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Ethical and Confessional Banking: World Experience and Perspectives of Development

Nowadays world community analyzes the consequences of financial crisis thoroughly. It is time to reconsider the market paradigm in terms of morale (including religious one) and responsibility for its economic activity. In this context it is especially important to find new forms of banking organizations functioning, which could raise the degree of trust to the financial system and to combine adequately market principles of doing business with moral and religious requirements.

Key words: bank, ethics, religion, usury, crisis, banking.

Introduction

World financial crisis, which has covered all industries, including the banking sector, has made to look from a new angle at many problems of market subjects functioning – producers and consumers of products and services. The problems of deposit default to depositors, on the one hand, and loan default to banks, on the other, has created serious problems not only in economics, but also in social and moral spheres of society. The ethics of banking activity is often questioned. It is compared with usury, disapproved by most world religions. Reproaches to bankers in striving to become richer at the expense of others are supported by quotations from Holy Bible, where it is mentioned that to lend money on interest is a sin because “if you lend money to the poor from My people, do not oppress them and don’t lend money on interest” (the Exodus, 22; 25); “... lend money without expecting anything; and you will be rewarded...” (New Testament, 6; 35).

However, in our opinion, being similar in terms of being a loan, usury and money lending differ greatly. Usury is doing immediate harm to the person. The usurer, being aware of the lendee’s difficulties, has set an extremely high interest. For example, in Ancient Greece in IV century B. C. it was 570 % per annum and sometimes it reached even 9000 % [1, p. 508]. In Rus’ there was a term “likhva” (interest), that is surplus, sordid extorting profit from money turnover, illegal usurer’s interest [2, p. 371]. It is getting this extrahigh interest that is disapproved by Church as a heavy sin.

In contradiction to that, credit organizations set public loan rates and these rates are regulated by market. For example, when the first banks were set in Genoa in 1600 the interest was “extremely low” (1,2 % per annum) [3,p. 577]. The banking sphere in its essence is based not to cause harm to a person but to serve the interests of economics and people. Banking business is not forbidden either by Christian or by Muslim religion. Of course, it may become immoral when it makes interest its primary focus, deviating from its primary vocation. Patriarch of Russian Orthodox Church Kirill pays attention to the fact that financial and credit activity raises doubts if in dishonest pursuit for profits it deviates from its primary vocation – making people’s life better and economics more efficient.

In many countries (including Ukraine and Russia) there is a discussion about the necessity of using ethical norms in banking, about the possible development of confessional banking. Some authors (Belkin S.N., Baidakov M.Y. [4] and Lantsov V. [5] researching Islamic banking) enthusiastically think about the possibility of implementing religious principles into banking activity. Other authors totally disagree with the idea of confessional banking. For example, in researches of O.N. Chetverikova [6], B. Sergunenkov and others banking crediting is totally identified with usury and the notion of “Orthodox banking” is criticized as contradictory in its essence. However, it is necessary to highlight that the idea of confessional banking and ethical principles of the work of banking sphere is more discussed not by economists but by theologians, historians and ordinary people. This all makes this criticism biased and one-sided.

It is necessary to mention that in Ukraine at the stage of forming the system of commercial banks some work was done to implement ethic norms in banking. In 1999 the Code of moral and ethic norms in banks of Ukraine was adopted [7]. In five years, in 2004, “Vestnik NBU” № 2 published our article about developing some norms of the Code and about the necessity to follow ethic norms in banking [8, pp. 22-24]. But in practice business-specific codes were not implemented in banks.

Besides, there is the necessity to rethink the market paradigm in terms of morality (including a religious one) and personal responsibility for their economic activity. In this context it is especially important to find new forms of functioning of banking organizations. These forms could allow to raise the degree of trust to financial system and adequately combine market principles of doing business with religious, moral stance.

The purpose of the article is systematization of the given and search for new forms of banking business based on ethic, religious and moral norms [Table 1.].

Table 1. Forms of ethic and confessional banking formations

Forms of ethic and confessional banking formations	Banking	Interest on credit	Customers	Banking (credit projects)
1. "Ethic" banking	classic	Yes	Specified	Selected according to ethic criteria
2. Implementation of moral norms into banking organizations	classic	Yes	All, without any limitations	All
3. Banks of Church institutions	classic	Yes	All, without any limitations	All, excluding those who contradict confessional norms
4. Confessionally-focused banking products	classic	Yes	All	All
5. Confessional banking	specific	No	Specified	Specified

"Ethic banking"

"Ethic banking" is banking, the main direction of which is financing specific projects selected in terms of ethic principles. An example of these banking organizations is Banca POPOLAR Etica (Italy), BBK Solidarioa (Spain) [9, p.72] and others. Since 2001 FEBEA – (Fédération Européenne des banques Ethiques et Alternatives), a non profit organisation incorporated under belgian law, has successfully worked in Europe. FEBEA federates 25 members based across 11 European Union and 2 EFTA countries. These 11 banks, 6 savings and loan cooperatives, 5 investment companies and 3 foundations can all together account for a balance sheet of 21 billion euros and have some 528 000 clients and shareholders between them. They have different legal forms but they all share the same concern for transparency and social and environmental utility. In addition to being a place for exchanges and sharing experiences, FEBEA aims to create financial tools able to help existing European initiatives and encourage the growth of new initiatives in the field of alternative finance [10].

It is necessary to mention that the main bank in the U.K. (Bank of England) has recently included the job position of Business ethics adviser. The responsibility of this adviser is to consult British banks on all questions dealing with ethics [11].

Implementation of moral norms in traditional banking organizations

To some degree, the object of thorough learning and borrowing of main positive moments could be the analysis of the activity of Grameen Bank (Bangladesh). The bank specializes in disbursement of microcredits to poor people from countryside. These microcredits could help the poor to set their own business and break away from poverty. Considering microcrediting as a social mission, its creator the Managing Director M. Yunus reached great financial results. In 2011 Grameen Bank disbursed these credits for the sum of \$10.3 billion [12]. The system of group responsibility of borrowers made by Yunus practically excluded the possibility of arrears on these credits. Grameen Bank's system of crediting is now used in more than 100 countries, including the USA. Professor Mukhamad Yunus won Nobel peace prize in 2006.

The experience of the Russian "Rosselkhozbank" is also interesting in this connection. It gives credits in Karachayevo-Cherkessia only after approving the choice of the borrower by the Council of Elders of the residential place. As it turned out, the local population thinks that to deceive a bank is not a crime, but to deceive the Council of Elders is more than a crime [13].

Banks, created on the money of Church. Circulating Church resources

Some examples of these bank structures are the Catholic bank of the Vatican (Istituto per le Opere di Religione, IOR), Hellenic Bank (in which Greek Orthodox Church owns 29 % of shares), APS Bank Limited (100% property of Catholic Church in Malta) [14]. In Russia Orthodox Church of Moscow Patriarchy created International Bank of the Christ Redeemer Cathedral Moscow (MBXXC) in 1991. The bank had to accumulate money resources and invest them into building this Cathedral. It is necessary to mention that there is another Russian commercial bank "Peresvet" where the promoter of bank has been Russian Orthodox Church and which manages church resources.

Confessionally-focused banking products

Confessionally-focused banking products use religious symbolics and are made by marketing consultants to attract new customers in a bank.

In Russia "Slavyanskiy Bank" attracts money of the population on deposit "Orthodox". In addition, from the customer's account 10% from the sum of accrued assets is transferred on the account of Orthodox curasy of Vladimirskaya Icon of Mother of God. Among banking products of the Ukrainian bank "Kievskaya Rus" there is the deposit "Easter". In the Ukrainian bank "IMEXBANK" there is the deposit "Baptism". The Latvian bank "Hansabanka" has suggested the easter deposit since 1996.

In Israel the State bank Leumi has issued for orthodox jews “shabbes” credit cards which do not work from Friday’s sunset to Saturday’s sunset. The market of “shabbes” credit cards is assessed in the sum of 10 million shekel (\$ 2.3 million) per month. In Ukraine there is a trend to develop banking services for Muslims compatible with shariat. In particular, in 2009 the Ukrainian bank “Fortuna-bank” announced about implementation of projects for this segment of customers [15].

Confessional banking

Confessional banking is a rather different system of doing banking business, created on the basis of canons of a religion. The distinguished features of this system are: 1) specific banking products; 2) followers of the confession as bank customers; 3) objects of crediting (investment), corresponding to religious canons.

The ancestor of confessional banking may be an entrepreneurial way of Old Believers in pre-revolutionary Russia. The research of social and confessional structure of entrepreneurs of the end of XVIII – the first half of XIX centuries showed that at the first stage of organizing Russian industry the Old Believers took the leading positions in its development [16]. Some scientists think that Old Believers owned 60% or even 75% capital in pre-revolutionary Russia. In Old Believers’ environment of that time there were special relations. Old Believers tried not to borrow, but lended without interest. The attitude to “percenters” was contemptuous. The delay of payment of the borrower who was in a difficult situation, as well as debt forgiveness, some help to orphaned, poor, widows and their support, made on own initiative, were welcomed [17].

In the Western society the source of capital was usurer at first, then bank, accumulating the means of millions of depositors and sharing with them interest rate. Among Old Believers this function was done by communal treasury. At that time in Russia there was neither national credit nor BC system, however, Old Believers had the confessional system of non-interest and irrevocable grants at their disposal. When communal resources for developing economic activity were not enough Old Believers’ banks with classic banking services appeared. But they continued playing the specific role of the borrowed reserve of confessional character [16]. At that time Kharkov Trade Bank, Land Bank, Accounting and Loan Bank, Volga-Kama Bank were created and run by Old Believers. All these banks were rather successful. It is necessary to mention that some banks of Old Believers served only enterprises which belonged to them. The similar experience has been in Latvia where since 2010 “Latvia mortgage and land bank” gave small anti-crisis credits to orthodox believers on the recommendation of priests, which were guaranteed by Church [18].

An example of successful functioning of confessional banking is Islamic banking. Getting interest from credits is strictly forbidden by Alcoran. That is why Islamic

banks do not take an interest and do not get the margin. All Islamic financial instruments are formed in the way to follow this condition and at the same time to get profit from their work. Islamic banking transfers the credit basis of financial business into investment. “Musharaka” is mutual realization of the project with the help of bank and entrepreneur. Bank makes financing not taking an interest but participating in the given profit. In case of losses they are distributed in proportion with the participation in financing.

Uniqueness of Islamic agreement on leveraging money (“mudaraba”) is that the depositor knows where his money goes. The bank cannot invest money in businesses forbidden by Alcoran (e. g., producing and selling alcohol, organizing casinos and houses of prostitution). Mudaraba also excludes getting the net interest.

“Sukuk” is also interesting. These are non-interest Islamic bonds issued on the collateral of material assets where emitter is considered as a shareholder of this asset. The advantage of sukuk is in low volatility and in the trend of investors to keep these securities till the maturity date. Nowadays \$90 billion of sukuk is circulated in the world. The fall of volumes of their emission in 2008 (3 times in comparison with 2007 – from \$50 billion to \$15 billion) was connected with fatwah of Islamic theologians who admitted that 80% of all volume of sukuk emission did not correspond to shariat norms [19].

The first Islamic saving bank emerged in Egypt in 1963. It emerged confidentially because of the fears of being accused in Islamic fundamentalism. Since the end of 60-s of the XX century Islamic banks have worked straightforwardly in Malaysia and practically in all Arab countries. In 1975 the Islamic bank of development and Dubai Islamic bank were created that made a huge push in the development of Islamic banking. With reference to HSBC, nowadays there are about 300 Islamic financial institutes in the world. The world total volume of Islamic financial system is estimated in \$200 billion with 15% average annual growth [20]. The research of International Monetary Fund showed that Islamic banks in comparison with Western banks are less put at risk connected with liquidity and solvency. In Russia the total number of Muslims is more than 20 million of people and the development of Islamic banking is rather perspective. According to the quiz of the Council of mufti of Russia, 56% are ready to become customers of the Islamic bank and other 26% think about it. In Russia some issues of sukuk have been successfully made.

Not only in the Islamic world but also in the countries where Christianity prevails there is a need in confessional banking. An indication of that is the presentation in London churches for believers on the subject of compatibility of Christian values and financial work of some senior bankers (the Managing Director of Barcleys John Varley, international adviser of “Goldman Sax” Brian Griffith and others) who were

worried about bad reputation of banking business as a result of financial crisis [22]. One of the important events has become working out Stoxx Europe Christian Index. This index has started to be used on the European stock exchange firstly in the history of finances. As was announced, it should “help investors, disappointed with financial crisis, choose securities of “ethic” companies”. As the Stoxx Managing Director Hartmouth Graff said, “Catholic Index was created in connection with a growth of the number of participants of Christian markets, who preferred to invest according to their religious beliefs” [23]. Nowadays Stoxx Europe Christian Index lists 533 companies from Stoxx Europe 600 index.

The development and the successful functioning of Islamic banking for more than 50 years can set an example to search for forms of “Orthodox banking” functioning in Ukraine, Russia and other countries. Ten years ago it was probably unrealistically and premature to talk about Orthodox banking because to set it up it was necessary to strengthen Orthodox norms in public conscience. But namely in the years of crisis a clear trend of deeper penetration of religious ethics into the banking sector has appeared. Nowadays the idea of Orthodox banking is widely discussed as a real perspective. In January 2011 there was a round table discussion on the subject in Moscow. The participants were Russian banks association, Russia’s regional banks association, “Vnesheconombank”, “Gazprombank”, “VTB”, “Alphabank”, “Interprombank”, bank “Millenium”, “GE Money Bank”, Multilateral Development Bank, “UBI Banca” (Italy). At the meeting the bankers mentioned that ethic business is the most important part of public life and a lack of trust, disregard to business reputation in business environment are absolutely inappropriate.

One of the possible directions of developing Orthodox banking in Ukraine could be setting a captive type bank which could serve accounts of Church, parishes and use money only for financing pleasing to God projects. The organizational form of this institution could be a fund with the right to provide payments or a bank with a limited licence. Taking into consideration that the bank is set up not for getting profits and for functioning as a part of a religious structure its work will not be risky. Realizing that business risks always exist the Orthodox bank could not shift risks on the entrepreneur staying in case of non-redemption of credit in time with collateral and abandoned business. Hypothetically we can assume that the bank could have cheap resources and could finance many social projects which do not have enough (in terms of commercial banks) profitability and payoff. However, it is necessary to mention that nowadays the legislation of Ukraine is hardly ready for setting up such kind of financial institution. Bank, for instance, cannot stop interest accrual on credit for an agricultural enterprise because of bad harvest without going to court. Commercial banks do not have any opportunity to give low interest credits on socially important

projects without serious taxation consequences. So, the possibility of setting up Orthodox banking depends mostly on state reforms.

Conclusion

The time has come to think over moral consequences of financial crisis which changed social and economic relations in the society. The development of ethic or confessional banking is first of all putting into practice the wishes of customers of modern banks in fair, honest and responsible way of doing business in banking. We think that it is necessary to limit legally the size of credit payment. For instance, expenses to serve the credit should not exceed fourfold interest rate. Moral, honest relations with partners and customers are a key term of long-term economic success.

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