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Ethical Banking Practices: A *Sine Qua Non* for a Financial Resilient Banking Industry

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ABSTRACT
Banks globally play strategic roles in an economy by fostering economic growth and development. However, recent global financial crises and domestic bank failures have exposed banks to a run. Hence, this position paper is targeted is set to provide a case-based exploration on the ethical frameworks of a financial resilient banking industry. The study reported that the involvement in unethical banking practices exposed Skye Bank, Intercontinental Bank and Afribank to experience a run. This eventually led to their collapse. Additionally, the takeover of Skye Bank by the CBN strongly evidenced that unethical conduct erodes public confidence on the banking industry, weakens regulatory compliance, and ultimately leads to bank failure. In like manner, global scandals such as the Wells Fargo's fake accounts and the LIBOR manipulation by several foreign banks including Barclays and Deutsche Banks raised serious concerns on the adverse effect unethical banking practices has on the banking industry. Conversely, Nigeria Tier 1 banks (First Bank of Nigeria, United Bank for Africa, Guarantee Trust Bank, Access Bank, and Zenith Bank alongside international institutions such as Standard Chartered and Hongkong and Shanghai Banking Corporation (HSBC) are known for strong corporate governance and adherence to ethical codes. The study therefore concludes that ethical banking practices such as transparency, regulatory compliance, stakeholder engagements, robust corporate governance mechanism, and responsible lending reduces operational risk, and strengthens financial resilience. To this end, the CBN must strengthen Nigerian banks' enforcement mechanisms by closing tax loopholes, enhancing institutional capacity. Meanwhile, Nigerian banks must embed global ethical standards into their operational DNA.
Keywords: Ethical Banking Practices, Sine Qua Non, Social Responsiveness, Financial Resilient Banking Industry

INTRODUCTION

Banks globally play strategic roles in an economy by fostering economic growth and development through providing credit facilities to productive economic units in needs of such funds at a cost termed financial intermediation cost (Berger, & Boot, 2024; Erhijakpor, & Eyamu, 2025). However, recent global financial crises and domestic bank failures have exposed most banks (Nigerian banks inclusively)

to that are not ethically sound to high level of fragility (Erhijakpor & Aninze, 2025). The term "ethical banking" simply entails the integration of socially responsible, transparent, and morally sound practices into banking operations. It is not just merely an optional value proposition but is considered *as sine qua non* for ensuring long-term stability, resilience, stability, and confidence in the financial system which form the core area of financial intermediation. Consequently, a financial resilient banking industry is one that has the ability to absorb external shocks, withstand financial stress yet remain financially strong in the face of unhealthy banking conditions (Liu, Chen, & Xiao, 2025). As such, if the walls of the banking industry is built on ethical banking practices such as transparency, integrity, responsible lending, compliance with regulatory frameworks, environmental and social governance (ESG), and fair customers' treatment, the reputation of banking industry will not only be upheld, it will also be improved especially during economic downturns as in the case of Covid 19. For example, the Nigerian Tier 1 banks such as First Bank, United Bank for Africa, Guaranty Trust Bank (GTBank), Access Bank, and Zenith Bank (FUGAZ) have strongly demonstrated how adherence to ethical standards can foster sustained growth and stakeholder confidence, positioning them as leaders in a highly challenging financial environment.

Despite the implementation of robust codes of conducts and ethical guidelines issued by financial regulators such as the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN), some Nigerian banks still engage in unethical banking practices such as mis-selling of financial products without capturing risk associated with it properly, hidden charges, excessive fees, discriminatory lending practices, forgery, insider trading, creation of unauthorized accounts and concealing of asset mismatch from investors, customers and regulators (Oji, & Alordiah, 2024; Agu, Abhulimen, Obiki-Osafiele, Osundare, Adeniran, & Efunniyi, 2024). Challenges such as regulatory requirements, corruptions, sub-optimization, tax evasion, political interference, limited institutional capacity, and accounting manipulation hinder effective implementation, especially in emerging economies (Babayanju, Animasaun, & Sanyaolu, 2017; Adegbie & Fofah, 2016; Chukwuekwu, 2024; Ekokeme, & Seiyaibo, 2024). These identified challenges further weaken the overall resilience of the banking industry, undermines efforts to encourage responsible banking and at the same time expose Nigerian banks to ban run (Ononiwu, Onwuzulike, & Shitu, 2024). Nevertheless, banks with strong ethical leadership and culture exhibit better financial risk management, high loan performance, and enhanced customer confidence. All these qualities increase the financial resilience of the banking industry. Furthermore, inclusive stakeholder engagements, transparent reporting/disclosure, and sustainable lending practices strengthen accountability and confidence in the banking industry by creating a stable and all-inclusive financial eco-system.

Judging from the lens of theory, the agency theory developed by Jensen & Meckling (1976) provides a clear view on the ethical bank practices and financial resilience nexus. This theory addresses the misalignments of interest between principals (shareholders) and agents (bank managers). The theory stressed that where there are no strong governance mechanisms and ethical standards in place, bank managers may pursue short-term profits through misreporting, high-risk strategies, or fraudulent activities at the expense of the long-term financial health of the banks (Cheffins, 2021; Jensen & Meckling, 2019). However, ethical practices/standards such as sound corporate governance, an efficient compliance system, and a transparent financial reporting framework act as control mechanisms which align management behaviour with other stakeholder interests (Madden & Stevens, 2024). This in turn enhances risk management and banks' financial resilience.

Based on the above background, this position paper contends that ethical banking practices is just not merely compliance of banks with regulatory dictates or a means of being socially responsive, but is considered as an efficient strategic tool that is imperative both for survival and going concern of Nigerian banks. Beyond adherence to regulatory dictates, banks can build resilient industry against financial shocks, if they are ethically sound. It is this regards that the current research is set to provide a case-based exploration on the ethical frameworks of a financial resilient banking industry.

METHODOLOGY

This position paper adopts a cased-based research approach with emphasis on secondary data sources. Information was sourced from the codes of conducts and regulatory guidelines issued by the CBN, the FRCN, and the Bank for International Settlements (BIS). Again, ethical banking reports from the Global Alliance for Banking on Values were also analyzed. This is with the intention to provide international view on the need for an ethically sound yet financially resilient. Further, academic journals, working papers, and studies were cited to back up claims. Meanwhile, documented cases of ethical lapses and regulatory sanctions posed of Nigerian banks were also cited. Justifiably, this approach is appropriate for evaluating trends, identifying gaps in practice, deriving context-specific insights, and synthesizing existing evidence (Luo, Abbasi, Yang, Li, & Sohail, 2024). Lastly, this approach is suitable as it does a historical and comparative analysis of various ethical practices that banks engage in across different jurisdictions.

FINDINGS: EVIDENTIAL BASIS FOR POSITION

Several cases from Nigeria, other developing and developed countries clearly evidenced that ethical banking practices serve as sine qua non for a financial resilient banking industry. In Nigeria, for instance, the collapse of Skye Bank in 2016 substantiates the claim that unethical banking practices exposes the banking industry to a run. Further, Intercontinental Bank and Afribank collapsed due to their involvement in unethical practices. Additionally, the takeover of Skye Bank by the CBN strongly evidenced that unethical conduct erodes public confidence on the banking industry, weakens regulatory compliance, and ultimately leads to bank failure. In like manner, global scandals such as the Wells Fargo's fake accounts and the LIBOR manipulation by several foreign banks including Barclays and Deutsche Banks raised serious concerns on the adverse effect unethical banking practices has on the banking industry. Conversely, Nigeria Tier 1 banks (First Bank of Nigeria, United Bank for Africa, Guarantee Trust Bank, Access Bank, and Zenith Bank alongside international institutions such as Standard Chartered and Hongkong and Shanghai Banking Corporation (HSBC) being the largest bank in the world are known for strong corporate governance and adherence to ethical codes. They have demonstrated greater operational continuity and stakeholder confidence despite economic downturns. These cases collectively hold the position that ethical banking practices is not merely a regulatory or CSR requirement, but a strategic imperative for sustainable and highly financial resilient banking industry.

CONCLUSION AND RECOMMENDATIONS

As the banking industry evolve under the pressure due to technological, economic, and regulatory changes, the need for ethical banking practices has become highly indispensible. The paper confirmed that, building a resilient banking industry is beyond capital buffers and risk models; it however demands a deep-seated commitment to transparency, integrity, stakeholder commitment, and social responsibility that is not built on mere regulatory compliance. Also, though unethical banking practices may offer short-term gains, it inevitably leads to regulatory penalties, reputational damages, and financial instability. Additionally, banks that prioritize ethical standards tend to sustain stakeholder confidence and at the same time withstand economic shocks better than banks that engage in unethical banking practices. The study therefore concludes that ethical banking practices (transparency, regulatory compliance, robust corporate governance mechanism, and responsible lending) reduces operational risk, enhances stakeholder confidence, and strengthens financial resilience. To this end, the CBN must strengthen Nigerian banks' enforcement mechanisms by closing tax loopholes, enhancing institutional capacity. Also, the autonomy of the CBN must be upheld and issue of political interference must be addressed. This will ensure that ethical guidelines and codes of conduct are rigorously applied across all tiers of the banking industry. Meanwhile, Nigerian banks must embed global ethical standards into their operational DNA by emphasizing leadership, employee training, human capital development, and transparent corporate governance. This will enable Nigerian banks to manage risks better, maintain stakeholder trust, and enhance long-term operational resilience.

This paper contributes to the existing body of knowledge by underscoring ethical banking not merely as a regulatory compliance or CSR concern, but as a strategic imperative that is critical for bank survival, growth, and operational resilience. Lastly, the study enriches the discourse on sustainable banking in emerging economies like Nigeria.

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