



MODULE-E

PAPER-1

**ETHICS IN
BANKS AND
FINANCIAL
INSTITUTIONS**

PREPARED BY
AMBITIOUS BABA



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JAIIB/DBF Paper 1, Module E- Ethics in Banks and Financial Institutions

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Unit 1- Ethics, Business Ethics & Banking: An Integrated Perspective

Ethics and Business values: Myth and Reality

Business Value

Business value are an informal term and it explains the core principles or standards that guide the way business is done. Values sum up what your business stands for and what makes it special.

Business ethics

Established principle and standard that guide behaviour in the world of business.

Different Between Business Ethics and Business Values

Business Ethics	Business Values
Ethics refers to the guidelines for conduct, that address questions about morality	Value is defined as the principles and ideals, which help them in making judgment of what is more important.
Moral Principle system	Induces thinking
What is morally or incorrect in the given situation?	What we want to be or achieve?
Magnitude of rightness or wrongness of	It explains the level of significance.

one's options.	
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Myths vs Reality

Myth No. 1: Entrepreneurs are Essentially Inventors

Many aspirations die in the bud due to the existence of this perceived prerequisite. Entrepreneurship is often confused with the invention, where it's taken as a condition to be able to tangibly invent an app, system, product or a new equation in order to create market value. For example, the way Ola/Uber disrupted travel and Airbnb/Oyo Rooms disrupted hotel stays.

Reality: Entrepreneurs are Ideators

Entrepreneurship is a phenomenal journey which is flagged off with something as basic and simple as an idea. Entrepreneurs arise from an existing gap, and the right idea to fill that gap. Once the idea stands out as disruptive, innovation and invention automatically fall in line. Work it up to the top before someone else works on it to build an empire.

Myth No. 2: Entrepreneurs are Mainly Motivated by Money

While money is the big game, it definitely isn't the end game. Money making makes for a very narrow viewpoint for those who certainly wish to establish a business. There are a larger passion and a bigger purpose that every budding entrepreneur holds or must hold onto than just making big bucks.

Reality: Entrepreneurs are Motivated by Passion

Most entrepreneurs believe in taking a risk and living life on the edge. They carry small phones but wider visions, live on bare necessities but live for huger possibilities. For any new business, the first few years are all about reaching a breakeven, profits become a part once execution is patiently handled and aimed for. Passion is the biggest motivation.

Myth No. 3: Entrepreneurs Have to be Risk-takers

A myth almost ingrained in the market almost believed to be a fact. Risk taking is more of an attitude when it comes to entrepreneurship. In the sea of bigger things, risk-taking is only one of the sailing boats. Very often many fierce risk takers fail due to the lack of ability to be risk avengers or that of being on the safe side of the spectrum at all times.

Reality: Entrepreneurs Have to be Challenge-takers

As an entrepreneur, all you need to be is a relentless challenger, which encompasses taking risks as well as avoiding them. To pose your idea as the distinguisher, all that you need is the attitude of a go-getter. The always prepared to face the adversity attitude should

always come in play while facing obstacles, financial ups-downs and severe, cut-throat competition. Nothing is as strong as a strong will.

Myth No. 4: Entrepreneurs are Born

Where do we think they plan for the idea, while they develop in the womb? This is one of the biggest scandals of a myth, which makes thousands of people miss the chance of being the next big entrepreneur. Intelligence, high scores, family blood, none of these actually guarantees your ticket to the top.

Reality: Entrepreneurs are Made

Nothing begets dedication, will-power and courage. You aren't born an entrepreneur, you become one. The greatest entrepreneurs come from very average set-ups with almost no fortune in the bloodline. There will never be a shortcut to Hard work.

Business Ethics

Ethics means the set of **rules or principles that the organization should follow**. While in **business ethics refers to a code of conduct** that businesses are expected to follow while **doing business**.

Through ethics, a standard is set for the organization to **regulate their behavior**. This helps them in **distinguishing between the wrong and the right part of the businesses**.

Business ethics compromises of all these values and **principles and helps in guiding the behavior in the organizations**. Businesses should have a balance between the needs of the **stakeholders and their desire to make profits**.

While **maintaining these balances, many times businesses require to do tradeoffs**. To combat **such scenarios, rules and principles are formed** in the **organization**.

This ensures that businesses gain money without affecting the individuals or society as a whole. The ethics involved in the businesses reflect the philosophy of that organization.

Principles of Business Ethics

Integrity

Whenever there is great pressure to do right instead of maximizing profits, this principle is tested. The executives need to demonstrate courage and personal integrity, by doing what-they think is right.

These are the principles, which are upright, honorable. They need to fight for their beliefs. For these principles, they will not back down and be hypocritical or experience.

Loyalty

No ethical behavior can be promoted without trust. And for trust, loyalty needs to be demonstrated. The executives need to be worthy of this trust while remaining loyal to the institutions and the person. There should be friendship in the time of adversity and support and devotion for the duty.

Honesty

The ethical executives are honest while dealing with their regular work. They also need to be truthful and do not deliberately deceive or mislead the information to others. There should be an avoidance of the partial truths, overstatements, misrepresentations, etc. Thus, they should not have selective omission by any means possible.

Respect and Concern

These are two necessarily different forms of behavior in the organization. But they go in tandem that is why they have been put under one principle. When the executive is ethical he is compassionate, kind, and caring.

Fairness

The executives need not be just fair in all the dealings, but they also should not exercise the wrong use of their power. They should not try to use over each or other indecent manners to gain any sort of advantage. Also, they should not take undue advantage of anything or other people's mistakes.

Leadership

Any executive, if ethical, should be a leader to others. They should be able to handle the responsibilities. They should be aware of the opportunities due to their position. The executives need to be a proper role model for others.

Ethical Foundation of Banking: Finance Depends on Trust

Need and Important of Ethics in Banking

Bank need to deliver high quality services to its customers, which are driven by high ethical standards and therefore maintain the same in its work culture, management and also with the quality of its employees. Banks can only work well when the public trust them. Warranting safety of banking activities is certainly a challenging task. 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.

Ethics help in dealing with dilemmas

Any banking business however well-placed, at times, it may have to confront moral dilemmas in their regular course of business. Banks have to deal with complex dilemmas in decision making, which is not about distinguishing between right and wrong, but between right versus less right. This, a Bank needs to adhere to a set of strong moral principles,

which helps its employees in navigating through the obstacle of ethical choice, while making important decision.

Guards Reputation/ Goodwill

This is a two-pronged process, First, bank's ethical practices aid in safeguarding depositor's interest, thus, maintaining the stability of the system and preserving the reputation of the bank.

Second, Employees adhering to ethical practices prevent the breaches of law and corrupt activities. Besides this, it will also protect stakeholder's interest and enhance the bank's competitiveness and brand image.

Helps avoid risk

A well- defined code of ethics following by the superiors will ensure that the bank at all times maintain high ethical standards and have preventive and corrective measures against unethical practices by any of the staff members.

Principles of ethical banking

Banks are dependent on people to carry out its business who are reflection of the ethical standards of follows. Therefore, it is important for banking professionals to know what is expected from them and also help them to avoid temptations and pressures. Principles of ethics in banking business provide a guideline to the banking professional, which helps them in dealing with ethical issue.

Principle of trust- Trust is the confidence in quality or attribute of a person or a thing. It also includes truth of a statement. It includes both trustfulness and trustworthiness. In business, trust always means trustworthiness- which is established by trustfulness. It inspires customers, investors, regulators and lenders to feel confident in an individual, a product or an organization.

The other standard banking code of conduct includes-

- Integrity
- Neutrality
- Reliability
- Transparency

Ethical Foundation of Being a professional

Professionals must possess knowledge of law and comply with all applicable laws and regulations of the government, even in the event of conflict. Professionals should disassociate themselves from violation of laws or rules and regulations.

Professionals must take reasonable care and judgment in maintaining their independence and objectivity in their activities. Accepting gift, benefits, compensation etc.

Professional must not engage in any conduct of dishonesty, deceit, fraud, or an action, which might affect their reputation and integrity.

Professionalism in Banking

The image and reputation of a bank as well as people’s confidence in a bank depends heavily on the behaviour of its employees, their ability to interact and show attention to their co-workers and clients.

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Unit 2- Ethics at the Individual Level

Values, Norms, Belief and their Role

Values

Values refer to the important and enduring beliefs or principles, based on which an individual makes judgements in life. It is at the centre of our lives which act as a standard of behaviour. They severely affect the **emotional state of mind of an individual.** They can be **personal values, cultural values or corporate values.**

Values are forces that cause an individual to behave in a particular manner. It sets our priorities in life, i.e. what we consider in the first place. It is a reason behind the choices we make. It reflects what is more important for us. So, if we are true to our values and make our choices accordingly, then the way we live to express our core values. Moreover, if you understand an individual's values, you can easily identify what is important for them.

Differences Between Ethics and Values

The fundamental differences between ethics and value are described in the given below points:

- Ethics refers to the guidelines for conduct, that address question about morality. Value is defined as the principles and ideals, which helps them in making the judgement of what is more important.
- Ethics is a system of moral principles. In contrast to values, which is the stimuli of our thinking.
- Values strongly influence the emotional state of mind. Therefore it acts as a motivator. On the other hand, ethics compels to follow a particular course of action.
- Ethics are consistent, whereas values are different for different persons, i.e. what is important for one person, may not be important for another person.
- Values tell us what we want to do or achieve in our life, whereas ethics helps us in deciding what is morally correct or incorrect, in the given situation.
- Ethics determines, to what extent our options are right or wrong. As opposed to values, which defines our priorities for life.

Norms

Norms are expectations of proper behaviour and not the requirements of that behaviour. Norms are the ways an individual expects all the people to act in a given situation. They are inconsistent but universal. Norms are not published, therefore, may not

be obeyed and cannot be made obligatory except by sanctions of a group who use penalties as condemnation or exclusion.

Norms are informal guidelines about pertaining to behaviour and actions, which are considered normal (**what is correct and incorrect**) social behaviour in a particular group or social unit.

Beliefs

Beliefs in the ethical code are standards of thoughts. Beliefs are criteria of intangible thought that does not necessarily evoke action. It may stimulate or force certain pursuit in the environment that corresponds with one to behave in a certain manner.

Beliefs are among the most primitive and central of mental constructs, and yet there is little agreement as to what they are or how they should be constructed.

Role of Norms, beliefs and values in management

A corporate culture is a set of values, beliefs, norms and goals and ways of solving problems, which is shared by the employees of an organization.

Core Values

Core value are the fundamental beliefs of a person or organization. These guiding principles dictate **behavior and can help people understand the different between right and wrong.** Core values also help companies to determine if they are on the right path and fulfilling their objectives by creating an unwavering guide.

Every organization must have a set of core values, which are referred to as the Business or Corporate values. ***The below mentioned are the few of core values practiced by Fortune 500 Companies across the world:***

- Customer services
- Employee care'
- Quality
- Ethics
- Integrity
- Growth and stability
- Innovation
- Flexibility
- Social Responsibility

Morality and Personal Values

Morality

Morals are one's guiding principles. Morals are those principles that have internalized automatic response to the situations. They are part of who we are our unique personality. Moral standards are first absorbed as child family friends and various social influences.

Different moral standards emerge from the different value systems which people and society hold. Moral standards include the norms we have about the kinds of actions we believe are morally right and wrong and also the values we place on the kind of objectives we believe are morally good and morally bad.

Personal Values

Individual values- system is like a fingerprint. It is unique in case of each individual. Because it in the form of a combination of different instrument and terminal values. And this combination varies from person to person. Therefore, in the context of an organization when different business managers come across similar ethical dilemma, their interpretation of the situation and responsive actions may differ significantly.

Personal values serve five purposes in organizations

- Values serve as standards of behaviour.
- Guidelines for decision-making and conflict- resolution
- Values affect our thoughts and actions.
- It influences the perception and motivation of employees.
- It also has strong influence on behaviour and attitude.

Personal Ethics and Business Ethics: Individual Integrity and Responsibility

Personal Ethics

Personal ethics is a category of philosophy that determines what an individual believes about morality and right and wrong. This is usually distinguished from business ethics or legal ethics. These branches of ethics come from outside organizations or governments, not the individual's conscience.

Business ethics

Business ethics refers to implementing appropriate business policies and practices with regard to arguably controversial subjects. Some issues that come up in a discussion of ethics include corporate governance, insider trading, bribery, discrimination, social responsibility, and fiduciary responsibilities.

Conflict Between Personal ethics and Business Ethics

The organization's ethics dilemmas are often resolved and decision taken by committees and formal and informal group and not by an individual. Moreover, the decision that are taken are based in business goals and exclude individual goals. Ethical clashes or dilemmas may arise in several situations like:

- The individual ethics may clash with the group ethics predominant in the organization.
- The individual ethics of a single powerful person in the organization may be predominant in the organization. If that individual is ethical and works for the good of all the shareholders, it results in positive outcome but if that person is unethical, it may result in negative impact on the organization.
- In some cases, employees may be taught to ignore an issue, which he or she thinks is unethical.

Individual Integrity and responsibility

Integrity is explained as firm adherence to a code of values. For an individual or for a Business, Integrity is the quality or state of being complete or undivided, In other words, it means being true to our values and ourselves and also keeping our commitment not only towards others but to ourselves also. In the individual value-set, Integrity is the core value, which makes an individual complete or undivided.

Why is it important to restore integrity?- This is mainly because it gives you the ability to powerfully deal with not only specific situation but also in other areas of one's life.

Individual Responsibility

Responsibility is defined as a moral, legal or mental accountability. This makes an individual a cause of doing something with a motive or an agent of some action.

An Individual's responsibility is taking on accountability for our personal situation. Suppose of an organization declares that we are responsible for what we do and what we have, who we are and for all the conversations we have and situation we are in. Therefore, individual responsibility is the commitment one makes to himself for being an agent in the world, i.e. the cause of who we are and what we have.

Ethical Reasoning and Real-world Application

Ethical reasoning is the process recognizing, which decision requires ethical judgments, determining potential reasonable course of action, finding support for potential course of action, and then selecting the course of action best supported.

General purpose: Firstly, an individual is trying to determine the ethical goals or an objective that he or she is trying to achieve.

Raise questions: The key ethical question person is trying to answer, that is identification of issues he or she facing and then formulating key ethical question embedded in the issues, keeping in mind the relevant point of views.

Use information: One must identify the information, collect all the data and facts, which will enable a person to understand and consider the requirement of evidences or observations relevant to others. Individual's own experiences also helps in developing suitable reasons.

Utilizes concepts: The key ethical concepts and principles that would assist in developing a thought process. Identification of ethical definitions, theories, models etc. that is applicable for reasoning through the issues.

Makes assumption: The main assumptions pre- suppositions used in reasoning in the ethical issue. Assumptions should also be justified for reasoning. Assumptions must also be evaluated from the perspective of understanding the ethical issues along with available alternatives.

Ethics Dilemmas: Resolving Ethical Dilemmas

An ethical dilemma (ethical paradox or moral dilemma) is a problem in the decision-making process between two possible options, neither of which is absolutely acceptable from an ethical perspective. Although we face many ethical and moral problems in our life, most of them come with relatively straightforward solutions.

On the other hand, ethical dilemmas are extremely complicated challenges that cannot be easily solved. Therefore, the ability to find the optimal solution for ethical dilemmas is critical to everyone.

Every person can encounter an ethical dilemma in almost every aspect of their life, including personal, social, and professional.

An ethical dilemma exists when one is faced with having to a make choice among following alternatives:

- Significant Value--- Conflicts among differing interests.
- Real alternatives that is equally justifiable.
- Significant consequences on stakeholders in situation.

Resolving Dilemmas

Steps for dealing with ethical dilemma are as follows-

- Acknowledge that there is a moral issue.
- Ascertain the people who will be affected by the decision. Also, determine your role.
- Gather the facts about sequence of occurrence of event. Because the more facts we know, we can better comprehend the situation.
- Ascertain your test for right versus wrong. How would you define the problem, if you were to stand on the other side of the fence.
- Ascertain the test for right versus right theory, for example trust vs loyalty, justice vs Mercy etc.
- Apply the resolution principle. Work through all three approaches to resolve the dilemma, namely.
- Thinking based on end-do whatever produces the greatest good for maximum people.
- Rule based thinking-follow the rule strictly.
- Care based thinking –treat other with love and compassion. Do to others, what you would like the do to you.
- Your approach must look reasonable and persuasive
- Investigate, if there is any third way out of the situation
- Make decision and take action
- Revisit and reflect on the decision.

A Framework for Ethical Decision- Making

Making good ethical decisions requires a trained sensitivity to ethical issues and a practiced method for exploring the ethical aspects of a decision and weighing the considerations that should impact our choice of a course of action. Having a method for ethical decision making is essential. When practiced regularly, the method becomes so familiar that we work through it automatically without consulting the specific steps. This is one reason why we can sometimes say that we have a “moral intuition” about a certain situation, even when we have not consciously thought through the issue. We are practiced at making ethical judgments, just as we can be practiced at playing the piano, and can sit and play well “without thinking.” Nevertheless, it is not always advisable to follow our immediate intuitions, especially in particularly complicated or unfamiliar situations. Here

our method for ethical decision making should enable us to recognize these new and unfamiliar situations and to act accordingly.

The more novel and difficult the ethical choice we face, the more we need to rely on discussion and dialogue with others about the dilemma. Only by careful exploration of the problem, aided by the insights and different perspectives of others, can we make good ethical choices in such situations.

Ethical decision-making has involved weighing of four factors as under:

- The desired outcome of a decision.
- The means used to achieve the desired outcome,
- The motivation behind the decision; and
- The possible consequences of decision.

Unit 3- Ethical Dimension Employees

Obligation to Bank: Obligations of Bank

- Obligation to Honour Cheques
- Obligation to Maintain Secrecy
- Obligation to follow all financial instructions of customers
- Obligation to keep records in order
- Obligation to give Notice before closing the account
- Besides the Obligation towards the bank's customers, they also have got the obligation to follow all the laws, guidelines, directives and policies of the regulator- RBI

Right of Bank

For fulfilling the obligations towards the customers, bankers enjoy the following rights:

Right of General Lien: A general lien authorizes a bank to retain and securities till all the bank's claims against the customer are satisfied. A lien is an implied such that if a default is made by the debtor, the bank, by giving a reasonable notice to the borrower, can sell and recover the amount due to it. No other valuables, cash, etc, kept in lockers or fixed deposits etc, should be set off against the claim.

Right to charge interest and commission: Bank has implied right to charge interest on loans and advances and commission on services rendered to the customer.

Closure of Account: The Bank has the right to close a customer's account if it is inoperative for the specified duration, provided it informs in writing to the customer to respond within a stipulated time.

Obligation to Third Parties: Fiduciary Responsibilities

Obligations under the KYC for regulated Entities

As per the Master Direction issued by RBI on February 25, 2016 (which was updated as on April 20, 2018), known as the RBI (KYC) direction 2016, the following are the directives issued for the Regulated Entities (REs refer to Bank, Asset Management Companies, Investment Managers/ Advisors, Portfolio Managers etc).

For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, REs, shall at their option, rely on customer due diligence done by a third party, subject to the following conditions:

- Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.
- Adequate steps are taken by REs to satisfy themselves that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.
- The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the PML Act.
- The third party shall not be based in a country or jurisdiction assessed as high risk.
- The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the RE.

REs shall frame a Customer Acceptance Policy.

- No account is opened in anonymous or fictitious/benami name.
- No account is opened where the RE is unable to apply appropriate CDD measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- No transaction or account-based relationship is undertaken without following the CDD procedure.

- The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.
- 'Optional'/additional information, is obtained with the explicit consent of the customer after the account is opened.
- REs shall apply the CDD procedure at the UCIC level. Thus, if an existing KYC compliant customer of a RE desires to open another account with the same RE, there shall be no need for a fresh CDD exercise.
- CDD Procedure is followed for all the joint account holders, while opening a joint account.
- Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out.
- Suitable system is put in place to ensure that the identity of the customer does not match with any person or entity, whose name appears in the sanctions lists circulated by Reserve Bank of India.

For Non- Banking Financial Companies

Simplified procedure for opening accounts by Non-Banking Finance Companies (NBFCs): ***In case a person who desires to open an account is not able to produce documents, as specified in Section 16, NBFCs may at their discretion open accounts subject to the following conditions:***

- (a) The NBFC shall obtain a self-attested photograph from the customer.
- (b) The designated officer of the NBFC certifies under his signature that the person opening the account has affixed his signature or thumb impression in his presence.
- (c) The account shall remain operational initially for a period of twelve months, within which CDD as per Section 16 shall be carried out.
- (d) Balances in all their accounts taken together shall not exceed rupees fifty thousand at any point of time.
- (e) The total credit in all the accounts taken together shall not exceed rupees one lakh in a year.
- (f) The customer shall be made aware that no further transactions will be permitted until the full KYC procedure is completed in case Directions (d) and (e) above are breached by him.
- (h) The customer shall be notified when the balance reaches rupees forty thousand or the total credit in a year reaches rupees eighty thousand that appropriate documents for conducting the KYC must be submitted otherwise the operations in the account shall be

stopped when the total balance in all the accounts taken together exceeds the limits prescribed in direction (d) and (e) above.

Abuse of Official Position: Insider Trading, Proprietary Data, Bribes Etc.

Employees are advised to follow Code of Conduct laid down by the Bank. Abuse of official position for personal gains or providing gains to friends, family members and other with selfish motive amounts to violation of employee's to the Bank. Examples of abuse of power can be:

- Bank employee goes for a personal travel and claims reimbursement as official travel
- Showing discrimination to the customers based on their proximity to the employee (his relatives friends, etc, showing special preference)
- Use of official resources for personal use
- False claims beyond the fixed perquisites

Insider Trading

In India, SEBI (Insider Trading) Regulation, 1992 framed under the Section 11 of the SEBI Act, 1992 intends to curb and prevent the menace of insider trading in securities. An insider is a person who is an accepted member of a group or organization who has special knowledge regarding his firm.

Proprietary Data

Proprietary Data refers to the information relating to the intellectual property right and trade secrets of any company. All employees are expected to keep confidentially of the data relating to all stakeholders, customers, vendors, promoters, investors and other who are associated with the Bank.

Bribes

Bribes refers to paying money or gift to a person with a motive of getting some favour done. Bank's Services regulations provide details of dos and don'ts with respect to bribes.

Obligations to third Parties

When the Bank is outsourcing its functions to the Third Parties, it needs to have clear, transparent contracts and agreements with all terms & conditions incorporated. Especially in service contracts, the service level agreement have to be defined minutely and ensure that the Third party do not cause an inconvenience to the Bank customer.

Job Discrimination

Job discrimination is when an employee is treated badly by a supervisor or boss for something they cannot control, like their age or race. Mistreatment can range from verbal or sexual harassment, withholding benefits, withholding opportunities for advancement, pay, or someone being fired from their job.

Sexual Harassment

Sexual harassment is a type of harassment technique with explicit or implicit sexual overtones, including the unwelcome or inappropriate promise of rewards in exchange for sexual favors. Sexual harassment includes a range of actions from verbal transgressions to sexual abuse or assault.

The Guidelines and norms prescribed included the definition of sexual harassment and details as under:

- Physical Contact
- A demand or respect for sexual favours
- Sexually coloured remarks
- Showing pornography
- Any other unwelcome physical, verbal or non-verbal conduct or sexual nature

Managing Conflict of Interests

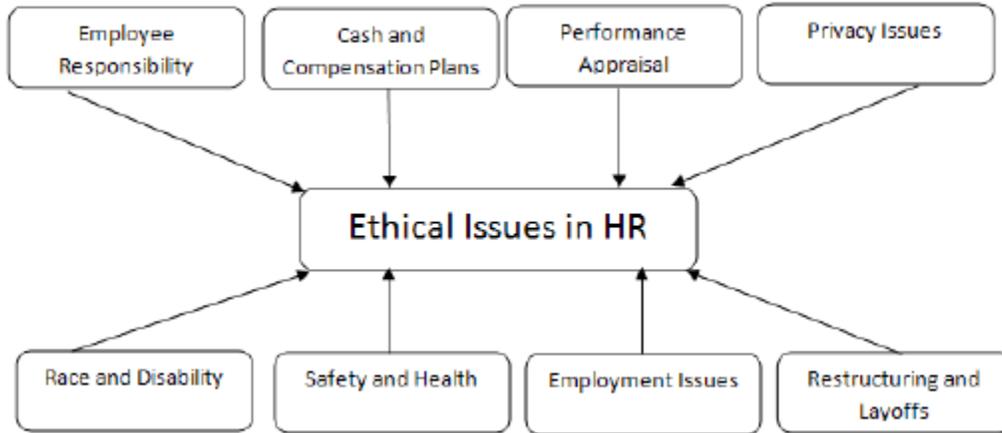
The Dictionary meaning of conflict of interest is “a situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.”

Some examples for conflict of interest are:

- A given bank and its client/ clients
- Among the employees of a bank
- Employee of a bank and a client
- Between a given bank and one or more of its clients
- Provision of bank’s services to two or more clients

HRM Ethics

Human Resource Management (HRM) deals with work force management, manpower planning and other employee related activities in an organization. Therefore, we can say that it is a special branch of management where ethics play a crucial role. HRM concerns human issues, especially those related with compensation, development, industrial relations, health and safety issues. However, there are sufficient disagreements in managing HRM issues that stem from various quarters.



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Unit 4- Work Ethic and The Workplace

What is Work Ethos?

Work ethic is a belief that hard work and diligence have a moral benefit and an inherent ability, virtue or value to strengthen character and individual abilities. It is a set of values centered on importance of work and manifested by determination or desire to work hard. Social ingraining of this value is considered to enhance character through hard work that is respective to an individual's field of work

Factors of a good work ethics

- **Goal-oriented actions:** It is not about making plans or the next logical steps; it's about getting things done so that the work invested wouldn't be counter-productive.
- **Prioritized focus:** Focusing on qualitative activities that a person is responsible for and in areas where they can make a difference or a high impact based on objectives.
- **Being available and reliable:** Spending time on the work and building oneself up for the task.
- **Conscientiousness:** A desire to do a task well, being vigilant and organized.
- **Creating a rewarding routine/system:** Engaging in tasks that provide strength and energy which can be transferred to your ultimate goals, creating a habit and a habitat for success.
- **Embracing positivism:** Shape a problem with the statement "good, (action) (problem)", e.g. "I'm tired and it is time for a workout" leads to "Good. Workout tired".

Something Bigger Than the self

There is a hierarchy in which one needs to think about the purpose of one's life

The hierarchy can be as under:

- Oneself
- Family
- Community
- Religion
- Society at large
- Global causes (Like peace, human right, environment etc)

Ethical Behaviour at The Workplace: Benefit

- Asset Protection and Assurance

- Productivity will increase
- Team Work will develop
- Public Image and Brand Value Increases
- Adaptive to changes
- Decision making and implementing is always easy
- Trouble-free working environment
- There is no one left negative
- Less Legal Issues
- The company will Touch New level of Success

Recognising Ethical WorkPlaces

The following are some of the ways and means to recognize an ethical workplace:

- Respectful treatment of all categories of customers by the front- office personnel;
- Employees' awareness of the business process and quick and to the point clear answers to queries;
- Giving correct and authentic information to customers on matters like interest rates/premature withdrawals of term deposits, actual eligibility for insurance claim on assets like house/flat etc.
- Guiding a person on a short visit for multi-currency travel card and whether to take fixed exchange rate or to go in for real-time exchange rate;
- Strict adherence to prescribed documentation as prescribed by the regulator/internal management and not insisting for additional documents from the borrower;
- Appropriate attire befitting the profession of the employee, and it should provide comfort to all customers who need to speak to the employee;
- Acceptable body language of the employees at the workplace.
- Fair and appropriate treatment given to all co-employees. **Etc, Etc**

Unethical Behaviours: Causes and Remedies

Causes

The major causes for unethical behaviour at workplace are as follows:

- Non-availability of code of Ethics Manual
- Lack of fear of Action
- Unrealistic Targets
- Influence of Co-employees
- Unprincipled Leadership
- Means are not appreciated

Remedies

Many of the preventive or remedial measures have already been discussed earlier. ***The following can be tried some of the remedies to rectify unethical behaviour at workplace.***

- Developing Ethics Manual
- Starting Conversations about ethics in the organization
- Nipping of unethical behaviour in the bud
- Frequent utilization of the Manual
- Imitable behavior by the Top Management
- Appreciation and Rewards for ethical behaviour
- Encouragement of counter viewpoints and discussions in meetings
- Care for reputation rather than results

Some of the following situations gives a comprehension about some of the unethical practices at the workplace:

- Abuse of the official email
- Pre-employment Tests
- Personal Habits
- Data Leakage
- Helping Friends in Social Decision

Ethics of a Banker

A Banker can be evaluated for the ethical commitment at three stages of his/her career-

- At the initial stages up to **first 5-7 years** of taking up banking as career,
- At the middle management stage, typically after **7-15 years into banking sector**, and
- At the senior management level, normally **after 15 years** into banking service.

The following are some of the major ethical qualities expected of a banker throughout his/her career-

- Honesty and Integrity
- Commitment to Customers
- Confidentiality
- Fair treatment
- Transparency
- Duty-Mindedness

Whistleblowing in Banks

In the Indian context, the Government of India had passed a resolution on **April 21, 2004** authorizing the **Central Vigilance Commission (CVC)** as the 'Designated Agency' to

receive written complaints or disclosure on any allegation of corruption or of misuse of office and recommend appropriate action. The jurisdiction of the CVC in this regard is restricted to employees of the Central Government or of any corporation established by it or under any Central Act, Government companies, societies or local authorities owned or controlled by the Central Government.

As a proactive measure for strengthening financial stability and with a view to enhancing public confidence in the robustness of the financial sector, RBI has formulated a scheme called "**Protected Disclosures Scheme for Private Sector and Foreign Banks**". The salient features of the Scheme are as under:

Scope and Coverage

As Public Sector Banks and Reserve Bank of India (since it is an entity established under Central Statute) have already been brought under the purview of Government of India scheme, with a view to avoid duplication, this Scheme would cover all private sector and foreign banks operating in India.

The complaints under the Scheme would cover the areas such as corruption, misuse of office, criminal offences, suspected / actual fraud, failure to comply with existing rules and regulations such as **Reserve Bank of India Act, 1934, Banking Regulation Act 1949, etc.** and acts resulting in financial loss / operational risk, loss of reputation, etc. detrimental to depositors' interest / public interest.

- Under the Scheme, employees of the bank concerned (private sector and foreign banks operating in India), customers, stake holders, NGOs and members of public can lodge complaints.
- Anonymous / pseudonymous complaints will not be covered under the Scheme and such complaints will not be entertained.
- Reserve Bank of India (RBI) will be the Nodal Agency to receive complaints under the Scheme. RBI would keep the identity of the complainant secret, except in cases where complaint turns out to be vexatious or frivolous and action has to be initiated against the complainant as mentioned in the below point.
- The institution against which complaint has been made can take action against complainants in cases where motivated / vexatious complaints are made under the Scheme, after being advised by RBI. An opportunity of hearing will, however, be given by the concerned bank to the complainant before taking such action.
- Final action taken by RBI on the complaint will be intimated to the complainant.

Unit 5- Banking Ethics: Changing Dynamic

Ethics and Technology

Role of Information Technology in Banking

The banking industry is going through a period of rapid change to meet competition, challenges of technology and the demand of end user. Clearly technology is a key differentiator in the performance of banks. Banks need to look at innovation not just for product but for process also.

Today, technology is not only changing the environment but also the relationship with customers. Technology has not broken barriers but has also brought about superior products and channels. This has brought customer relationship into greater focus. It is also viewed as an instrument of cost reduction and effective communication with people and institutions associated with the banking business. The RBI has assigned priority to the up gradation of technological infrastructure in financial system. Technology has opened new products and services, new market and efficient delivery channels for banking industry. IT also provides the framework for banking industry to meet challenges in the present competitive environment. IT enables to cut the cost of global fund transfer.

Important events in evolution of Information Technology:-

- Introduction of MICR based cheque processing
- Arrival of card based payments
- Introduction of Electronic Clearing Services
- Introduction of RTGS/NEFT
- Introduction of Cheque Truncation System (CTS) or Image-based Clearing System (ICS)
- Introduction of Core Banking Solutions (CBS)
- Introduction of Automated Teller Machine (ATMs)
- Introduction of Phone and Tele Banking
- Introduction of Internet and Mobile Banking

Background

Committees headed by **Dr. C. Rangarajan, RBI's Committee on Mechanisation in the Banking Industry (1984)** and **RBI's Committee on computersation in Bank (1988)** laid the foundation for larger-scale introduction of IT in India's Banking Sector. Further, The Reserve Bank of India Constituted a committee called 'Committee on Technology Issues relating to the Payments system, **cheque Clearing and Securities Settlement in the Banking Industry (1994) under the Chairmanship of Shri W S Saraf**. This Committee made a number of recommendations that covered payment systems including Establishment of an Electronic Fund Transfer (EFT) system, introduction of Electronic Clearing Service Credit for low value repetitive transactions such as interest, dividend, salary, pension payment and an Electronic Debit Clearing for payments to utility

companies. Large scale induction of computers and communication technology in service branches, etc, were also part of the recommendations.

Role of Ethics in Technology

Using theories and methods from multiple domains, technoethics provides insights on ethical aspects of technological systems and practices, examines technology-related social policies and interventions, and provides guidelines for how to ethically use new advancements in technology. Technoethics provides a systems theory and methodology to guide a variety of separate areas of inquiry into human-technological activity and ethics. Moreover, the field unites both technocentric and bio-centric philosophies, providing "conceptual grounding to clarify the role of technology to those affected by it and to help guide ethical problem solving and decision making in areas of activity that rely on technology." As a bio-techno-centric field, technoethics "has a relational orientation to both technology and human activity"; it provides "a system of ethical reference that justifies that profound dimension of technology as a central element in the attainment of a 'finalized' perfection of man."

Ethics address the issues of what is 'right', what is 'just', and what is 'fair'. Ethics describe moral principles influencing conduct; accordingly, the study of ethics focuses on the actions and values of people in society (what people do and how they believe they should act in the world).

Technology is the branch of knowledge that deals with the creation and use of technical means and their interrelation with life, society, and the environment; it may draw upon a variety of fields, including industrial arts, engineering, applied science, and pure science. Technology "is core to human development and a key focus for understanding human life, society and human consciousness."

Data Security and Privacy

With the increased intervention of technology in the banking sector globally, the need for sophisticated laws to protect customer information has gained significant attention. While several countries have enacted comprehensive legislations to protect customer's sensitive information, some countries are still in the process of introducing legislations to keep up with the changing pace of technology. In India, banks are regulated by the **Reserve Bank of India (RBI) and the RBI through various notifications, circulars, directions and guidelines** from time to time, obligates banks to maintain customer confidentiality and protect the privacy of customers' data.

The government of India also introduced the **Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011** with an aim of creating a robust legislation, which would protect customer's sensitive personal data by only allowing banks to release data when the customer has explicitly consented to such disclosure. The Rules also permit banks to only collect

sensitive personal information for lawful purposes connected with the function or activity of banks and when the collection of the information is necessary for such purpose.

CREDIT INFORMATION

However, while providing the necessary protection to customers there is also a need to ensure that banks are not victimized for no fault of theirs by not being able to recover their debts from defaulting customers. To meet this end, the **Credit Information Companies Act, 2005 (CIC Act) was introduced in India in 2005. Credit Information Companies (CICs)** are independent third party organizations that provide credit information to banks and financial institutions and assess credit worthiness of individuals based on their past repayment and default records. Banks can, through such information, determine whether they should provide credit facilities to the client. A CIC is required to furnish information to its members and has to **maintain principles of privacy enumerated under Section 20 of the CIC Act.**

INFORMATION UTILITIES

Recently, with the introduction of the **Insolvency and Bankruptcy Code, 2016 (the Code)**, a new concept of the **Information Utilities (IU)** was brought into the picture and subsequently notified with **effect from 1 April 2017**. An IU under the Code is an infrastructure facility which, like the CIC, is to create a financial information database of all entities availing credit in the country with the aim to enable better decision making by creditors and to ensure discipline among debtors. To ensure data privacy, IUs are required to store all the information received in a facility located in India and should have high quality data storage systems to avoid loss/ corruption of data. The information stored with an IU can only be accessed by certain specific categories of persons, which includes inter alia any user who submitted the information, National Company Law Tribunal, insolvency professionals and the Insolvency and Bankruptcy Board of India.

Intellectual Property Right and Patents

Intellectual Property refers to creation of an asset by any individual or anyone using his or her creativity, innovation. Such intellectual property (IP) belongs to that individual and any unauthorised use of such IP is strictly under the applicable law of land. Some example of **IP is artistic works; and symbols, innovative process, method etc.**

Intellectual property included into two categories:

- Intellectual Property includes patents for inventions, trademarks, industrial designs and geographical indications.
- Copyright covers literary works (such as novels, poems and plays), films, music, artistic works (drawing, paintings etc) and architectural design.

What is Patent?

A patent is a form of intellectual property that gives its owner the legal right to exclude others **from making, using, selling and importing an invention for a limited period of years (Generally 20 years)** , in exchange for publishing an enabling public disclosure of the invention.

Ethics of Information Security

As technology is taking over most of the Banking activities; threats associated with the use of technology also need to be tackled. The IT team of the bank or financial institution in a way becomes the custodian of the information of its customers/dealings/ activities.

The following aspects relating to information security may be worth following by the employees:

- Making the employee (IT and non-IT) be aware of their professional obligations relating to the information security of the bank, customers and other stakeholders.
- Notifying from time to time the existing laws and crimes as and when the cyber laws get amended in the country or internationally (for off-shore transaction).
- Making the bank employees (especially the IT employees) aware of the patterns of IT attacks on bank customers/servers/ other assets like ATMs, etc. and to familiarize the profiles of attackers and patterns of the thefts, modus operandi, if any.

Cyber Threats

Need for cyber Security Awareness

Despite the Indian Banking system having completed its process of computerization and online-ready transactions, a significant proportion of the customers of banks are still not adequately well-versed with the importance of cyber security. Banks are making their sincere efforts to educate and bring in awareness among their customers on the importance of memorizing their passwords. Firstly, setting the password itself is not taken seriously by many customers.

There are four characteristics advised by typical IT personnel of banks while setting a password. The passwords are ideally to be:

- Personal
- Unique
- Secret
- Complex

Cyber Security Framework in Bank

Reserve Bank of India, through its Notification dated June 2, 2016, advised all commercial banks in India's to have in place a cyber- security policy with the approval of their Boards. RBI gave about 4 months timeframe to the commercial banks to set up such cyber

security policy and give a compliance conformation to the RBI. RBI notification directed the commercial Banks further on this aspect us under:

“In order to address the need for the entire bank to contribution to a cyber-safe environment, the Cyber Security Policy should be distinct and separate from the broader IT policy/ IS security policy so that it can highlight the risk from cyber threats and the measures to address/mitigate these risks.

Banks need to promote the following enabling programs

- Take preventive steps
- Provide guidelines steps
- Engage state- of- the art IT security protection systems
- Build confidence in staff and customers

Digital rights management (DRM)

Digital rights management (DRM) is a systematic approach to copyright protection for digital media. The purpose of DRM is to prevent unauthorized redistribution of digital media and restrict the ways consumers can copy content they've purchased. DRM products were developed in response to the rapid increase in online piracy of commercially marketed material, which proliferated through the widespread use of peer-to-peer file exchange programs. Typically DRM is implemented by embedding code that prevents copying, specifies a time period in which the content can be accessed or limits the number of devices the media can be installed on.

Although digital content is protected by copyright laws, policing the Web and catching law-breakers is very difficult. DRM technology focuses on making it impossible to steal content in the first place, a more efficient approach to the problem than the hit-and-miss strategies aimed at apprehending online poachers after the fact.

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