ETHICAL BANKING, AS AN ALTERNATIVE TO CONVENTIONAL BANKING? A LITERATURE REVIEW

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Abstract

Conventional Banking has so far been proved to be inadequate in providing solutions to socio-economic issues, as their focus is on increasing wealth. This was proven with the world economic downturn in 2007. Banks are losing its Values; there is a segment of society which is still excluded from banking. Banking too has contributed to the degradation of environment. Banks are also under scrutiny by Regulatory bodies and Governments for unethical practices. Therefore, it is necessary to judge banks not only on financial performance but also on its ability to maintain Ethical Values, Financial Inclusion and Responsible Behaviour, hence; a need arose for a new version of banking system which could address issues so far neglected by Conventional Banking. Alternative Banking systems are emerging such as Ethical Banking. Ethical Banking once developed could broad base the banking community. Although many researches had been carried out in the global scale on this subject, there were no researches conducted on this subject in Sri Lanka. The purpose of this paper is to explore whether Ethical banking can be presented as an alternative to conventional banking. This study is totally a desk research in the form of a literature review.

Keywords: Conventional Banking, Ethical Banking, Financial inclusion, Sustainable Development

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1. Introduction

The legacy of Banking goes back to the days of 2000BC in Babylonia, later traced in ancient Greece and under the Roman Empire. The organization of the word "Bank" comes from "Banque" in French, "Banca" in Italian and "Banc" in German. Banking is identified since 1157 A.D., and later 15th century onwards. It gradually institutionalized and has become a common factor in the day to day life of the people today. Banks thus, play a significant role in people's life. Hence, banks need to be responsible to the society at large.

Banks are the main contributors of economic development of a nation. Banks are now becoming more sustainable development oriented. Banks are engaged in providing funds to industries, individuals and governments locally and globally. It is the bank's responsibility to ensure the Credit receivers and Depositors follow a sustainable development path. UNEP (United Nations Environment Program) 1992 requires banks to ensure high environmental practices in banking business (Uygur, 2010). A number of banks around the world have already become signatory to this statement. This is the first global move to make banking also get involved in the promotion of sustainability. Banks damage to the environment due to its existence is very low although the real damage is caused by their stakeholders, the customers, shareholders, suppliers who engage in producing hazardous materials and/or discharging toxicants to the environment by engage in morally banned industries. The industries are now required to refrain from violating human and civil rights of the society. Therefore, an industry consisting of public and private sector organizations including Banking institutions are expected to promote, operate in a way that they develop a sustainable environment in every aspect. The societies have become more powerful in winning their rights to a peaceful and sustainable world. A trend has been set in the banking industry to become ethical as there was a demand for an alternative Bank to fill this vacuum. This created the birth of 'Ethical Banks.' Ethical banks are gaining popularity and their state of business is increasing.

Ethical banks are financial service organizations that promote equity and sustainable development (San-Jose L., et al 2011). These are another form of banking system, similar to other banks as they operate deposit accounts, grant loan facilities, and offer other banking facilities to customers. Their savings and deposits accounts are to promote sustainable development. They lend only to those who engage in projects, which ensure sustainable development. Ethical Banks develop special savings accounts for customers who seek to engage in sustainable investments. Their borrowers are screened on sustainability indications. Some ethical banks promote loans to properties which give an ecological payback. (Bank Track) It is the mission of ethical banks to avoid financial exclusion to overcome poverty, and the access to credit can be considered a human right. Community development is also another area that some ethical banks engage in. Hither to, neglected communities are welcome to become customers in these banks. Community development banks are another category of ethical banks that are specialized in community development; they direct their funds to the neglected communities. These communities have become neglected by traditional banks. (Bank Track) Another form of alternative banks is called Social Banks. These banks ensure economic, ecological, social and cultural sustainability while engaging in general banking. The aim of Ethical banking is to achieve gains in People, Planet and Profit of the triple bottom line. Social banking as identified by Benedikers (2011) are banks with a conscience. The characteristics of ethical banks include offering fair rate of return for all, aims to be transparent , use only customers and bank funds for lending, offers broader levels of engagement to stakeholders, establish long term relationships with customers, reduce salary disparities among staff, ensures financial sustainability. The traditional role played by banks included deposit taking and disposing of funds by way of granting credit facilities to customers which included loans, overdrafts and pawn broking. They engage in agency functions such as receive payments on behalf of customers, transfer of money, purchase or sale of shares and other securities. Acting as agent for customer's fund transfers and receiving, accepting and payments of bills, banks also had become underwriters. They engaged in advisory functions as financial advisors. Over the years, due to the increased competition, from within and outside, banks had lost the control of their behavior.

It is the objective of Ethical Banking to include all and mobilize funds and direct it through granting of credit to the environmentally, culturally and socially progressive projects. This form of banking encourages sustainable development, social entrepreneurship, social inclusion and social economy. It is the duty of Ethical Banking to educate general public of the role of money and its short-term implications of profits as its main aim.

Under these circumstances the main aim of this paper is to find out whether Ethical Banking can be presented as an alternative to Conventional Banking, by reviewing available literature.

2. Review of Literature

The Roles and the ethical, social and environmental responsibilities of banks

Roles and responsibilities

Banks have been involved in supporting the economic growth and playing an important role in International trade. Banks were playing an important role in allocating money to different industries which propel the economic growth. (Jeucken, 2001) Banks act as financial intermediaries. Therefore, banks are responsible as intermediaries to all community of stakeholders (Bernard, 1989). Hence Banks are responsible to the society at large. It is responsible not only to the Government, but also to customers, staff, shareholders and the community (Green, 1989). Accepting customer Deposits and providing Credit to many borrowers, ensuring smooth functioning of the local and global payment mechanism are functions of banking. Hoepner & Wison (2010) Banks are connected to any segment of the community through lending. They allocate funds to multiple industries, they in turn stimulate the economic growth (Jeucken,2001). Banking is a trust based business due to its complexities, nature of flawed information and vulnerable customers (Donaldson,1989). Making money is the aim of every business, and if not, it deviates from this aim, and if it is not achieved in an ethical manner, it can break the social system (Francis, 2000). The foundation of banking business is Trust, which the banks as the agents of customers are required to demonstrate in the form of good moral behavior (Chami et al, 2002). As per Green 1989, banks extend its responsibility to government customers, communities' shareholders and staff. During the financial crisis of 2008 the public and media started paying favorable attention towards Ethical and Social banks. In certain parts of the globe the de-regulation of banking increased the risk taking by bankers to enhance the returns to shareholders at the cost, of another segment of stakeholders of the society (Green,1989) Free market economy coupled with less cautious regulatory surveillance helped banks to engage in speculative trading activities than providing service to the community (Lynch,1991). Arcand et al (2012) asserted that the reason for global financial crisis was the growth of banks at a higher rate than that of country's economy.

Banks are finding ways to reduce their cost of raising capital by engaging in regulatory arbitrage (Jones, 2000). It is the risk – reward structure of the banks that weigh the reward against the risk, the higher the risk higher the profit. Banks engage in morally undesirable practices such as speculative business and poor lending practices which are unacceptable (Brennan, 2003). Basel 1 was replaced by stringent Basel 2 and then by more stringent Basel 3, which will be in force in 2020. Although the regulatory requirement was able to regulate risk capital but was not sufficient enough to cover banks from risk (Stiglitz,2003). It manages the risk appetite of banks yet it is considered to be inadequate (Barth et al..2004). Regulators boast about Basel 3 as "the most comprehensive regulatory package for banks" yet bankers object it (Westlake, 2013). It is not only the capital adequacy that banks must maintain; they are expected to enhance the quality of life of people by mandatorily practicing their operations ethically (Jemali, 2007).

Social responsibilities

Banks need to serve the stakeholders including the society at large by engaging in responsible banking practices which will ensure fair lending and pave the way for financial inclusion (Schoenmaker &Werkhoven,2012). Bank business models were questioned for their excesses and non-sustainable risk taking (Engelen et al. 2011). There had been instances of International banks failure to extend required retail services to customers and also becoming a burden on public resources (Enrich et al. 2012; The Socialist 2012).

Different multifaceted approach involving structural, cultural and technical dimensions was required to correct the predicament of the Banking Sector (Erturk et al (2012). The civil society representations demanded banks to be more responsible in considering high social and environmental standards when providing loans for projects (Barnes, 2009). This increased public awareness. These pressures made banks to be more amenable and to expand their conventional business management peripheries (Harvey, 1995). There can be a misconception that CSR activities of banks are part of ethical banking, which is more of an ethical correction to boost the corporate image (Carnvale et al, 2011; Scholtens, 2009). Traditional Banks get a competitive advantage by engage in CSR activities which add value (Perrini et al., 2006). CSR has now developed to involve environmental and social activities and it also caters to the shareholder interest. The bankers had not handled CSR superficially (Rahaman et al,2004). Hence a cultural change is required (Rahaman et al., 2004). It was observed that banks display of its behavior as socially responsible is for the purpose of using it in their marketing to increase their financial returns (Reing & Tilt 2009; Ogriek2002).

Environmental responsibilities

Sustainability was not limited only to the environment; it includes other components as well. UNEP (1992) statement requires the banks to ensure adopting right environmental practice. The statement has recognized the importance of sustainability. Banks must engage in sustainable development by not meeting the requirements of present generation with resources of future generations and they should be made top priorities of banks. The damage to environment is not caused by functioning and continuance of business of banking but by its desire to make high profits. These high profits can come from the bankers irresponsible lending to industries, individuals, businesses who are engaged in producing materials that are hazardous and pollute the environment or they engage in finance trade related transactions to import/ export these materials. Sarokin & Schulkin,(1991), Smith (1994) were of the opinion that there had been a growing concern and consensus among the academic community that it was banking businesses indirect involvement that caused environmental degradation. Environmental Groups and certain NGO's are now monitoring and setting environmental standards (Hart, 2007) Changing Weather patterns, Depletion of Ozone Layer, Air Pollution and increase in natural calamities are the reasons for general public to be concerned about the damages caused to the environment. This made the public to think that business too is responsible to safe guard the environment and has a role to play (Shrivastava, 1995). Due to pressure groups' influences and the heavy lobbying by NGOs' for banks to be responsible environmentally and socially in their credit granting, a declaration was made– *"The* Collevecchio *Declaration on Financial Institutions sustainability" (*Bank Track). This Declaration has 6 principles as follows, Commitment to - sustainability, to 'Do no Harm', Responsibility, Accountability, Transparency and Sustainable Markets and Governance. Further major financial institutions including banks have signed the UNEP financial initiative for responsible investment. To incorporate ESG (Environmental, Social and Governance) issues into Investment Practices, following six Principles for Responsible Investment developed by investors for investors and are a voluntary and aspirational set of investment principles (www.unpri.org).

The environmental risk had encouraged the banks to identify impact on environment in credit appraisals (Coulson and Dixon, 1995). The matters with regard to environment and credit have been integrated using different lending basis (Hill et al, 1997). Watchman et al (2007), Scholtens & Dam (2007) opines that banks are encouraged to identify the impact to the environment due to lending and they are required to manage risk associated with their lending. Banks too have a major part to play in raising standards of the environment (Wanless, 1995); UNEP, 1992, 1995; Vaughan; Wanless, 1995). Banks cause limited damage to the environment directly, yet they are indirectly responsible for their lending, if those borrowers cause damage to the society and environment (Idowu, Filho, 2009). The banks through their lending activities involve themselves in degrading the environment. (Cowton, 2008). Banks are required to be watchful of the effects of their direct involvement on damaging the environment and effects of their credit gratings on the degradation of the environment (Thomson and Cowton, 2004). In fact, banks can perform the role of an environmental policeman, yet it is beyond their scope of operations (Wanless, 1995). It is believed that good environmental performance reflects good management and indicates that they follow the trend, which facilitates them to solicit new business (Spencer & Cooke, 1994). Companies are now enthusiastically viewing environmental issues (Nidumolu et al (2009). It can be a challenge for the investors and lenders to find, organizations that engage in environmentally friendly business operations and organizations that are concerned about the environment.

Ethical responsibilities

It is also noteworthy that banks also have subscribed to the 'Equator Principles' a framework for banking industry when financing projects to address risk associated with environment and society. The idea is to have the lowest level for due diligence in decision making, while responsibly assessing risk. Complexity of Business of banking makes it difficult to identify a borderline between what is legitimate and what is not (Carse, 1999). Despite the importance of ethics in business, not much attention had been paid to ethics in business (Boatright, 2008).

Conventional Banks engage in the whole gamut of banking activities (Hoepner &Wison, 2010). It has a set of quantitative objectives, focuses on maximizing profits and market share; hence it maintains high risk investment portfolios. The organizations which operate in financial markets do not consider solidarity, inclusivity and social justice as important. These organizations are less concerned about the degradation of the environment. It can be argued that Conventional Banks too had not considering these elements as important (Karl, 2015). Many experts promoted strict regulations for adventurous financial instruments and risky credit policies (Hogan and Sharpe, 1989). The growing credit portfolios had increased Conventional Bank Risk (Kohler, 2015) It is noted that stringent regulations and strict supervision increase the cost to the banks and it resulted in banks taking higher risks (Shrieves & Dahi,1992; Jacques & Nigro,1997). The bankers' stakeholder base is not screened for environmental and societal damages caused.

Nevertheless, Ethical Banks have financial and social objectives. They encourage ethical behaviors of all stakeholders; they refrain from engaging in anti-social, environmentally damaging business relationships, and are guided by a set of ethical values. Ethical Banks also engage in all form of banking activities which fall under their defined areas. (Barbu and Boitan, 2009) Conventional banks pursue Financial Goals and Ethical Banking tries to increase the magnitude of performing credit to enterprises which follow ethical principles (Karl, 2015). As per Pallet et al (2015) the last economic meltdown had not impacted the institutions engaged in ethical banking. The ambitions of Ethical Banking should be different from Conventional Banking (Cowton & Thomson, 1999).

With democratic transformations and upsurge of nationalism the empowered Knowledgeable stakeholders call for more facts about their environmental and social performances of Banks, as they feel that banking is too delicate and crucial to leave it with bankers only (Archua, 2012). Banks can lend to projects which are long term in nature and the returns of those are also long term and add value and credibility to the bank and the society (Von Mettenheim & Butzbach, 2012). A participatory, transparent system was necessary in banking, to allocate resources to identified areas, which will ensure economic, social and environmental performance (Barresi and Marisca, 2011). It is the idea of many that participating in the eco industrial revolution will give profits and a competitive advantage (McClosky et al., 1993).

Ethical banks and Conventional Banks have different objectives in allocating their assets for profit making. Ethical Banks maintain high transparency and allocate assets to make social profits; this distinguishes them from Conventional Banks. (San-Jose et al, 2011). Kendric (2004) Cowton & Thompson (2001) Green (1989) suggested that information Transparency embraced an unchanging approach to interdependence and relatedness of economic and social aspects and activities of Ethical Banking. Another area where ethical banks differ from Conventional Banking is its transparency (Neu Berger,1998).

Banks considered that it is important to maintain business ethics apart from practicing sustainable development practices. Banks are expected to follow ethical guidelines of its profession and maintain honesty, integrity and accountability, ensure fairness and social responsibility which are organizational ethics (Souter, Neil & Molster, 1995). It is significant that all countries consider ethical behaviors and actions of banking Sector, bearing in mind the latest bank failures and subsequent deposit outflows (Asikhia,2016). It is noted that ethics have a role to play in evolving banking industry (Cowton, 2002). There was a need for an alternate banking system which sticks to high ethical principles, ensures sustainable development and financial inclusion. Hence the need for alternate banks were much in demand. Set of banks following ethical principles emerged in developed countries in 1980's called ethical Banks. At the beginning of 20th century, there had been certain savings institutions following ethical principles (Kundid, 2014).

Ethical banking

Many authors have defined ethical banking in different ways. "Banking that aims to have a positive impact on people, environment and culture" (Weber & Remer (2011). Cowton (2002) stressed that main ethical areas of banking, are responsibility, integrity and affinity. The purpose of ethical banking is to aim for social and economic profitability (San-Jose et al (2011). Cowton & Thompson (1999) was able to identify three characteristics that the Ethical Banks should have, Social Value Creation, Involvement of Stakeholders and their active engagement in decisions made and accepting another type of collateral to support borrowings. There is no formerly agreed common definition on ethical Banks. Academics and practitioners classify these banks under the synonym 'Social Banks. 'There is one fundamental element common in the term ‘Social Banking ‘which represents the different aspects relating to the concept of Social Change and Development (Benedikter, 2011). Ethical Banking is all encompassing and seeks to achieve Financial, social and environmental objectives, hence it has a wider perspective than other social Banks (Webber & Remer, 2011).

Tse (2011) accepted that the purpose of ethical Banking is to achieve social goals of Profit, Planet and People – the triple bottom line. which exceeds the usual financial goals. A more comprehensive definition was given in 2009 by one of co-founders of Tridos Bank (an ethical bank) De Clerk which says that “Social, ethical, alternative, sustainable, development and solidarity banking are denominations that are currently used to express particular ways of working with money, based on non-financial deliberations. They are characterized by value driven impulses and practices at the core of their business. These values are embedded in Ethical Banking products (Dobson, 1993) savers and investors of these banks are sensitive to the environmental and social issue and are keen to know where their money is invested (Edery, 2006; Lynch, 1991) Stakeholders of ethical banks are interested in other activities while few may have interest in cost control (Goulet & Frank 2002), such as financial inclusion lending to promote organic farming and Education. Money, intelligently and wisely invested as an instrument for improving quality of life, can have a major impact on human development. Because of this impact, a neutral attitude to investment and lending is irresponsible.” It is evident from this definition that ethical Banks are motivated by the development of human beings and society and their activities are targeted towards achieving this. Initially in 1992 a definition was basically proposed as “social banking is banking that fights poverty” (Refiner & Ford,1992). This definition did not cover any responsibilities of a bank towards adding value to the society and it was not specific enough. A different dimension was added in 2006 by Refiner in his later definition that social banking should enhance the people’s financial literacy (Reifner, 2006). Ethical banks had been defined as an alternative to conventional banking and its strategy includes ethical and social values (Karl ,2015). It is the aim of Ethical banking to achieve benefits to a larger section of the society by mobilizing funds which are diverted by way of credit to the environmentally, socially culturally and economically sound projects. This will and encourage sustainability and develop social inclusion, social entrepreneurship social economy.

It is the duty of Ethical Banks to make people aware about the function of money and non-succession of economy due to its aim of short-term gains. (Febea) Ethical Banks have a daunting task to find staff who identifies themselves with the values of the bank (Von Passavant ,2011). The Ethical Banking upholds the quality of life and commits to the social development as entrusted by their investors (Davies, 2001). Ethical banks are approachable, responsible and focuses more on community than Conventional Banks (Benedikter, 2011). These banks offer attractive terms for socio- environmental investments which in turn increase not only economic gains but improve the environment and society (Lins &Wajinberg, 2007). It is important that Ethical Banks take responsibility of their investments and deposits and the distribution of it (Harvey, 1995). The alternative financing offered by ethical banks for socio-economic projects are at very attractive interest rates, which will increase the borrower's profits and also it will have a positive impact on the environment and community (Lins & Wajnberg, 2007). These kinds of banks are mainly funded by small scale depositors and do not depend on interbank borrowing (Scheire and De Maertelaere, 2009). Wetting customers before accepting their money helps Ethical Banks to avoid amoral business relationships. This prevents them from accepting money originating from armaments trade (Kendric, 2004).

The economic meltdown in 2007, signified the importance of ethical Banks. Weber & Remer (2011) were of the opinion that growing clientele of Ethical and Social Banks was an ample testimony of peoples' response to the financial crisis The Ethical Banks in Europe recorded a two-fold increase in their asset base during 2007-2010 period due to its popularity among small depositors (Bendikter,2011). The importance of Ethical Banks has already been established and may increase in years to come (Kohler,2010). Ethical banks have become popular among communities as reliable banking Institutions. An ample testimony was the robustness they displayed during the last financial crisis. Due to the public, media and politicians interest received, Ethical Banks were able to organically grow and increase its market share (GABV, 2012). Ijeoma, (2014), Rodriguez Gutierrez (2013), Borgia (2013) opine that Ethical banks have gained customers due to the irresponsibility and negligence of conventional banks. Hargreaves (2008), Carboni (2011), Benedikter (2011) Goff (2012) stated that the academics and media attributed this growth as a reaction to the financial crisis. These banks are accepted not only because of the trust between depositors and bank officials; it is also due to the social returns other than economic returns (Davies, 2001). Depositors of these banks willingly forgo major part of their interest as far as Ethical Banks Fund attract customers who seek funds for socially beneficial projects (Cornee & Szafarz, 2013).

Ethical Banks distinguish themselves from Conventional Banks in many ways such as distribution of assets, stakeholder participation, management of risk and transparency (San-Jose, Retolaza & Gutierrez-Goria, 2011). Ethical Banks have proven their stability during and after the financial crisis and for an unstable financial system it can be a solution. (Fessmann, 2013). Karl (2015) was of the opinion that Conventional Banks ignored the concepts such as social justice and solidarity. Savers of ethical Banks accepted low interest for deposits and borrowers received funds at low interest, and these morally sound processes were results of common values shared by borrowers and Ethical Banks (Cornee &Szafarz ,2014). Ethical Banks expertise on sectoral credit, helped to improve the quality and monitoring of portfolios (Acharya et al,2006). It also broadly involved their stake holders such as employees and shareholders in their management strategies through structural and procedural adjustments.

The Table 1 below identifies the basic differences of Conventional Banking system and an Ethical banking System.

Table 1: Comparison of conventional banking with ethical banking

Conventional banking Vs. ethical banking

Conventional commercial banking

- Customers, Employees and Investors are the beneficiaries
- Seek short term profit maximization, preferably quarterly basis.
- Hide behind the customer confidentiality not to divulge how funds were applied and to whom they were given
- customer funds are utilized to finance loans and advances.
- Treat customers as transactional profit centers
- Stiff structures prevent banks from attending to the needs of the society and allow credit granting to boost their image
- Stiff organizational structures of these banks encourage working in compartments

Ethical banking

- Promotion of economic activities
- Promotes financial inclusion
- Aims for favourable effects on Environment
- Encourages Sustainability
- Fights poverty
- Enhances peoples Quality' of life
- Does not engage in speculative banking
- Maintains transparency
- Screens customers for human rights violations, amoral businesses and environmental damages
- Ensures equality in remunerations

Source: Barbu and Boitan (2009) FEBEA

3. Discussion

Conventional Banks cover an entire range of banking activities. (Hoepner & Wilson, 2010). They supported the economic growth (Jeucken, 2001), yet they neglected certain segments of society. Civil society demanded banks to involve all stake holders and engage in responsible lending practice which will ensure financial inclusion of all societies (Schoenmaker &Werkhoven, 2012). Conventional banks paid shareholders at the expense of another segment of stake holders(Green 1989). It was found that Conventional Banks engaged in high risk lending (Kohlerl,2015, Engelen et al. 2011) and speculative business activities (Brennan,2003). A bank's presence had not affected the environment badly, but its irresponsible lending had degraded the environment (Cowton, 2008, Sarokin & Schulkin, 1991; Smith, 1994). The Conventional Banks had been ignoring the concepts of social justice & solidarity **(**Karl, 2015). Weber & Remer (2011) opined that the Alternative Banking systems were emerging to make a progressive effect on environment, people's life and culture. There was a requirement of a transparent system of banking which ensured economic, social and environmental performance (Barresi & Marsca, 2011, Engelen et al. 2011).

Ethical Banking was emerging as a different form of banking. Cowton (2008) identified that the main areas of Ethical Banking are responsibility, integrity and affinity. San-Jose et al, (2011), Cowton (2002), Tse, (2011) confirmed that Ethical

Banks are not only motivated by financial profits, their aim was to have both gains for the society and the economy too. These Banks were accepted by society not only due to the trust, but also due to their earning social profits along with economic profits (Davies,2011). Ethical banks funded socially beneficial projects (Cornee & SZafarz, 2008., Lins & Wajinberg, 2007) and they did not engage in amoral business relationships (Kendric,2004). The financial crisis in 2007 due to inefficiencies of Conventional Banks increased the demand for Ethical Banking. Webber and Remer (2011) argued that growing clientele of Ethical Banks was the response to financial crisis. Ijeoma (2014), Rodriguez Gutierrez (2013), Borgia (2013) were of the view that the increase in Customer portfolios of Ethical Banks were due to irresponsibility and negligence of Conventional Banks . The Customer demand for ethical alternative in banking is increasing. Kholer (2010) was of the opinion that the importance of Ethical Banks is already established. Ethical Banks increased their asset bases due to increasing number of customers moving from conventional banks to Ethical Banks. This was evident as the asset base of Ethical banks in Europe had doubled from 2007-2010 due to its popularity among small depositors (Benedikter, 2011). As per Fessmann (2013) Ethical banks had proven their stability during and after the financial crisis. Therefore, it could be an answer to the failing mainstream banking system Karl (2015) identified Ethical banking as an alternative to Conventional banking. There is a growth of ethical banks. As per Kholer (2015) the presence of Ethical banks may increase in the years to come.

The trend in banking indicates that banks are now moving towards eco-friendly, transparent, ethically operated banking systems which will provide financial inclusion to all societies. Comparison of Conventional Banks and Ethical Banks confirms that Ethical Banks aims not only at economic profits but social and environmental profits too. Also, ethical banking is more socially, environmentally and culturally oriented alternative banking concept. Literature highlights the failure of conventional banking in certain key areas, their involvement in speculative trading and excessive risk taking has paved the way for an Ethical alternative; hence Ethical banks are emerging as an alternative to Conventional Banking.

4. Conclusion

The objective of this paper was to find whether Ethical banking can be an alternative to Conventional Banking. This is a desk research in the form of a literature review based on literature published between 1989 – 2015. As summarised in the table 1, and the literature reviewed it can be observed that in its drive to maximise profits Conventional Banks have neglected a part of society, environment and culture. Their lending to environmentally hazardous, morally unsound business ventures, violators of human rights and armament manufacturers have affected the sustainability of the earth and the mankind. The short-term profit making of Conventional Banks has distanced a part of society from receiving banking services. There has been growing demand from civil society for banks to be more ethically oriented. Different types of banks were emerging as an alternative to Conventional Banking. It is apparent from literature that Ethical Banking is one such system of banking which has gained popularity over the years. The purpose of Ethical Banks is to achieve a sound triple bottom line, sustainable growth and financial inclusion. The financial crisis 2007 had happened as a result of a falling mainstream banking system. As per the reviewed literature it was evident, comparatively Ethical banking was resilient than Conventional Banking during the financial crisis. Ethical Banks are accepted as an alternative to Conventional banking since they are not only motivated by economic profit but by social and ecological profit. Based on the above findings, the researchers conclude that Ethical Banking will be an alternative to Conventional banking. There had been many researches carried out in western part of the world on this subject, but very few were available in the eastern part of the world. Researchers could not find any research done in Sri Lanka on the same subject; hence this conceptual paper fills this gap. This Research may help Banks to re-assess their roles as responsible corporate citizens and ethically orient the businesses of banking. There is a need for a research to be carried out in Sri Lanka to identify whether Ethical banking once introduced could be presented as an alternative to Conventional Banking. For further research, these findings can be investigated using empirical data.

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