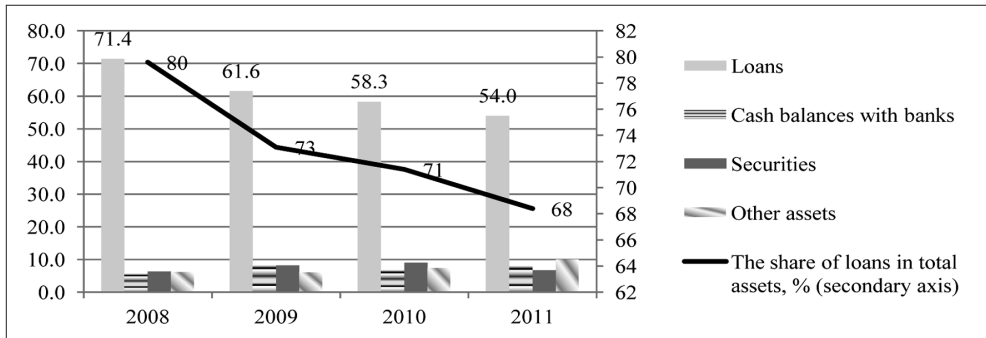


FIG. 2. The structure of the Lithuanian banking system's assets (LTL billion)

Source: Bank of Lithuania.

operations. Every bank must elaborate an efficient credit risk management system that integrates a credit risk management strategy, a lending policy and a system of credit risk limits. All lending products and processes should be regulated and documented. Banks must have appropriate lending risk appraisal systems, clear definitions of every category of risks in order to properly differentiate borrowers on the basis of risks. Inadequate lending risk management may lead to liquidity risks and eventually to solvency risks. The relationship of a client with the bank of their choice must be necessarily based on mutual trust: a bank that manages the assets of its clients must notify them of market changes, and a client who runs into financial difficulties must inform the bank of his or her situation. The bank is interested in keeping their clients, client satisfaction with the services of the bank being one of the key targets of the bank's business, because attracting new clients costs a lot more to the bank than maintaining a relationship with its existing client base. To obtain a loan, the existing and potential clients of a bank usually pay attention to the interest rate (see Fig. 3), as many as 80 per cent of those

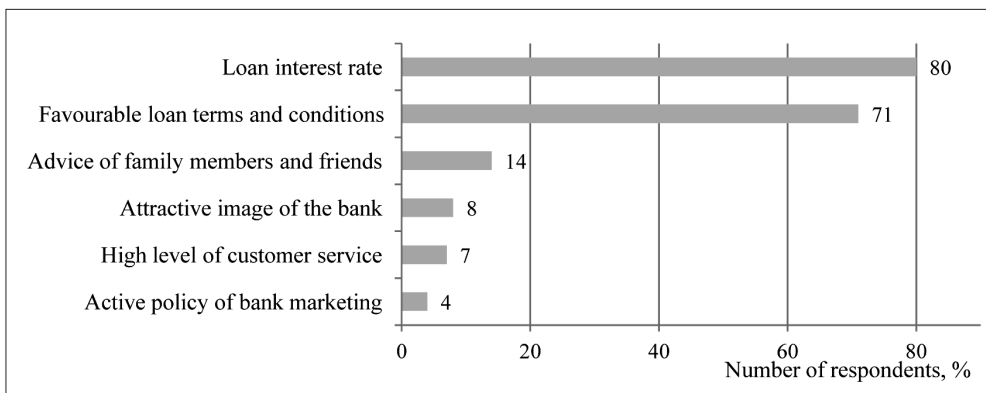


FIG. 3. Factors influencing the choice of a bank in order to receive a loan

Source: Bank of Lithuania (Jasienė, Staroselskaja, 2010).

polled considering it factor number one. Another 52% of the respondents who have taken a loan from one Lithuanian bank or another, and 47 per cent of clients who have not yet borrowed anything from banks believe that the second most important factor that determines the choice of the bank is the favourable terms of lending; this is the opinion of 71% of those surveyed (Jasienė, Staroselskaja, 2010).

When asked if business ethics had a place in Lithuania, 94.3% of participants in a business survey (Vilčiauskaitė, 2011) answered in the negative, and only 5.3 per cent said that they did. The biggest ethical issues that business people face are as follows: greed, withholding facts and accurate information in reports, unfair escalation of prices and blatant cheating in negotiations, overconfidence in one's righteousness, conflicts between business organisation and personal interests, too exaggerated focus on career development, the manufacturing of unsafe products, poor quality of craftsmanship and goods, excessive obedience to the management, no matter how unethical and unfair it may be.

In the above survey of the banks, the respondents were asked whether banks were paying sufficient attention to working with clients and whether if the terms and conditions of bank services were being properly elaborated. Six banks said that working with clients was an important part of their business, one bank replied that misunderstandings were quite frequent, two banks believed that there was still room for improvement in that area, one bank provided detailed information on disputes with clients and even lawsuits with regard to purchases of SAS bonds. According to the banks, most complaints come from clients (residents in particular) regarding the service charges as well as the terms of loans, and especially consumer lending products, badly timed or inaccurate transactions and terms of other services. A lot of clients complain about the accelerated application of the requirements of responsible lending and the extent of premiums in particular, as well as the size of the LTV ratio. Some banks said that quite often they would receive complaints about failures in the information systems while performing card transactions and e-banking operations.

The recent few years have been extremely hard for the banking sector; it was a period of trials. In 2008, in the light of the global financial crisis, the impact was felt in all countries, including Lithuania. In fact, many experts predicted that the direct impact of the crisis on the financial system of Lithuania would not be substantial, because Lithuanian banks are not closely related to the U.S. financial institutions; also, the country's financial market is quite small, with shares or bonds not being significant investment sources. In addition, most of the Lithuanian banking market is controlled by Scandinavian banks and the global crisis in these countries was relatively small and short-lived; these facts had some positive effect on the Lithuanian banking system. However, the indirect impact of the crisis came through the interest rate rise on the global market. With the volumes of production and consumption in Europe on the

decline, Lithuania faced a drop in export volumes. In particular, the economic downturn affected the construction and transport sectors most severely. Consumption went down in Lithuania, and the banks severely restricted access to credit, becoming more careful about issuing loans and tightening the lending conditions (especially on loans for land acquisition and construction financing), raising the collateral requirements for loans and the residual amount of borrowers' income after the loan has been serviced. Banks, and foreign-owned banks in particular, in late 2008 began to structure a potential impairment of the loan portfolio. The decline of economic activity, the drop in real estate prices, the increase in the number of corporate bankruptcies, the growing unemployment, the lower wages and the conservative loan portfolio have resulted in a significant deterioration in the loan quality, while the increasing credit risk of borrowers has caused the banks to structure a sizeable loan portfolio impairment. The banking system reported a record of loss of nearly 3 billion litas. Learning from their mistakes as well as those of the others, banks were focusing more of conservative lending. The Bank of Lithuania has approved the Responsible Lending Requirements. The requirements include the newly established loan to value (LTV) ratio and debt to income (DTI) ratio. The decline in the confidence in banks as fuelled still by the bankruptcy of the bank SNORAS. Although the banking sector has been recovering lately, reaching the pre-crisis levels will take time. At the end of the 1st quarter of 2012, the bank loan portfolio shrank by 0.6 per cent to LTL 53.7 billion, which equalled the size of the 2007 loan portfolio (Bank of Lithuania 2012). The diminishing loan portfolio was affected by SNORAS's bankruptcy as well. Although other banks stepped in to fill in the gaps in lending, the clients of SNORAS had suffered significant financial losses and will be unable to carry out all of their projects they had been planning. The poor financial condition of clients makes it harder for them to obtain loans from other banks as well. Another reason preventing fast growth of lending volumes is the tightening of the terms and conditions for borrowers and a certain amount of caution among the clients.

The ethics of banking encompass the norms and principles of morals that regulate the behaviour in the banking business. Just like in any other type of business, ethics in banking is a reflection of the ethical norms that are prevalent in society. Ethics are morals, reliability, punctuality of fulfilling obligations, honouring the terms of contracts. Banks are often criticised for trying to capitalise as much as possible on lending to the client. Again, certain ethical norms ought to be in place here. On the other hand, unless the profit is distributed through the payment of dividends, the capital structure of the bank becomes stronger, which allows the bank to operate more safely. However, if the profit drops significantly, steps must be taken to investigate and analyze all of the reasons why that happened and to judge if the decrease in the profit will not create additional threats to the stability of the bank. Sometimes certain flaws in ethics are

caused by varying views when it comes to seeking personal profit and success for the bank. Ethical issues can be caused by the absence of professionalism on the part of both the staff and the clients.

There are several major ethical issues pertaining to the credit market: an insufficient disclosure and transparency of information, the lack of appropriate analysis data, inadequate choice by the client, disregard of the moral and ethical norms, and dishonesty. The lack of sufficiency and transparency, as well as distortion of information may lead to grievous consequences. The operations of the Snoras bank is one negative example: the bank had been supplying the supervisory body with shallow, misleading information which, unfortunately, was not approved by any audit company. According to the publicity manager for the Bank of Lithuania, persistent failure to comply with instructions from the Central Bank, withholding requested information, misleading information and the poor quality of the assets were the main reasons behind Snoras's bankruptcy. The problems with lending ethics occur in dealings with clients and are related to the bank's choice and assessment of the potential borrower and the way in which the service is provided. To screen reliable borrowers, the bank requests a great deal of information; for instance, details required for appraisal of corporate clients include the business plan of the company, information of its credit record, financial reports, future cash flows, and future income estimates. Private individuals are requested to provide complete details of income, assets, stability, and so on. For significant loan amounts, the bank appraises the related credit risks by assessing the fields of the borrower's economic activity, the borrower's situation, property structure, market position, etc. Only after these aspects have been evaluated the bank can take the right decision. However, a lot depends on how ethical the communication with the client is, the degree of confidence that the client has in the bank, which allows them to provide thorough explanations and answers to the bank's questions. Disregard of the moral norms and ethics and dishonesty is another important issue related to the ethics of the credit market. It occurs more often after the bank has already issued its loan. Lacking information, it cannot exercise an adequate control over the borrower's activity and to determine whether the loan is being used as intended, whether the project is related to risks of loan not being repaid. It sometimes happens so that the borrower strives to make profit whatever the cost, trying to implement high-risk projects. There have been cases of an inappropriate application of both loans from banks and financial assistance money from the European Union; they might result in the loss of the funds which will be returned to the EU institutions.

It is the bank's duty to properly choose borrowers or other users of loans in order to extinguish scepticism in the creditors that have deposits in the bank and expect the money to be used safely. As an intermediary, through its ethical actions, the bank needs to persuade the deposit holders and other creditors that they will not run losses and that the bank is safe. The ethics of the bank requires maintaining a reasonable balance

between creditors (deposit holders) and borrowers. The bank must preserve a harmony between its assets and liabilities, minimising any mismatch of the terms. The significance of solving these problems was emphasised by P. Kowalski (2011): *“The Task of the Bank: Intermediating Between Its Creditors and Debtors*; it is obvious that the duties and virtues on the assets side of the bank’s balance sheet and those on the liabilities side are not in harmony with each other but in conflict. In their actions and attitudes towards customers who are holders of current accounts or on-demand deposits, the bank must be risk-averse and cautious; in relation to industrial borrowers, however, it must be risk-embracing and courageous. The bank must therefore find a way to reconcile the different duties and virtues of risk reduction and risk assumption. It must intermediate between its deposit customers’ expectations of avoiding risk and its borrowers’ expectations of taking some risk. Considered on the level of the ethics of banking, the tension between the two expectations and banking activity, and the necessity to strike a balance between them mirrors the bank’s task of mediating between the supply of and demand for financial resources, between saving and investing or, to be even more precise, mediating between the supply of financial resources for low-risk investments and the demand for financial resources for high-risk investments.” It should be emphasized that the bank is the debtor and the creditor, the borrower and the lender all rolled into one. It is the debtor of its deposit customers and the creditor of its credit customers. It stands between two opposing obligations. The bank’s task of fulfilling both its roles, as the deposit customers’ debtor and the credit customers’ creditor, is not always easy.

Quite often, the ethics of banking do not call for applying new rules. In the meantime, the existing rules are too simple and do not meet the requirements of ethics. For instance, the financial crisis in some countries began with real estate issues. However, the initial stage lacked regulation to prevent or mitigate the problem. The banks failed to estimate the potential drop in real estate prices, and some of them did not perform any spot checks to re-evaluate the condition of the buildings. Nor did banks tighten their LVT ratio, assess the level of risks associated with project implementation (bearing in mind external factors and cash flows), and modify interest rates to take account of the risks.

The successful application of ethical principles should also be aided by the Bank of Lithuania as the supervisory body. Following the integration of financial market supervisory institutions, all the responsibility was passed to the Bank of Lithuania. The Bank scrutinises disputes between consumers and subject institutions and provides recommendations as to how, in its opinion, a particular dispute should be addressed. On top of that, the Bank of Lithuania has set the requirements for information being made available to the public that commercial banks must follow. Such information help clients of commercial banks, investors and other individuals and entities concerned to better assess the bank’s performance, transactions and risk management procedures. On the

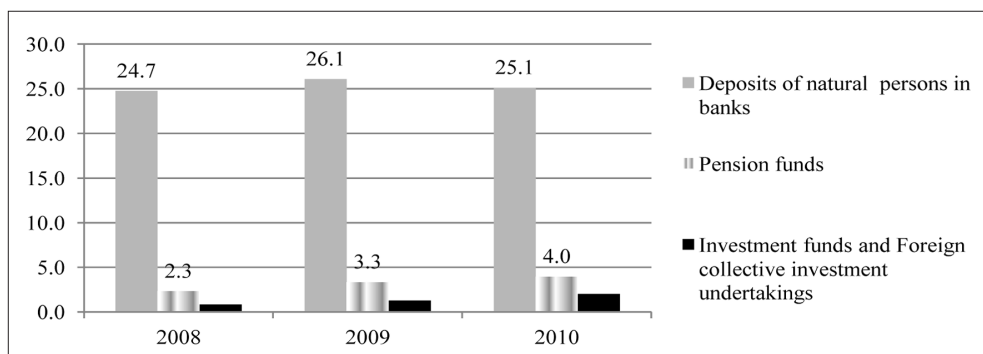


FIG. 4. Deposits of private individuals, pension and investments fund assets (LTL billion)

Source: Bank of Lithuania. Financial Stability Review, 2011.

other hand, a higher degree of transparency also encourages commercial banks to assess and control the risks that they undertake more precisely.

Honouring the requirements for ethics is a very important thing also while providing other types of services, such as saving and investment. It should be noted that the public's confidence in banks remains stable (Bank of Lithuania, 2012). Deposits from the public still remain the key source of banks' finance, and in the 1st quarter of 2012 the amount of such deposits increased by 0.3 per cent.

The survey has shown that banks allow the persons and entities concerned to access information about the saving and investment services available from the bank, as well as about the terms and procedures of such services and the interest rates applied. While offering investment services, banks provide information on the types of investment. The lack of bias in such information and the way it is presented determine the clients' choice of where to invest their money. The ethics of banking requires that no preferential terms were applied to rich clients and that terms were not tightened for those less well-off. Banks have to meet the requirements for ethics and not differentiate their clients into the ones they like or dislike. The globalisation processes have offered new opportunities to invest into other Eastern countries, such as China and India, which makes the role of a financial adviser all the more relevant. The financial adviser's duty is to lend advice to those who are looking for the way to make a safe investment. The financial adviser is often compared to a doctor who can both prescribe the right medicine and use the power of suggestion to help others heal. And so, the financial adviser must both have a good grip on the markets and be able to issue an expert-level advice to the clients, earning their trust. Professional ethics help gaining trust and recognition. Clients usually incur losses because they have no sufficient information. The SEB bank has set everyone an example to follow by founding an advisory centre to maintain closer ties with the clients by providing them with more information about the options available from the bank.

Investor security is another important thing. Even though it is the client that accepts all the risks, they have to understand the degree of risk they can afford. Experience shows that man is prone to avoid risks. Given two equally profitable alternatives, we will prefer the one that is less risky. Yet not everyone finds risk-taking acceptable on the same level. Young people typically tend to incline towards taking more risks as they want to make a faster and bigger profit, whereas older people are generally more cautious and of a less risk-taking disposition. The growth of deposit volumes suggests that people in Lithuania do not take risks willingly. The total amount of balances of deposit accounts is more than twenty times above the amount investment into funds or accrued under voluntary pension accrual and investment insurance contracts. Those who do not put their savings into deposit accounts usually invest into Eastern countries (Russia). The research has shown that over two-thirds of Lithuanian residents would be unable to meet unexpected expenses in the amount of LTL 700 for absence of that much of savings (Varanauskienė, 2012). This implies that two-thirds of people have found themselves in a rather risky situation as they can never know on what conditions and at what costs they might have to borrow, or even sell their property. This is where financial advisers should step in, explaining all the possible risks; forcing people to accept risks without providing them with the complete information and disclosing the potential risks is an unethical thing to do. The internet banking services have been enjoying an increasing popularity recently, limiting the possibilities for financial advisers to give any recommendations to the clients. As a rule, banks use their e-banking services to enable clients to invest into simple products. Those wishing to make a more complex investment are advised to consult their financial adviser. It is critical to provide for liability in the event the client is supplied with incomplete or inaccurate information and thus incurs damages. If your investment is keeping you awake at night, you should opt for safer products, like deposits, which are covered by governmental security up to an amount of EUR 100,000. The bank manages funds entrusted to it by the client on the basis of a contract with the client. Following the procedure stipulated in the contract, the bank has to provide the client with information about the condition of the property it has been entrusted with. While providing financial services, banks try to avoid conflicts of interests. The survey has shown that, if conflicts with clients would happen often, the majority of the banks would make efforts to evade such conflicts, but if they occurred, steps would be taken to resolve them at a lower level as soon as possible, and if this is not possible, the conflict would be escalated to the management level. As noted before, and as indicated by the banks, disputes occur over rates, and sometimes with regard to the quality of services as well. Sometimes conflicts of interests arise in the process of rendering investment services. A conflict of interests may occur whilst following clients' instructions regarding financial instruments issued by the bank and instructions to buy or sell the instruments that the bank places publicly or not, when the branch of the bank that carries out investment studies is related to and

works with the branch that offers investment consultations. Another potential situation in which a conflict of interest can occur is when investment services are being offered to several clients who have conflicting interests and when decisions made by managers of client investment portfolios are related to the interests of the placing bank. The public was greatly outraged by the fact that the Snoras bank had been placing its own securities, failing to indicate that the deposits were not covered by governmental guarantees when borrowing money. After the bank had gone bankrupt, people who had invested and purchased the securities lost their money. The recovery of such sums could be made possible if the assets that the bank had lost were found and the interests of investors were satisfied observing the legitimate order of priority.

The survey has shown that banks are paying a lot of attention to avoiding conflicts. Employees are required to be aware of all the procedures that help avoid conflicts of interests and to express their awareness of such procedures by signing them. Furthermore, some banks organise training courses for their staff, aiming to make sure that the conflict of interests avoidance procedures are applied efficiently in day-to-day work. In the event of a specific conflict of interest, before providing the investment service, the employee of the bank must clearly and comprehensively, considering the client's understanding of financial markets, inform the client of the conflict of interest and the final market price for the financial instruments. The investment service can only be provided if the client gives an expressed consent to the investment service being provided in the context of the conflict of interests. Information about potential conflicts of interests can be accessed at banks' websites.

The main goal for the Bank of Lithuania as the institution in charge of supervising the players on the financial instruments market is to make sure that the domestic financial market operates fairly, effectively and transparently, to minimise the systematic risks of the market, to promote sustained development and to ensure information and protection of investors. To create the best possible conditions for the expansion of the capital market, the Bank of Lithuania is ensuring the quality and legal clarity of regulation by filing proposals for the development of the national economic policy that would promote the expansion of financial instruments market, disseminating information on the operation principles of financial instruments markets and taking steps to enforce the Financial Instruments Markets Act and other items of legislation pertaining to the financial instruments market (Bank of Lithuania, 2012).

Analysis of the main provisions of banks' codes of ethics

The banks were asked (in the survey) whether they were using a code of ethics, and if so, who endorsed it and what its major requirements were. The respondent banks said they did have codes of ethics that in most cases had been approved by the bank's board. Several banks indicated they were following a common code of ethics that covers their entire group of banks. Analysis of the banks' codes of ethics has revealed that not all the codes

are exhaustive. Although the banks' codes of ethics differ in their structure, many of them share the same set of provisions. Several principal parts of a code can be identified: the values of the bank (group) and the requirements for the staff, communication and work with clients, the role of banks in society, avoidance of conflicts of interests, safeguarding of the bank's secrets and client information, assumption of responsibility.

TABLE 1. **The structure of code of ethics**

| |
|---|
| General provisions |
| Assumption of responsibility |
| The principles of honesty and fairness |
| Requirements for bank staff: respect in the workplace, perfect reputation, etc. |
| Requirements for working with customers |
| Avoiding conflicts of interest |
| Privacy and confidentiality of banking activity |
| Bank's role in society, communication |
| Assumption of responsibility |

Some of the banks had specific provisions with regard to money laundering and fraud envisaged in their codes of ethics. As a rule, the values of the bank listed in the code are focused on operations, confidence, teamwork and innovation. In their activities, banks go for healthy competition by underlining the professionalism and uniqueness of their services and employees. Banks' operations have to be driven by the need to attain the goals of the bank, something the bank can achieve by fostering the professionalism of its staff and attaching a high value to education and competence. The codes of ethics of the domestic banks place a heavy emphasis on working with clients. The ethics codes of banks controlled by foreign financial institutions provide that the client is the focal point of the bank's operations and that the bank has to understand the economic and political landscape in which the clients live and work and, based on the existing situation, offer solutions to match the clients' needs. A considerable emphasis is placed on clients' complaints. The code indicates that client complaints must be addressed, analysing what has caused them and trying to handle the complaints promptly and, as much as possible, for the benefit of the client. Some of the banks elaborate client relationships with particular care, providing for such aspects as organising meetings, specifying the meeting duration, purpose and content, client information to be collected, questions for the client to be deliberated and envisaging possible problems that the client might pose and modelling the responses to them. The code of nearly every bank contained one common provision: the requirement to explain all of the terms and conditions of issuing loans and providing other services to the client, including the relevant prices and rates, and the principles and justification governing the setting of such prices and rates. Another

important part of banks' codes of ethics is the management and avoidance of conflicts of interests. It has been found that each employee must avoid situations, both professional and private, where his or her independence, integrity or loyalty may be questioned, refrain from handling cases in which the staff has financial or personal interests, refrain from engaging in private business activities without gaining consent from bank, etc.

Conclusions

Analysis of works by Lithuanian and foreign authors has revealed that many authors address the ethics of business; however, with the notable exception of one foreign book, there were virtually no articles concerning the ethics of banking. Examination and investigation of the way codes of ethics, applied across commercial banks, have led to a conclusion that the application of the requirements of the code of ethics has improved the image of the banks, which leads to a higher success of operations. Ethical judgements stir confidence in the public and the businesses with regard to the operations of a bank and its financial services and help develop a better reputation for a bank, maintain good relations with the clients and gain a sharper edge on the market. The survey has revealed that banks primarily focus on the competence and professionalism of their employees. A lot of banks prioritise on honesty and thoroughness as well as the ability to communicate and avoid conflicts. Employees' sense of responsibility also holds a significant position. The survey has shown that the banks that focus more on fostering the motivation of their staff through different training courses and a well-structured system of incentives are usually able to attain better results. Analysis has shown the largest part of banks' assets to consist of loans. The banks are trying to secure the confidence of business partners, shareholders, clients, colleagues in the operations of the bank by offering services (and lending services in particular) and honestly keeping their obligations. Upon analysing the ethics codes of the banks, we can say that the codes elaborate on a set of general provisions. The most noteworthy of them are the requirements for the staff, communication with clients, the role of banks in society, avoidance of conflicts of interests, safeguarding the bank's secrets and client information, assumption of responsibility. However, the codes of several banks are quite perfunctory, and the survey has revealed that these banks do not emphasise compliance with the ethical norms, which results in a higher amount of complaints and dissatisfaction of clients who are primarily unhappy with the rates of the services, the terms of lending, breakdowns in the information system while trying to perform card transactions or e-banking operations. The banks that focus on working with their clients in order to identify and handle complaints with good will and in the best interests of the client have reported a much lower level of complaints.

A substantial role is played by the Bank of Lithuania as the supervisory body. Following the integration of financial market supervisory institutions, all the responsibility is passed

to the Bank of Lithuania. The Bank scrutinises disputes between consumers and subject institutions and provides recommendations as to how, in its opinion, a particular dispute should be addressed. On top of that, the Bank of Lithuania has set the requirements for information being made available to the public that commercial banks must follow. Such information helps clients of commercial banks, investors and other individuals and entities concerned to better appraise the bank's performance, transactions, and risk management procedures. On the other hand, the higher degree of transparency also encourages commercial banks to appraise and control the risks they undertake with more precision. This should ensure a successful application of the principles of ethics in the banking sector.

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