

Understanding banking operations with ethical perspective through banking scandals



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LEARNING ACTIVITY DESCRIPTION

- The original idea of a **variety of assignments** selected from course deliverables.
- Designed for a graduate course in **Money, Banking, and Financial Institutions**.
- Suitable for courses in the area of Accounting/IB, MBA, and Master of Science in Finance program, offered in face-to-face and online delivery mode.
- Can be tailored to different types of student's activities.
- Addressing important banking concepts while **exemplifying** them on indicated banking scandals.
- A selection of **assembled topics** available to be incorporated in the M&B course.



OBJECTIVES OF THE STUDY

The design of these assignments was motivated by the following objectives:

- To **create experience** with interest and excitement and about the banking environment.
- To **apply theoretical** concepts in real-life problem solving in banking based on well-documented real cases.
- To actively engage with the course contents from a professional perspective and with public scrutiny concern.
- To engage in the topics students can **relate to** in the **comprehensive approach**.
- To create a long-lasting memory and highly motivated learning **experience**.
- To focus on the course learning goals with ethical reasoning and practical application.

RATIONALE FOR THE STUDY

These assignments were inspired by following considerations:

- These assignments **investigate professional behavior in banking**.
- They serve as a practical and applied **experiential learning** opportunity in the economics and finance curriculum.
- This learning strategy **intrigues students** to deeper understanding of banking operations.
- Students are keenly engaged in analyzing corresponding **banking policies and procedures** with evaluation of **critical implications**.
- A vast scholarly, professional, and practical literature is available on banking scandals.
- Students **focus on corresponding banking operations** with **theoretical rigor**.
- This active learning approach provides for **thoughtful scrutiny of banking operations** from the perspective of **ethical conduct and compliance**.
- These assignments stimulate **innovativeness**, support students' independent thinking and **problem-solving** while engaging purposefully in the intense faculty-supported research.
- They support skillful, exploratory, and effective assessment of various publications.

LEARNING ACTIVITY DESIGN



Banking Concepts Covered in the Assignments.

Corporate governance, policies, accounting practices, financial system (consolidation vs. competitiveness), financial market (efficiency vs. manipulation), interbank operations, credit risk, interest rate risk, banking innovation risk, legal risk, public trust, internal supervision and control, government regulations, lender of last resort, bailout, money laundering, role of the central bank, deposit insurance system, money creation and liquidity, technological risk, monetary policy, cybersecurity.



Research Paper Topics Examples

Franklin National Bank Failure.
Wachovia & Wells Fargo – merger a must? Citicorp – a rejected suitor.
German banks' consolidation.
Types of banks and their role in the economy.
Mortgage banking and Fannie Mae & Freddie Mac.
Washington Mutual failure and dispute.
Regulator sues Goldman Sachs for risky mortgages.
S&Ls Crisis.
Bear Stearns Management Practices that led to the collapse in 2008 – testimony before the Financial Crisis Inquiry Commission.
LIBOR banking scandal – with Barclay's Banks at heart.
Charles Schwab – strategy change.
Investors and AIG sue Bank of America.
Bailout of Spanish banks.
Japanese banks – where are they and why?
Barings bankruptcy and sale to ING for 1£.
What happened at AIG – and the bailout justification?
HSBC and First Niagara – branch sale transaction.
BOA – Countrywide – M&A – is it the worst deal in history?
Goldman Sachs investigation on ethical issues.
UBS 2009 – tax evasion scandal.
JPMorgan Chase Risk Management Losses.
BOA and Merrill Lynch merger dispute.
TARP – a must or a waste?
Royal Bank of Scotland's bailout and popular outrage.
Northern Rock collapse and the modern era bank run in the UK.
Long-Term Capital Management scandal in 1998 and FED.
Collapse of Lehman Bros vs. TBTF or TITF.
The history and role of the ECB.
Basel III Capital Accord.
French banks and their liaison with the government.
FED: Quantitative Easing, Operation Twist, and Exit Strategy.
FED: new tools of monetary policy in 2020.
Rating Agencies – objective or under conflict of interest?
New regulatory environment for US banking and bank stress test in supervision – implications.
Greenspan and Bernanke as Fed Chairman – challenges and comparison.
US lost its AAA rating in 2011.
U.S. Bancorp money laundering.
Wells Fargo's fake-account scandal.
Australian bank fee scandal.
Gold and silver price fixing – and why it matters.
Wells Fargo, Bank of America, SunTrust Mortgage, and JPMorgan & Chase mortgages – discriminating lending practices lawsuits.
Deutsche Bank fall from grace – two decades of disarray culminated in 'Bloody Sunday'.
Fintech and Open Banking.

LEARNING ACTIVITY DESIGN



Discussion 1: Money Market Rates and LIBOR Scandals.

Please discuss various money market rates and their importance for financial markets and banks. Additionally, address some scandals related to LIBOR which occurred in the past and provide some insights of the problems caused (please elaborate). You also should address the concepts of duration, market distortions, functions and forms of money, financial market regulations, government borrowing and monetary policy, interest rates vs inflation, interest rates vs. return. Please support your post with reference to the research findings published in the peer-reviewed journals.



Discussion 2: Bank Failure and Bailouts around the World

Please present various cases of bank failure, evidenced reasons behind the problems experienced, and discuss the tools to mitigate them. The examples are numerous: S&L crisis, Barings, Daiwa, Sumitomo, Societe Generale, Bear Stearns, Wachovia Bank, AIG, Lehman Brothers crisis, Merrill Lynch, to name just a few. Elaborate further and analyze these examples, and you are welcome to add more. In each example include the government response, and how the institutional financial problems were resolved. If the bailout package was offered, present the rationale with reference to TBTF problem and the government safety net offered to prevent systemic failure. Please relate the issue of banks failure to the concepts of asymmetric information (agency theory), adverse selection and moral hazard (lemons problems) in banking, banking regulations and supervision and deposit insurance, bank runs (panics), securitization, shadow banking, banking innovation and ethical concerns. International comparisons will greatly support the perspective. Please reference peer-reviewed journals in your research.

CONCLUSIONS

- There is an urgent need for specialized and practical focus on ethics in banking courses beyond coverage of corporate or accounting ethical conduct, and not limited to executive education or professional trainings.
- Both negative and positive examples can foster development of ethically correct postulated role models in banking education.
- More specialized approach is required by progressing from business ethics, through financial ethics, to banking ethics, similarly to teaching bioethics, marketing ethics, engineering ethics, information technology ethics.
- Discussing banking scandals enhances student understanding and appreciation of challenges that business leaders face when confronted with the conflict between the profit-maximizing demands of capitalism and ethical expectations of society in the balancing effort of resolving the paradox of ethics.
- Real case studies are more credible for students than simplified narratives or mock examples.
- Banking scandals contextualize ethical dilemmas in the banking industry with current continued importance and corresponding policy setting.
- Banking scandals are often referred in faculty-run and student-run blogs to stir interest and excitement in the inquiry-based education.
- These professionally oriented, practical research opportunities increase student's satisfaction and trigger engagement in the exemplified in depth various corresponding banking operations with full understanding of risks and implications, and shape ethical sensitivity to human behavior in the banking services, procedures, and processes.

BANKING SCANDALS IN LITERATURE & EDUCATION

- A study of bank scandals can aid financial literacy (Pelletier, 2012).
- An upholding of ethical culture in banking is critical to all stakeholders (Menezes, 2016).
- Restoring public trust in banking will require the improvement of transparency, disclosure, and responsible business conduct of financial service providers (Wehinger, 2013).
- There is a need to institute ethics in multiple ways in business education as core emphasis to develop a moral character (Gray & Clark, 2002; 6 Reasons for Teaching Financial Ethics, 2013).
- A case analysis published on ethical banking communicates an example of ethical banking policy phrased as "what we are and what we stand for" and "strict guidelines on who we will, or will not do business with" (Harvey, 1995).
- A case analysis of corporate and bank fraud exhibited limitations and current failures of securities laws eroding the power of state agencies in their efforts to protect the public interest from financial frauds (Calathes & Yeager, 2015).
- A case analysis published by Bjerregaard & Kirchmaier (2019) evidenced the example of failing regulatory oversight.
- An interactive case study designed by Le Menestrel (2008) on strategic ethical decision-making in banking covers a diverse range of issues: corporate responsibility, values-based consumerism, international regulations, political influence and public opinion (including media).
- Scandals can be systematic or caused by rogue employees, and benefitting the firm or their customers but corporate value statements indicated that banks with inclusive social principles such as respect, solidarity, and equality did not face large-scale scandals (Ehrenhard & Fiorito, 2018).
- A bank case analyzed by Witman (2018) showed that corporate culture with reporting and monitoring of selected metrics can help explain behaviors of bank employees and managers.
- A research conducted by Oates and Dias (2016) showed that little focus is given to assessment of ethics in postgraduate banking and finance programs even after criticized moral failure resulting in the global financial crisis and ethical scandals dominating the global banking industry due to exposed lack of integrity.
- Ethics-related case studies have been more advocated and prevalent in business and accounting education. However, principal interrelating concepts with strong ethical context from economics, banking, and management stemming from the global financial crisis (GFC) interface with accounting and finance. These topics can include capital maintenance, liquidity, solvency, financial leverage, efficient market hypothesis, transparency in disclosure, derivatives, fair valuation, moral hazard (Bloom & Wehinger, 2011; Gempesaw, 2009).
- Callanan & Tomkowicz (2011) recommend a pedagogical teaching approach in banking by engaging students' teams with multiple viewpoints into debating legal, ethical, regulatory, and societal expectations from various perspectives on selected practical professional examples.
- A real case study on accounting fraud scandal provided a hands-on learning experience to students relevant for them in their future career in public accounting. It also evidenced strong student engagement, active learning, and satisfaction (Ragothaman, 2014).
- A simulation of real banking activities creates opportunities to apply theory and improve student abilities to recognize ethical issues, develop alternative solutions to ethical problems, and evaluate solutions to ethical problems from a moral point of view with enhanced motivation (Lambert et al., 2008).
- Studying ethics scandals positively impacts finance students' ethical decision making and their perceptions of the ethics of businesspeople (Cagle & Baucus, 2006).
- There are numerous resources (case studies) developed on banking ethics, including banking scandals, offered by Daniels Fund Ethics Initiative, Seven Pillars Institute, and Harvard Business Publishing Education.

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