

Identifying Factors of Unethical Practices in the Public Sector Banks in India & Suggesting Remedial Measures

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Abstract

Besides the consistent focus of the Reserve Bank of India, Central Vigilance Commission, and organisations themselves towards preventive vigilance, the number of fraud cases and instances of wrongdoings by employees is not going down. Therefore, there is a need to work on the molecular units, which are generated by factors that intermediate between employees and their behaviours, in addition to preventive vigilance initiatives for products and processes. This study aims to examine various system, individual, psycho-social, and socio-cultural related factors. Responses of punished employees, employees that are already facing inquiry, their Controllers, Disciplinary Authorities, and Inquiry Authorities using structured questionnaires finalised after consulting experts from Public Sector Banks were collected from 3800 respondents. The study revealed that PSBs need to strategise on these factors, such as training employees on behavioural, subject knowledge, policies and guidelines, etc., filling up the gaps/weaknesses in systems and third-party service providers to arrest instances of wrongdoings, improving the ethical environment of PSBs, and build a better organisation.

Keywords: Vigilance Cases, Socio-cultural, Psycho-, Individual, System-originated, Fraud, Bribe.

Introduction:

Being compliant and adherent is paramount for the continuance of the financial sectors universally. Yet, the sector struggles to achieve semblance of probity, integrity, sectoral challenges, and enterprise management. Corruption has always been a salient issue in developing economies. It has spawned the attention of law enforcement and scholars, spawning a concern in government at all levels. It impedes the course of development for any nation, rendering each effort ineffectual in the process (Ghosh, 2018). RBI releases fraud data for all the Banks currently functioning in the country. Although the quantum of fraud has decreased over the years, the number of cases has increased. A prime contributor to those cases is the sophisticated cyber frauds, which have taken precedence over existing modus operandi.

The balance sheet of Public Sector Banks warrants 60% of the size of the Indian Banking ecosystem, thereby also commanding a comparatively higher % of frauds in the industry. Over the years, though the amount involved in fraud has substantially decreased, the instance of fraudulent cases continues to be on the same trajectory with little to no variation. Despite all the supervision, regulations and awareness, the fraudulent instances continue to surface (Patel, 2018). It is alarming that cases in Private Sector Banks (PVBs) are increasing y-o-y. More than 170% of the increase has been registered by PVBs since 2017. [Figure-1 : RBI, Annual Report]

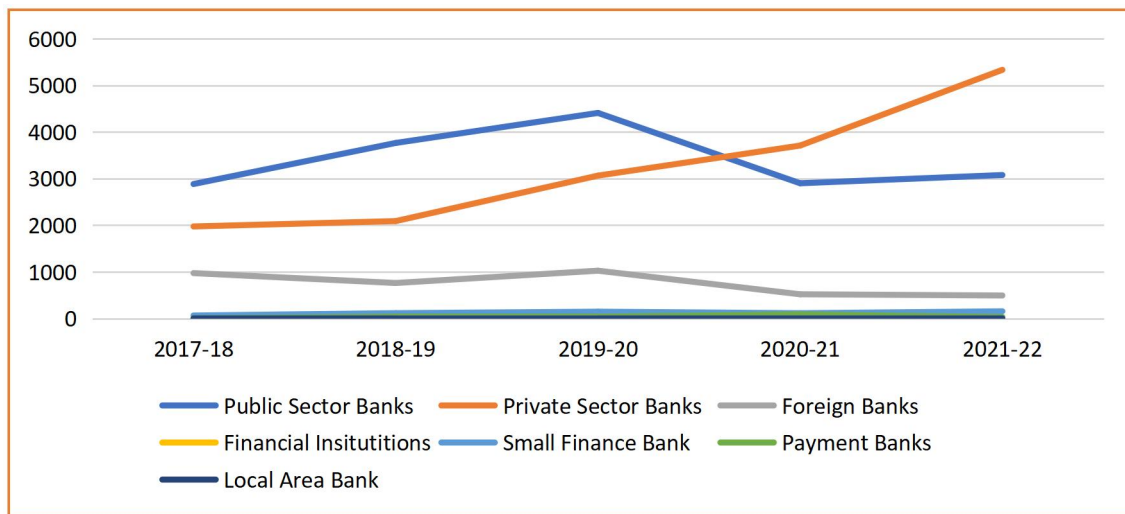


Figure-1

COVID-19 supercharged the world into the digital framework. A sharp surge is reported in digital payments, accounting for 46 billion transactions out of the total volume of 72 billion transactions, with a percentage increase of 109% over the previous years. However, this has paved the way for fraudsters to penetrate the market with novel ideas. The virtual world presents unlimited possibilities for growth as well as a downfall; securing coded walls is increasingly becoming a challenge, and cyber-vigilance is emerging as the latest trend of risk management. [Figure-2 : RBI Annual Report]

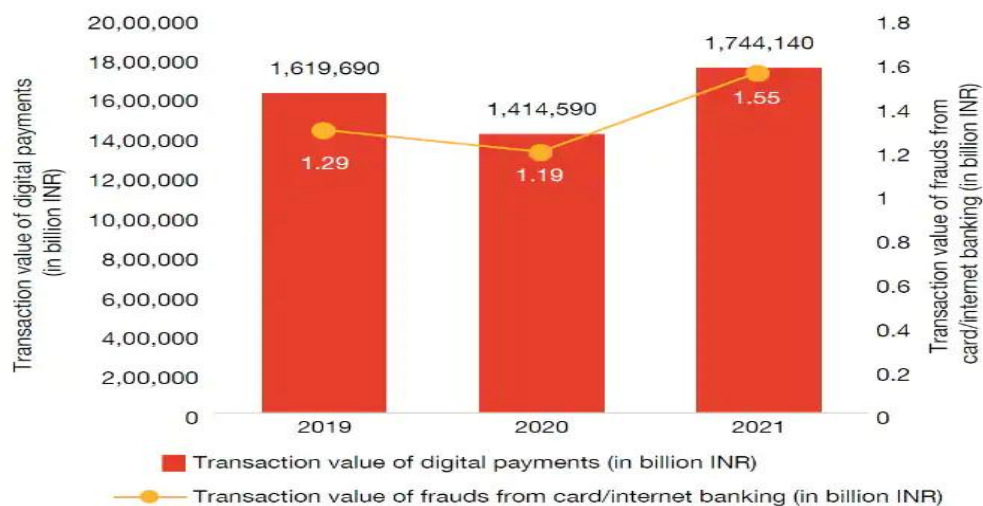


Figure-2

With the constructive intervention of CVC, there has been a significant decrease in Vigilance cases over the years. Implementing the Preventive Vigilance concept has radically transformed the scenario in PSBs (Ghosh, 2018). However, the Average CBI cases against Public Officials regarding unethical practices and involvement in fraud and Complaints received by the Commission continue to be on the same tangent. Modus operandi for the classification and treatment of these cases are under continuous flux, leading to the surfacing of cases in a routine manner. Indian economy continues to be manacled by shackles of iniquitous instances. The nature and complexity of these cases have changed over time.

Magnification in the volume of monies and people involved in them is seen. The behavioural tabernacle is another aspect directly related to the movement of these cases. (Figure-3 : CVC Annual Reports)

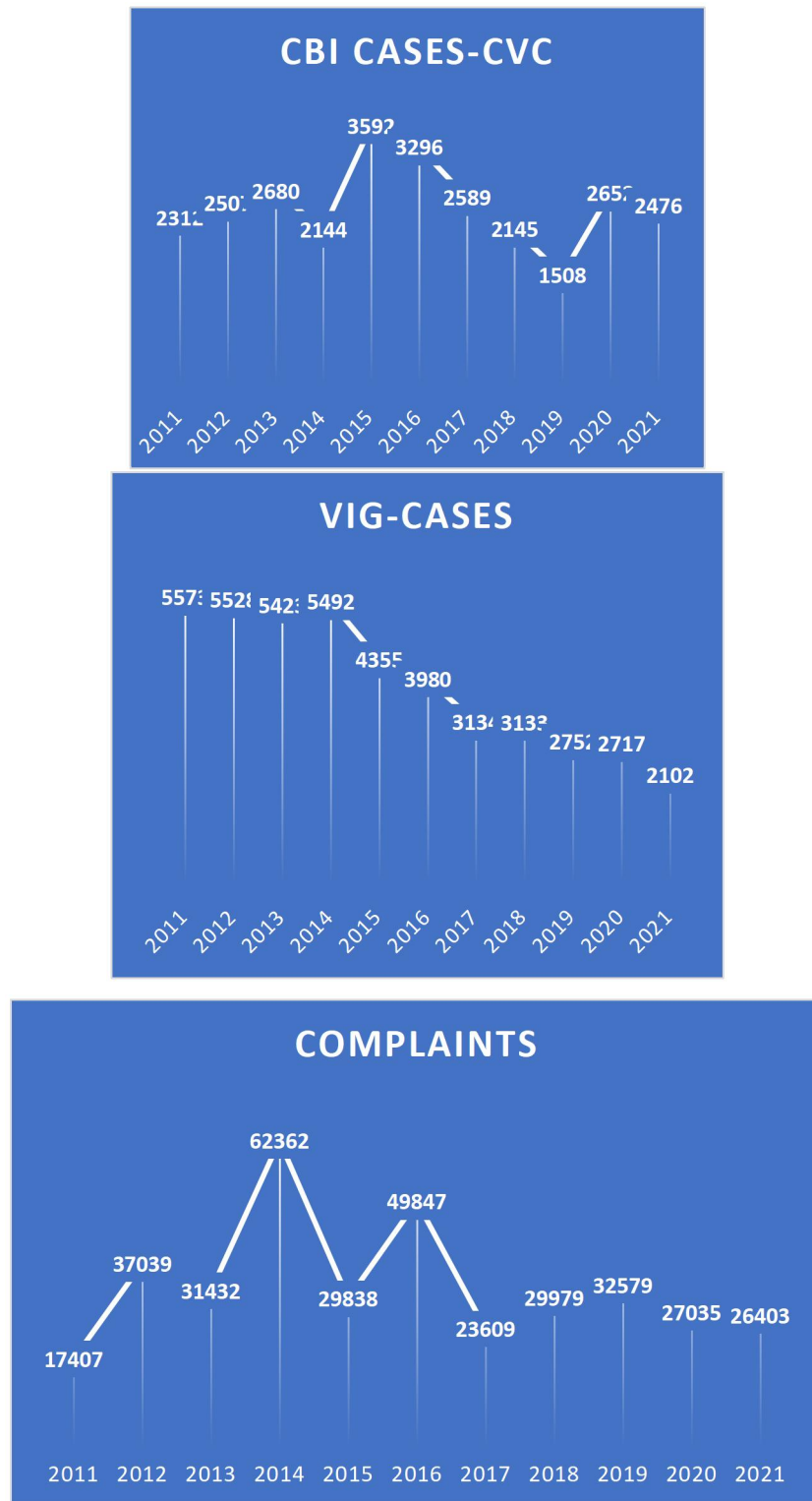


Figure-3

However, the molecular unit of a Vigilance case is the individuals who commit those acts. Identifying individual factors and their perception of probable causes for the continuance of unethical acts requires thorough deliberation. No literature has studied the factors that can influence the perpetration of such acts, either in isolation or as a cohort. Bribery is considered one of the most commonly experienced acts of corruption, with a widespread macro to micro-level economic consequences (Agerberg, 2018; Ramamoorthy, Kulkarni & Gupta, 2015; Sal & Raja, 2016). Furthermore, in an organisation, when the interest of various executives competes with one another, decisions arrived at are often incongruent with laid down norms and procedures. It is imperative to understand such circumstances, and they might not necessarily dictate the malafide intention of the executor. It is pertinent to grasp the confluence of societal, organisational and individual inconsonance before placing a case on the ethics continuum ((Moore, 2008; Sal & Raja, 2016).

Empirical evidence states that when infringement of procedural norms is a common perception amongst employees, they are more likely to engage in such practices themselves (Beugre, 2010; De Schrijver et al, 2010; Singh, 2016). The sanctity of a workplace, if it is perceived to be breached, induces an ethical dilemma in the individuals- whether to maintain the ethical value position they believe in or materialize the gains for themselves. This is also propelled if the societal values hinge upon regular dysfunctional practices. There exist several rationalisations and euphemisms supporting such acts, thereby influencing an individual's decision-making process and paving the way towards diversion. Similarly, when distributive injustice is observed in an organisation, in terms of perks, incentives, career advancement, nepotism, etc., employees' tendencies to actualise these for themselves, even at the cost of their value system and organisation, propels (Ramamoorthy, Kulkarni & Gupta, 2015).

A plethora of research has been done to identify the crux of corruption and to understand and deduce the reasons and motives behind the occurrence of this phenomenon. They have focused on macro and micro factors that have contributed to its continuance. Existing research has identified polarized factors that are construed to be contributing to the act of corruption; thereby, no concrete measure has been able to discern the exactness of this occurrence so far. The focus of this study is to identify the micro factors contributing to the maintenance of instances of Vigilante cases.

Methodology:

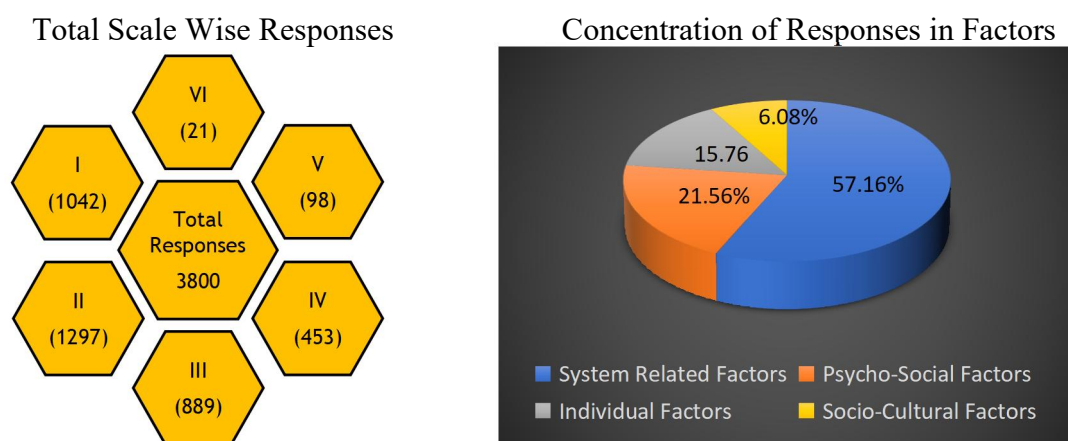
The core conceptualization of the study originated from the informal interactions held with Officers in the Banks who were penalized under disciplinary proceedings in the recent past. The interaction was aimed at identifying latent factors which promulgated the lapses. Reintegration and rehabilitation of penalized officers were the genesis of this exercise, along with formulating an effective strategy to induce deterrence for repeat offenders. This exercise also elicited various factors and possibilities which led to the occurrence of these acts, originating in individuals and systems. Thereon, their cases were analyzed to draw parallels in narratives, along with other Vigilance cases in the Banks. Nineteen indicators were identified based upon the study of those Vigilance cases reported in the Bank in FY 2019-20, 2020-21 & 2021-22, and a study was conducted in the field to understand the interplay of occurrence of these cases and the confluence of indicators. Based upon the occurrence, societal and cultural factors, and causes observed while analysing existing cases, these indicators were then categorised into four broad parameters. Overlapping in factors and indicators is observed,

and cases elicited comorbidity from the factors in various instances. The alignment of various indicators together supposedly abled the misdeed (Figure-4).

<u>System Related</u> 1. Gap in knowledge among employees 2. Lack of understanding of policies 3. Gaps in systems such as CBS/Loan Processing & Sanctioning, etc 4. Lack of Infrastructure 5. Involvement of Third-Party Service Providers (TPSPs) 6. Dependence on external sources for Banking, such as BCs. 7. Lack of Proper Training 8. Low Literacy rates among customers	<u>Psycho-Social</u> 1. Greed as a factor of consequence. 2. External Pressure 3. Internal Pressure 4. Peer pressure to maintain a living standard
<u>Socio-Cultural</u> 1. Matter of practice/Established way of transactions 2. Availability of factors such as “offering of the bribe” 3. Presence of external factors which contribute to the increase in living expenses	<u>Individual Related factors</u> 1. Personality attributes of the employee 2. Personal exigencies 3. Urge for attaining professional growth 4. Reliance on middle man for coordination.

Figure-4

The questionnaire method was used to identify the employees' subjective interpretation of the occurrence of vigilance cases. The survey was conducted from August 2022 to October 2022, and 3800 responses from employees from two major leading PSBs' in India were received.



Results & Discussions:

Post-computation of the data collected from responses, it was observed that certain factors are labelled as more prominent contributors towards the occurrence of unethical and condemned acts compared to others. However, as multiple responses were chosen by the respondents, it can be concluded that it is perceived that no single factor in isolation can lead to the manifestation of vigilance cases; it is rather an interplay of all, wherein the nature of the act or requirement or intent would command the centre stage.

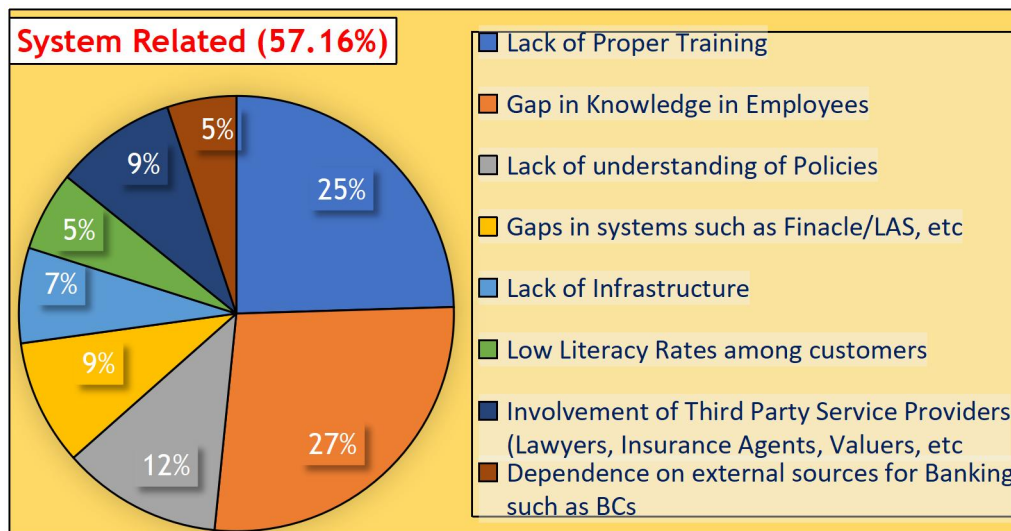


Figure-5

System-Related factors: These factors are related to both the organisation and the employee. Facilitating strategic stimulants provided by the organisation are expected to be converted into applicable structures by their employees.

The **level of knowledge of employees** (27%) with respect to the policies and approved procedures of the Bank, lack of which is considered as the most prominent factor towards Vigilance Cases. The training and manuals provided by the organisation must have practical applicability and validity across the situations. Differences in principle and practice can lead to dilemmas, leading to omission and commission.

Lack of Proper training (25%) was voted to be 2nd most commonly perceived indicator, causing lapses on the part of individuals and the organisation as a whole. As mentioned, training is considered one of the preventive vigilance tools and is imperative for the seamless execution of a task. Organisations have put in place various mechanisms to ensure their workforce receives due skill knowledge and mediums to comprehend their responsibilities fully. Yet, with time, it is necessary to modify these mechanisms and cinch their continuity in coherence with induced changes in the system.

Other than these, **Lack of Understanding of Policies** (12%), **Gaps in systems such as CBS/Loan processing & sanctioning systems** (9%), and **Involvement of TPSPs** (9%) were also perceived as elements leading to these cases. The confluence of all these factors together can create an optimum situation for the occurrence of an unethical act.

Other factors, such as Lack of infrastructure, Low literacy rates amongst customers, Dependence on external sources such as BCs', etc, are perceived to have minimal contribution.

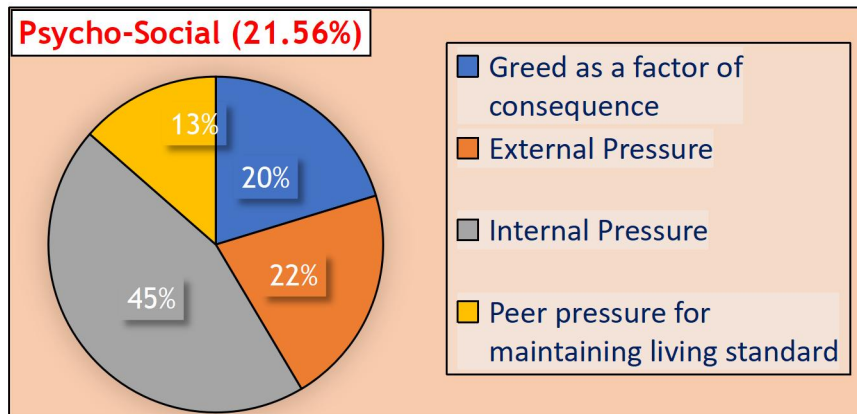


Figure-6

Psycho-social factors: It involves the interactional dyadic relationship between senior management and employees, as well as between employees and customers.

Internal pressure (45%) is considered the most distinguished factor for indulgence in unethical means. Perceived threats alongside this pressure can lead to negative consequences at both personal and professional levels for the receiver.

External Pressure (22%) and **Greed as a factor of consequence (20%)** are also highlighted as contributing components. External pressure is an indirect form of corruption wherein a person abuses his powers intangibly to achieve the desired results through others. It is commonly observed within PSBs'. Greed can be externally induced as a matter of consequence in a society where violation of norms is not punished with fairness, thereby loosening the reliability of the law.

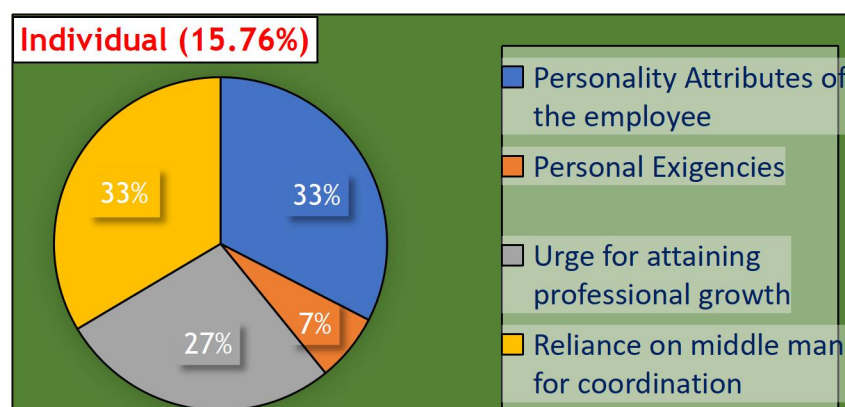


Figure-7

Individual-related factors: These factors are the role of personality, professional growth, and personal exigencies.

Personality attributes (33%) and **Urge for attaining professional growth (27%)** can act both individually and conjointly towards impropriety. Perception and internal resolute of an individual towards such acts can prove to be the deciding factor for his inclination. Delinquency stemming from one's personality factors makes them repeat offenders and exhibit similar issues in other spheres of their lives.

Personal exigencies (9%) are beyond the control of individuals and can occur untimely, leading to desperate measures and choices.

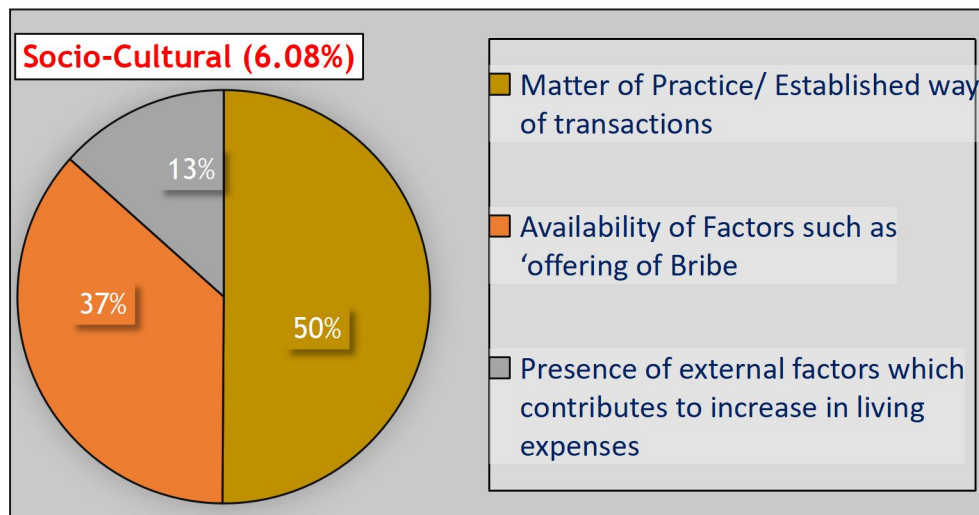


Figure-8

Socio-Cultural Factors (Banuri & Eckel, 2012): The perceived contribution of this parameter was the least among the four.

Matter of practice of tangible and intangible favours, established way of transacting-giving a bribe (50%) and Availability of bribes (37%) can create an ethical dilemma for individuals if it is widely practised and readily available. The perceived unethical nature of an act reduces its replicability and does not yield negative consequences. These combined can become a powerful motivator for people to offer and accept bribes in a society. If expectations of fair treatment and decisions are infringed, individuals are more likely to accept bribes in institutions. Other than these, factors causing an increase in lifestyle expenses are also considered as a factor for indulgence in unethical means of generating income to maintain those standards.

Table: 8

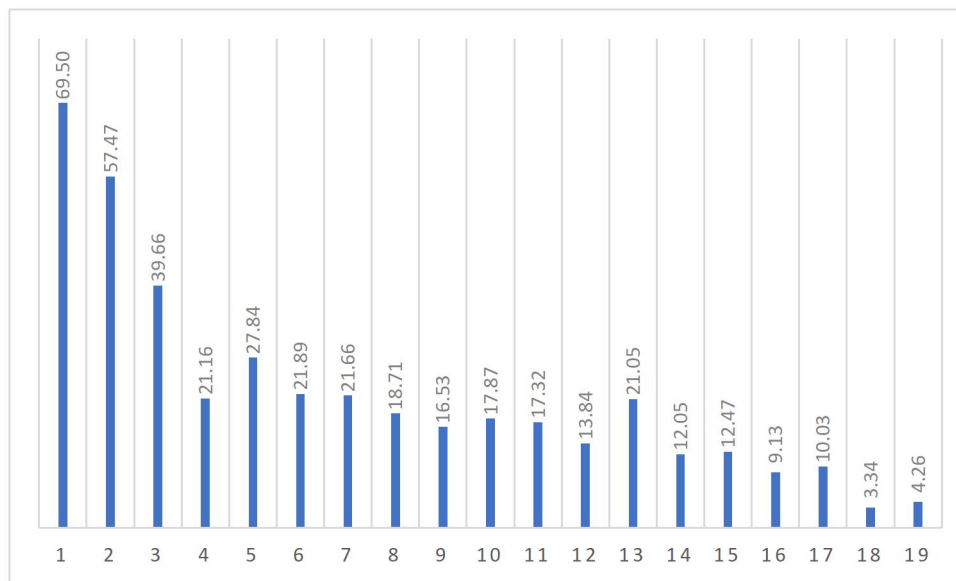


Figure- 9: Factor wise %

Distinction in the bandwidth of internal management and field officers in perceived indicators responsible for vigilance cases and unethical practices is also observed in the survey. Senior Management perceives the reciprocity of Lack of Knowledge, Involvement of TPSPs', Personality attributes, Urge for promotion and bribery -an acceptable means of transaction by society as the reasons for Vigilance Cases in the Banks. These factors show a mix of system-related factors and personality factors associated with specific individuals as the reason for improbity. On the contrary, Junior Management considers the lack of training, gap in knowledge, and internal pressure to be the main reasons for the continuance of these cases in the banking industry. This group is considered as the front line of the Bank in the field, stationed at Branches, processing cells, etc., having direct contact with customers and the Involvement of TPSPs' is also recognized as a factor; however, it is not prominent. This also indicates the perceived requirement by each sect in the Bank.

Gaps in knowledge of employees and lack of proper training are the most commonly perceived reasons that lead to vigilance cases in both the bank and throughout the scales. They are complimentary to each other occurrence and can weaken the fundamental essence of an organisation. Other than internal pressure on employees in the field, the involvement of third-party service providers (TPSPs) is voted out as a major contributing factor to the maintenance of these cases. It is imperative to ascertain the intention of the employees behind a decision and circumstantial and temporal arrangements of the timeline of the decision in order to ascertain the validity and reliability of that decision. Not every act is an act of collusion, and vice versa.

Policy Implications:

Given the complexity of these acts and factors contributing towards Vigilance cases, we suggest the following measures which, if deployed, can act as inhibitors for these factors:

1. **Skill Upgradation** in terms of continuous learning for further progression in career and handling of major portfolios such as credit, forex, etc., in Banks. Strict attribute-based assessments are to be carried out before progressing individuals at higher management cadres.
2. **Job role-based training** is to be imparted so that employees know their responsibilities, power, and accountability. Clear succession planning and business continuity policies should be enacted.
3. **Financial intermediaries** (Bussel, 2017), unless appointed by the Bank, should not be entertained. There must be a separation between the appointing/re-appointing authority and those who avail of their services with feedback mechanisms for evaluation. No perks are to be identified for the person who relies on them for target achievement. They should be kept at the introduction level, with no further involvement from the Bank, post consideration of the prospect.
4. **Evidence-based instructions: All the instructions should be percolated through a system-driven message database** only. The instruction should include all approvals of deviation, if any, with no requirement of further action. This will increase the level of confidence in field functionaries towards Management, and perceived internal pressure will also balance out.
5. **Accountability of Reasons against Staff Accountability:** Reasoning for an account turning NPA should be adopted as the basis for studying accountability instead of staff or committees. Factors that have directly contributed to the NPA status of the account should be ascertained, and if any employee intervention is observed, adequate means of correction should be adopted.
6. **Regulation of TPSPs:** Penalizing provisions for Third Party Service Providers should be in place to ensure that the severity of deceit is communicated clearly and the concept of clear accountability is established. A centralized database should be maintained by the regulators of such TPSPs' for effective monitoring and reporting.
7. **Employee-Friendly Human Resource Practices: Complex systems and multiple layering of applications and declarations in terms of employee-entitled reimbursements can create possibilities of omission and create a void in employees and institutions.** System and procedures should be in place to facilitate employee morale and productivity.
8. **Justice on Time:** Appropriate punishment enacted within the prescribed timeline. Delayed justice is synonymous with no justice. Further, if an act of deceit goes unnoticed, it becomes a norm for that society and propels more such instances. In Banks, timely disposal of disciplinary cases, with adequate decision and punishment, is necessary to create a belief in probity and integrity.
9. **Humanising Vigilance:** Counselling provisions for individuals who are punished should be in place in order to facilitate their understanding of their actions, rationalise procedures, and manage their emotions towards the punishment. It is human nature to justify the act as punishment, for it always appears to be more severe than the intention of the act. Preventing a negative outcome is more beneficial, motivating and adaptable for an individual than receiving a punishment. Confounding indicators present at PSBs' are beyond the control of the employees; however, they can significantly impact their decision-making. Therefore, inadequate punishment, if rendered, can have a severe, long-lasting impact.
10. **Perception Index for Corruption:** With the identification of factors, they can be utilised to develop the index for the perception of corruption in each organisation; both generalized and organisation-specific indicators can be included in the index. It will aid in quantifying organisational gaps at structural, functional, and individual levels. Adequate measures can be formulated on the basis of the results arrived at. If an individual perceives an

organisation to comply, it will act as a natural deterrent for the intention or inclination towards indulgence in unethical acts.

Conclusion & Limitation

The precise aim of the research was to align the policy discourse with the micro factors that navigate the vigilance cases in banks. The existing framework primarily focuses on macro factors or individual factors, and similarly, the policies are indicative of resolutions that target them at the institutional level.

The distinction observed amongst different Scale of Cadre pertaining to the perceived factors, as discussed in the previous section, can be interpreted as the area where monitoring and improvement are required. Gaps in Knowledge and Lack of training are unanimously voted as contributing factors, and these can be managed with the intervention of both Senior and Junior Management in the Bank. Managing the Involvement of TPSPs and reliance on intermediaries has to be implemented in terms of oversight mechanisms by Senior Management, particularly as a function of executives. These factors require Macro-level interventions and modifications. Factors such as the personality of individuals, as discussed above, can be contained with the assistance of Human Resources. Monitoring statements such as the Asset Liability statement are expected to be filled by every employee. This contains the account of the person's assets and the o/s liabilities. Any inexplicable change should warrant further explanation.

The study is limited to two leading PSBs; however, it can be replicated in other PSBs' and PSUs to chart the nature of cases in their institutions as well as identify if similar indicators are perceived to be contributing towards the continual occurrence of unethical acts. Research grounds for the future should formulate policies specific to each factor after considering societal interactions associated with them. A comparative study of the nature of cases and causes in the Institutions under the management of CVC and others will also provide a broadened perspective on the pressing issue at hand. The entire financial sector functioning in the country's ecosystem is plagued with this issue. This study can provide ground theory for the formulation of further research grounds and policy making.

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