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Is Ethical Finance the Answer to the Ills of the UK Financial Market? A Post-Crisis Analysis

Abdul Karim Aldohni[1]

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Abstract The 2008 financial crisis exposed the dark side of the financial sector in the UK. It brought attention to the contaminated culture of the business, which accommodated the systemic malpractices that largely contributed to the financial turmoil of 2008. In the wake of the crisis there seems to be a wide consensus that this contaminated culture can no longer be accepted and needs to change. This article examines the ills of the UK financial market, more specifically the cultural contamination problem, which was uncovered by the 2008 financial crisis, in order to explore its genesis and the suitable solutions for it. In this regard, the article analyses the ethical finance sector from theoretical and practical perspectives in order to assess its role in addressing the cultural contamination problem of the UK financial market.

Keywords 2008 Financial crisis · Cultural contamination · Individualism · Accountability · Ethical finance

Introduction

Traditionally, the banking and finance business has been predominantly established on the basis of a number of fundamental concepts, namely prudence, trust, honesty and responsibility (Cowton 2002; Ellinger et al. 2011, pp. 119–127). Clients, whether individual savers in a high street commercial bank or high net worth investors in an investment bank, deal with their bank because they trust this institution with their financial affairs. By the same token, lending, which is the substratum of banking and finance business, is also primarily based on banks trusting their clients. The existence of these fundamental concepts of the business, however, has been significantly challenged by the unfolding events of the 2008 financial crisis.

The 2008 financial crash had reverberating consequences that were visible at different levels across the global financial markets. In the UK financial market, for example, the 2008 global financial crisis exposed the defects in the legal and regulatory structure of the UK banking and financial sector. As a result, the UK's financial regulatory structure was redesigned in order to enable it to better supervise the market and protect its participants, whereby the then chief regulator Financial Services Authority (FSA) was replaced by two new regulatory bodies—the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA), with the latter established as a subsidiary of the Bank of England (HM Treasury 2012). Further, there were some significant changes in the UK financial market landscape among which the disappearance of some of its main regional players, for example Northern Rock in the North East of England, which was fully nationalised and then sold to Virgin Money (Goff 2012); the partial nationalisation of some of the major institutions of the banking market, for instance the Royal Bank of Scotland; and the break-up of some of the large banking institutions, such as Lloyds TSB.

Finally, and most importantly for the purpose of this article, the 2008 financial crash uncovered a questionable business culture that, to a certain extent, dominated the business practices in the UK financial sector in the run up to, and even during, the financial meltdown. It became evident that the prevailing financial business culture was remotely distant from the fundamental values upon which

✉ Abdul Karim Aldohni
a.k.aldohni@ncl.ac.uk

[1] Newcastle Law School, Newcastle University, Newcastle upon Tyne, UK

the sector was originally established. As discussed later, there were wide spread instances of reckless, manipulative and even fraudulent practices, which were systemic in nature.

This article's argument is twofold. First, considering that the genesis of the 2008 financial crisis was not only regulatory but also cultural in nature, it is argued that any response to the crisis should also address the endemic cultural contamination in the financial business. This article argues that re-enshrining the fundamental ethical values in the business ethos of this sector could be an effective way of addressing this questionable culture of the UK financial industry. This leads to the second part of the argument, that is, the process in which these values can be re-enshrined and the role of ethical finance in this endeavour. This article argues that the ethical finance sector in the UK should not on the basis of its title be automatically presumed to be the solution or part of the solution. It, therefore, examines the ethical finance sector in the UK from conceptual and practical perspectives and provides a critical assessment of its potential contribution to the solution of the business cultural problem. Accordingly, the article is structured as follows.

Part II exposes the ills of the UK financial market in the run up to the 2008 financial crisis demonstrating the genesis of the 'cultural contamination' problem in the UK financial market. Part III analyses the notion of ethical finance examining whether it is paradoxical by its nature. Part IV analyses the application of the concept of ethical finance in practice charting the development of the ethical finance sector in the UK market. Part V critically assesses whether ethical finance could be part of the solution to the 'cultural contamination' problem, by judging the ethical finance sector according to its ability to deal with the two ethical problems which were identified in Part II and found to be at the heart of the contaminated culture of the finance sector, namely individualism and unaccountability. Part VI concludes the discussion highlighting the prospects and challenges faced by the ethical finance sector in the UK.

The Ills of the UK Financial Market: the Problem of 'Cultural Contamination'

The unfolding events post 2008 revealed some shocking stories about the market players' behaviour in the run up to the 2008 financial crash, which was reckless or manipulative/exploitative—to say the least—and on some occasions fraudulent.

More seriously, it became apparent from these stories that implementing a reckless business strategy was the norm among some of the major global financial institutions and banks. There were two key features of such a strategy: First, a significant increase in institutions' leverage to pursue short-term profitability (Coffer 2009, pp. 2–3; Schoen 2016). Second, and more important was, engaging in highly speculative and complicated financial structures, a practice which later became known as 'casino banking'.

In the short run, this business strategy yielded substantial benefits to the senior management of these financial institutions, as the monetary value of their annual bonuses soared. But in the long run, this business strategy significantly increased institutional exposure to liquidity and credit risks and weakened its resilience. An example in point is Northern Rock, one of the main UK mortgage banks that had pursued a high-risk lending policy. The bank reportedly provided borrowers, who were not necessarily very creditworthy, loans up to 125 % of the value of the property they wished to purchase under what was known as a 'Together' mortgage.[1]

A post-mortem analysis of Northern Rock financial transactions revealed that the main reason for its collapse in 2008 was its high leverage that was based on non-retail funding (short-term inter-bank borrowing). In addition, there was Northern Rock's involvement in securitisation which had worsened its exposure to liquidity risk (Shin 2008, pp. 3–9). Yet Northern Rock's executives enjoyed their bonuses in the same year when the bank was nationalised and made £1.4 billion loss (Kirkup 2009).

Another example of what falls within the category of manipulative/exploitative behaviour was the mass misselling of financial products, a practice which dominated the UK financial scene in the run up to the 2008 financial crash. This problem originally stemmed from the practice of cross-selling in which the seller tries to maximise their profits from one sale transaction by using the sale as an opportunity to sell another product. In principle, this practice is not itself a wrongdoing. However, a problem arises when the seller subjects its customers to undue pressure with 'hard-sell techniques', exploiting their weaker bargaining position and information asymmetry (Parliamentary Commission on Banking Standards [PCBS] Report Vol. II 2013b, pp. 88–90). The evidence which emerged post the 2008 financial crash confirmed that a large number of financial institutions were involved in this form of manipulative/exploitative practice with regard to certain insurance products, more specifically interest rate hedging products (IRHP or interest rate swap) and personal protection insurance (PPI). The investigation into this type of practice found that consumers, individuals and businesses, were subjected to undue pressure to buy these

[1] 'Together' mortgage combined a secured loan 95 % of the value of the property and an unsecured loan up to 30 % of the value of the property or £30,000 whichever was the lowest. National Audit Office (2009 p. 32); Winnett (2009).

insurance products. Further, these products were, on many occasions, presented to consumers as if they were part of the credit agreement, which they were undertaking, and that they had no other option but to take them (PCBS Report Vol. II 2013b, pp. 90–91). While in fact these insurance products (IRHP and PPI) were separate products that banks would have struggled to sell had they not exploited that one cross-selling opportunity.

In the case of PPI, banks unnecessarily sold this product to subsidise for the relatively cheap credit that they were offering. Further, evidence found some inappropriate complicated structures of IRHP were sold to business consumers who did not need them nor understand them (PCBS Report Vol. II 2013b, pp. 91, 95).

The more serious turn of events that shattered any shred of confidence left in the financial sector was the LIBOR scandal. This scandal exemplified a systemic corrupt business culture that prioritised personal gains at any cost.

In theory, the London inter-bank offered rate (LIBOR) is supposed to represent an estimate of the cost of banks' wholesale short-term unsecured borrowing from each other. The methodology used to reach this simple number is based on, first, taking submissions from a panel, which comprises the largest and most creditworthy banks operating in London, then discarding the top and bottom four and finally averaging the submissions that are left (Hou and Skeie 2014, pp. 1–2).

The significance of the LIBOR stems from a number of facts. First, it sets the borrowing rate for 10 currencies and 15 maturities (The Economist 2012). Second, it is used as a reference rate where it is relied upon globally to set the interest rate of a wide range of financial instruments (Hou and Skeie 2014, p. 2). For instance, in 2012 the US Commodity Futures Trading Commission estimated that around $350 trillion worth of derivatives and $10 trillion worth of loans were based on LIBOR (Nocera 2012). Third, the LIBOR is also used as a benchmark rate, which indicates the overall financial health of the market and relatively measures performance with regard to investment return and funding cost (Hou and Skeie 2014, pp. 2–3). In addition to these factors, there is one last crucial element, that is, the virtue of trust and how it is embedded in the very concept of the LIBOR. The LIBOR would not have had any significance if trust in the honest nature of its calculation was not a given by all participants. The honesty and trustworthiness of the institutions involved in setting the LIBOR is what gives this rate its true value. Given that what banks submit is actually an estimate of the borrowing cost this demonstrates the importance of honesty and trust to the functioning of the LIBOR, yet it also makes it very susceptible to abuse.

Unfortunately, the investigations into the LIBOR scandal have proved that trust could no longer be established since a systemic fraudulent behaviour was the dominant feature of this scandal. Traders in some of these trusted banks, such as Barclays and Royal Bank of Scotland (RBS), saw a great opportunity to secure financial gains through manipulating the banks' submissions and eventually rigging the LIBOR final fixing. By doing so those traders abused all the key features of the LIBOR. First, they manipulated the LIBOR as a benchmark rate when they submitted highly discounted estimates of the true cost of their borrowing to signal false financial strength at the height of the 2008 financial crisis (Hou and Skeie 2014, p. 6). Second, they also abused the LIBOR as a reference rate as they manipulated their submissions in order to fix the LIBOR at a figure that increased their profits, or reduced losses, in connection with LIBOR-based financial contracts (Hou and Skeie 2014, p. 6). Barclays' traders used this technique, even on occasions colluded with other banks' traders, to increase profits or reduce losses on their derivative exposures (The Economist 2012). Finally, the actions of those traders showed that honesty and trustworthiness are no longer enshrined in the business culture.

While these forms of reckless, manipulative/exploitative or fraudulent behaviour contributed to the 2008 financial crash, they are also significant in highlighting the endemic nature of this behaviour in the financial sector and the significant change that it brought to the ethos of the financial business. In this regard, it has been suggested that Northern Rock's risky mortgage lending policy was part of a wider market practice (Aldohni 2011). Northern Rock was not an outlier among other big banks in the UK in terms of using non-retail funding for its highly leveraged operations (Shin 2008, pp. 7–8). The same can be said about the mass mis-selling of PPI and IRHP where this type of practice was not only associated with one or two major credit providers—rather it was widespread among a large number of financial institutions. Furthermore, in the wake of the LIBOR scandal Barclays maintained that they tried to submit honest estimates; however, almost all banks on the panel were deliberately submitting manipulated estimates. This had created a market trend that every participant had to follow otherwise they risked looking even financially weaker than their distinctly weak counterparts (The Economist 2012).

The important narrative that the above discussion provides is that the various forms of wrongdoing that went on in the financial market were not isolated incidents committed by rogue players. Rather, they were the result of a collective process of malpractice normalisation that has eroded some of the fundamental ethical foundations of the financial business such as prudence, honesty, trust and responsibility. It can be argued, therefore, that at the heart of this malpractice normalisation process lie two key problems, namely individualism and unaccountability.

Individualism in this context refers to the prioritisation of self-interests whether by the institution or its individuals (those who act on behalf of the institution and running its business), which is in many cases primarily driven by greed and sense of entitlement. This is always associated with complete disregard by the institutions or their individuals for the broader context of their actions, namely the societal dimension.

Unaccountability in this context is a twofold problem. First, it means that financial institutions and their individuals are unaccountable for the long-term consequences of their actions. They are handsomely rewarded through the remuneration system for their short-term success, which is not always a true representation of their performance, while they hardly receive any penalties for the long-term effect of their short-sighted strategies (PCBS Report Vol. I 2013a, p. 9). Second, it also entails the inability to hold individuals accountable for fulfilling the long-term commitments of their institutions. Accordingly, any solution that does not address these two core problems (individualism and unaccountability) is bound to fail given their epidemic nature in the financial sector and their role in fuelling the highly questionable practices of the market participants in the UK.

In this regard, there have been recent calls by highly influential individuals, such as the Archbishop of Canterbury Justin Welby and the Governor of the Bank of England, to pay more attention to the underlying culture of the financial sector. The Archbishop identified two key issues in this respect, first, the need to address the 'cultural contamination' in the financial business, and second, the need to re-introduce ethical values into the vision of the financial industry as part of the solution to the problem (Welby 2014, pp. 3, 7). These emerging themes have also been echoed by the executive authorities. The Governor of the Bank of England, Mark Carney, spoke on a number of occasions about the systemic nature of the misconduct that took place in the financial market, which hugely undermined public confidence and created a clear sense of mistrust among participants (Carney 2015, p. 4). Mr Carney has also identified the reinvigoration of the ethical dimension of the financial business as an important part of reinstalling confidence in the finance business (Carney 2014, p. 8), a process that the Bank of England has already taken some active steps to effect, such as the establishment of the Banking Standards Review Council (BSRC).[2] This Council is set to 'work with banks and encourage a process of continuous improvement, and regularly assess and disclose the performance of each bank under the three broad headings of culture, competence and development of the workforce, and outcomes for customers' (Carney 2014, pp. 9–10).

There is no doubt that this shows a clear realisation of the fact that the ethical grounds of the financial sector are not a luxury, which markets can do without or ignore, but rather are a necessity. Therefore, it is essential to explore how best these ethical grounds can be reinvigorated in the UK financial sector. In this regard, the rest of the article examines whether the ethical finance sector could have an important role to play in this quest. In other words, before advocating the promotion of this sector as a part of the solution to the contaminated culture of the UK financial sector, it is essential to establish its immunity to the two key problems, individualism and unaccountability, of this culture.

Understanding Ethical Finance

'Can finance be ethical?' and the alternate, 'Why would finance not be ethical?' are two simple questions, but their answers are far from simple.

Addressing these questions requires understanding the meaning of ethics and its position in the financial business context.

The concept of ethics or morality is complicated and perplexing, since there is not a universal agreement on everything that qualifies as moral or ethical. Further, there is not even an agreement on the criteria that should be used in the conceptualisation process of these notions (i.e. morals or ethics). It is important to note that ethics and morality are used interchangeably in this context considering that morality includes ethics and vice versa.[3]

In this regard, there are a number of philosophical approaches to dealing with this pressing issue. For instance, moral cognitivism argues that individuals' judgment of what is moral is aimed at truth rather than morality; therefore, moral judgments are cognitive in their aspiration (Wiggins 1990–1991, p. 62). Moral realism, however, is founded on the premise that there is a moral reality, objective moral truth, which people try to uncover while they are making judgements about what is right and wrong (Shafer-Landau 2003, p. 13). According to realists these moral judgments—right or wrong—are objective and independent (Boyd 1988, p. 182).

On the other hand, moral relativism disagrees with the key premise of moral realism, namely the existence of objective and universal morals or ethics that are in need of

[2] It was launched in 2014 and is funded by the UK's largest seven lenders. Carney (2014) p. 9. See also Goff (2014); Dunkley (2015).

[3] Ronald Dworkin advances this point further by considering ethics to be concerned with the standards that they should follow to live well, while morality is concerned with the standards of treating others. See Dworkin (2011).

uncovering. The starting point for relativists is that there are irresolvable moral disagreements (Sturgeon 1994, p. 94). In Gowans' description of the three aspects of moral relativism descriptive moral relativism (DMR), meta-ethical moral relativism (MMR) and normative moral relativism (NMR) (2009), one can further understand the key premises of moral relativism. First, DMR advocates that the disagreements among societies with regard to their moral judgments outweigh the significance of any existing agreements in this respect. Second, MMR argues that the truth and falsity of moral judgments is a relative matter that is influenced by traditions, convictions or practices of a group or a person. Finally, NMR endorses tolerance towards those whose moral judgments we reject when differences cannot be rationally resolved, and this also extends to their actions that reflect these views (Gowans 2009; Aldohni 2014).

It can be argued, therefore, that moral relativism provides participants in the financial market with a rather convenient foundation for their behaviour. The relativity of the truth and falsity of any moral judgements creates a grey area in which they operate. As long as their actions are approved by their peers in the business community, then outsiders in the wider society cannot and should not judge the ethicality of these actions. Further, those who are not part of this business culture or environment should tolerate the actions that reflect moral views they reject.

Despite the pragmatic sense that moral relativism conveys, the 2008 financial crash has demonstrated how adopting this relativist approach to define the ethical boundaries of the finance industry brought catastrophic results that went far beyond the financial market. It has been suggested that although the argument of the objectivity of moral standards (moral realism) has not yet proved to be universally persuasive, it is rather incomprehensible to think that individuals post 2008 financial crash are incapable of objectively identifying the wrongs in the finance business culture (Jackson 2010, p. 759). Accordingly, it has been argued that the ethical foundation of the financial sector needs to be re-established on three grounds: moral virtue, human dignity and common good (Jackson 2010, p. 759).

As for moral virtue, this concept could be rather problematic as it raises the perplexing debate that realists and relativists have long grappled with, that is, the objectivity or relativity of moral virtue. However, applying Aristotle's definition of moral virtue could provide some needed guidance to deal with this challenge. In the 'Nicomachean Ethics', Aristotle sets out the foundation of moral virtue as moderation, and therefore, he describes moral virtue as a means that holds a middle position between two vices that are deficiency and excess (Aristotle, translated by Peters 1898, p. 55 and Jackson 2012, pp. 205–207). It can be argued, therefore, that although the exact location of a middle way might be a relative matter, the extremes that should be avoided are not. For instance, it is a given that a bank should lend to individuals and businesses and by not doing so its actions will be deficient. On the other hand, lending mortgages to non-creditworthy borrowers, up to 125 % of the value of the property they wish to purchase, is no doubt excessive. In other words, while exactly 'hitting the mean' (Aristotle, translated by Peters 1898, p. 46) could be a relative matter, neither of these two scenarios, that is not to lend at all or to lend excessively and recklessly, can be considered as a form of moderation (i.e. neither has moral virtue). This interpretation of the concept of moral virtue maps onto one of the key foundations of the financial business, that is, prudence. Banks that pursue moderate strategies and avoid being deficient or excessive in their practices can be described as prudent institutions.

With regard to human dignity, given that it is an imperative aspect of the conception of human rights (Preamble and Article I of the Universal Declaration of Human Rights; McCrudden 2008, pp. 655–679; Nickel 1987, p. 4; Nickel 1982, p. 262; Cohen 2008, pp. 582–582; Donnelly 1982, p. 303), it can be argued that preserving human dignity should be considered the starting point of any human interaction regardless of its context whether it is financial, social, political, economic, etc.

In this regard, protecting human dignity primarily depends on two considerations. First, there is a social aspect to human dignity, and therefore, each individual should be perceived as essentially connected to society. In other words, protecting individuals' dignity means maintaining a dignified society. Second, and more importantly, individuals should be treated as an end rather than as means to an end (Jackson 2010, p. 761). Robin has considered 'respect for individuals' in a free market 'capitalistic' business context as fundamental to the meaning of 'being ethical' (Robin 2009, pp. 142,144).

These considerations should have a major role in shaping the behaviour of the financial business as there are a number of examples that demonstrate the lack of attention to human dignity in the current financial business culture. Take, for instance, the mis-selling of some inappropriate complicated structures of IRHP to business customers, the mis-selling of complicated financial products to pension funds and the pension annuities mis-selling scandal that is being investigated by the FCA. In all these examples, financial institutions took a very individualistic approach in treating those consumers without considering the wider social impact of their mis-selling of these financial products. In other words, no consideration was given to the collective social impact that the mis-selling of these products would have, for example, where pension funds are unable to pay pensioners whose all pension savings are

invested by the fund, or where the pension annuity does not provide the expected security to its buyer.

Further, they treated their consumers as a means to achieve financial gains where no consideration was given to the suitability of these products to those consumers who later encountered significant losses.

The conceptualisation of the envisioned ethical foundation of the financial sector cannot be complete without examining the concept of common good. The literal definition of this concept seems very straight forward; the term 'common good' suggests 'everything that is good to more than one person, that perfects more than one person, that is common to all' (Argandona 1998, p. 1095). However, articulating the application of the concept of common good in practice, particularly in the financial business sector, is not as simple as the literal definition may suggest. It would first require understanding the genesis of this concept then examining its application in the finance context.

Given that individuals do not exist in isolation of their peers, it is essential to recognise the nature of the relationship between individuals and society, which is the sphere in which they exist and interact with their counterparts. There are different views with regard to the nature of this relationship. On the one hand, for some, the existence of society is based on a social contract according to which individuals cooperate only because they cannot survive on their own. This means that the relationship is 'a pact between equals for the purpose of mutual self-help, culminating in the surrender of part of each one's personal freedom to the State, in order to guarantee their collective protection in the pursuit of their personal aims' (Argandona 1998, p. 1094). The striking feature of this theory is that there is no place for common good since the social order is reduced to an abstract means that only facilitates the pursuit of individual interests (Argandona 1998, p. 1094).

On the other hand, collectivists would argue in favour of the extreme opposite view. They subdue the individual to a mere component of the social mosaic where individuals and their interests are subordinated to the social (Argandona 1998, p. 1094). Individuals' identity, therefore, becomes based on their membership of the social organism (Oyserman et al. 2002, p. 5). Accordingly, it can be argued that this view produces a distorted concept of common good. This is because it does not acknowledge the role of individuals' interests in shaping the concept of common good. It is also unnatural and unrealistic to presume that individuals' quests can be only driven by the interest of their group.

It can be suggested, therefore, that the relationship between individuals and their society is positioned somewhere midway between these two extremes where neither individual nor society would be totally subordinated to the other. Consequently, common good would be a multi-layered concept in which the individuals' endeavour to achieve their personal objectives is an integrated part. Having said that this does not mean simplifying the concept of common good to a mere aggregate of private goods of each member of the society, which has been described as a 'weak utilitarian' conception of common good (Velasquez 1992, pp. 28–29). In this regard, those who do not subscribe to the utilitarian conception of common good argue that common good means maintaining the general conditions of social living that help individuals optimise their potential while ensuring that these conditions are communal to all individuals (Rawls 1971, p. 246; Jackson 2010, p. 763; Velasquez 1992, pp. 29–30).

Applying this conception of common good in the context of financial business would have some positive effects on the functioning of its institutions. Take, for example, banks, each bank should be aiming to achieve common good, which in this context means to fulfil the purpose of the institution in creating conditions that allow individuals (their clients) to achieve their personal goals (Argandona 1998, p. 1097). Accordingly, banks should be focusing on facilitating finance and fulfilling their primary intermediary objective, which allows other individuals and businesses to play their role as well in achieving common good (i.e. creating opportunities, for example jobs, for other individuals to optimise their potential). Individuals who are involved in running these banks, whether shareholders or managers, should be aiming to achieve this conception of common good so they can have their private good and personal objectives also realised in the form of rewarding salaries, bonuses and shareholders' dividends. In this regard, those individuals should not lose sight of the primary purpose of their institutions, namely linking finance with real productive economic activities, as their means to achieve their personal good. This is a rather critical point in the business dynamic of the financial sector, which unfortunately was not actively observed by the financial market participants in the run up to the 2008 financial crash.

It has been suggested that the 'noble economic function of intermediation' had taken a back seat as the focus of these financial institutions and their members shifted towards high-risk financial activities with hardly any real economic benefits (Aziz 2015); a shift that was solely driven by the relentless pursuit of private good with no consideration for the conception of common good, that is, ensuring the general conditions that allow all individuals to optimise their potential. Consequently, 'the gains from excessive risk-taking were privatised among the few while the losses were socialised [nationalised] among the many' (Aziz 2015).

This shift has not only had some devastating economic effects but also some major social repercussions. The Governor of the Bank of England, Mark Carney, spoke

about the loss by the financial industry of its own 'social license' (Carney 2015, p. 4). In his speech '*Building real markets for the good of the people*', he highlighted the need of the financial markets for 'social consent' in order for them to operate and grow. Therefore, Carney highlighted the steps that should be taken to re-build—what he called—real financial markets. One of the key issues identified in this respect was the need to re-establish the link between the financial markets and society (Carney 2015, p. 4). This notion has long been enshrined in the foundation of the market economy thinking, yet the free marketers, in the period preceding the 2008 financial crisis, seemed to have forgotten all about it. Adam Smith in '*The Theory of Moral Sentiments*' drew on the interdependent relation between one's own interest and the preservation of society (Smith [1757] 2009, pp. 106–107). In this regard, Smith's argument had a clear moral or ethical dimension and was not by any means purely economic (Smith [1757] 2009, pp. 156–180).

This leads to the original question that the discussion in this part is set to address, namely '*Could finance be ethical?'*

As discussed earlier, there are three key elements that the financial sector should observe in order to operate within acceptable ethical parameters, which are moral virtue, human dignity and common good.

In reality, there is nothing to suggest that the financial business is by nature contradictory to these three elements. The malpractices and misconducts in the financial sector should not be accepted, or even considered, as a mutation to the original nature of this business regardless of the level of their widespread use. It can be argued that the finance business was originally founded on the basis of moderation. Making sound decisions to intermediate between investors and entrepreneurs requires a high level of moderation and common sense to avoid the extremes. Further, respecting customers and addressing their needs are the original source of the 'social license' of any business and the financial sector is no exception. Finally, the entire existence of the financial sector, in the first place, is based on the theory of free market economy. It is the same theory that clearly acknowledges the interdependence between the preservation of society and the advancing of self-interests. Therefore, since the financial sector stands as one of the main engines of the free market economy, it is difficult to accept that the concern with the prosperity of the whole society does not equally apply to the functioning of this sector.

To sum up, there are some widely acceptable ethical parameters that the financial sector can naturally function within. However, the strong sense of individualism and the lack of any accountability seem to have tainted the ability of the sector to observe these ethical foundations, which are, arguably, part and parcel of any business including the finance one.

The next two parts will examine the emergence of the ethical finance sector in the UK, its premise and functions. The ethical finance sector will also be judged according to its ability to deal with the two key problems, individualism and unaccountability, that seem to have tainted the financial sector and largely contributed to the financial crash of 2008.

The Origins and Practice of Ethical Finance in the UK

It would be an oversight to examine the ethical finance sector in the UK without referring to one of the very early pioneering institutions in this respect, that is, the Co-operative bank.

The establishment of the Rochdale Equitable Pioneers Society, in 1844 by 28 working men as a retail society, set a pattern for other retail societies and formed the foundation of the Co-operative movement (Harvey 1995, p. 1006). In 1863, the amalgamation of these retail societies formed the Co-operative Wholesale Society (CWS) to which the origins of the Co-operative bank can be traced back. The Co-operative bank was initially established as the CWS Loan and Deposit Department (The Co-operative Group 'Our History'), providing banking services to the other CWS departments and retail members. The turning point in the nature of its business came in 1971 when it was registered as a separate-wholly owned subsidiary of the CWS, which made its banking services available to the public (The Co-operative Group 'Our History' and Harvey 1995, p. 1006). Considering its roots in the Co-operative movement in the UK, the Co-operative bank, since it became open to the public at large, distinguished itself from its counterparts on the basis of its wider societal commitments. The bank has always considered the long-term effect of its investments and their impacts in the wider social context, which means that profit generation was never the bank's only drive. Therefore, the bank is committed to promoting social and economic development in Britain, which entails supporting charities, credit unions and community finance initiatives. Around 60 % of the credit union sector relies on the Co-operative bank for the supply of banking facilities (the Co-operative Bank 'Our Ethical Policy'). The bank also supports initiatives that help finance small businesses and social enterprises that focus on the promotion of local economies and the creation of employment opportunities within the local communities (the Co-operative Bank 'Our Ethical Policy').

The bank excludes many investment opportunities in lucrative industries due to their long-term adverse effect on

societies, such as the tobacco industry and cigarette manufacturing, and arms manufacturing and its export trade. Further, the bank also refuses to deal with oppressive regimes or governments as a manifestation of its human rights commitment (Harvey 1995, p. 1008). The bank's ethical policies are referred to in the Articles of Association which makes them enshrined in the bank's constitution. It must be noted that the ethical finance movement, in general, has evolved over the years to include a wider range of the socially concerning issues beyond just issues such as gambling and tobacco (Chelawat and Trivedi 2013, pp. 34–35). This can be seen not only in the evolution of the Co-operative ethical policy, which has now a clear environmental focus, but also in the ethical agenda of other ethical financial institutions which now includes not only environmental but also cultural objectives.

In addition to the Co-operative bank, there are other ethical financial institutions that operate in the UK market. Take, for example, Bristol-based Triodos, a Dutch ethical bank which opened its first branch in the UK 1995, which has sustainability at the heart of its business. Triodos' business strategy is based on investing in the community that it operates within, in order to promote the quality of life for its members. Triodos provides finance to 'microfinance banks in developing countries, innovative fair trade enterprises and social housing providers'.[4] Triodos extends its sustainability agenda to include investments in culture and environment, which covers a range of sustainable environmental enterprises (renewable energy and organic farming) and cultural activities and welfare initiatives (schools, medical centres) (Triodos Bank, 'Lending Strategy').

Accordingly, its sustainable banking agenda prevents Triodos from focusing on short-term gains and, consequently, making profit an objective in itself. Rather, it requires the bank to align its finance activities with the real economy. This means, first, Triodos maintains a direct relationship with its investments, which is quite different from the lending model of other conventional banks that is based on 'originate to distribute'.[5] Second, its portfolio consists a range of tangible commodities (energy, food and real estates) (Triodos Bank, 'Our Sustainable Banking Expert'). As a result, Triodos was not exposed to the market volatility in 2007/08 that was caused by some of the complicated securities and mortgage-backed securities in the sub-prime mortgage crisis, and the bank's growth was not slowed down by the 2008 financial crisis (Triodos Bank, 'Our Sustainable Banking Expert').

One of the key pillars of this sustainable banking strategy is the treatment of profit as a means to an end rather than an end in itself. While profitability is an important factor in any investment, its significance—according to Triodos—only stems from its use to maximise social, environmental and cultural sustainability (Triodos Bank, 'Our Sustainable Banking Expert'). Therefore, the lending decisions are primarily made according to the bank's lending criteria, which are based on a 'self-consciously positive approach' that primarily assesses the investment's contribution to a more sustainable society and secondarily measures its negative impact in this respect (Triodos Bank, 'Lending Criteria'). In other words, in the decision-making process meeting financial and commercial objectives are not considered as a priority over the creation of social, cultural and environmental added value in order to achieve real and meaningful benefits to the wider community (Triodos Bank 'Lending Criteria').

There is also another type of financial institutions that provide banking services in the UK market without being banks, namely mutual organisations such as building societies and credit unions.

With regard to building societies, some of these institutions, for instance, Coventry, Cumberland and Ecology building societies, were recently featured in the *Ethical Consumer* magazine guide to ethical banking occupying top positions (2014). Considering their mutual nature, most of these building societies are owned by their members/customers (savers and borrowers) and they do not answer to shareholders, which means that their business decisions are made with only their members in mind. This eventually benefits the local community in which the members are based and creates a special bond between the institution and the local community.[6] Some of these building societies, for instance The Coventry and Cumberland building society, have a clear social agenda where their investment decisions are primarily driven by the benefits of their local communities and their members. While others have more environmental focus, such as Ecology building society, where their finance is used to create a greener society by allocating mortgages to promote green building practices (Ecology Building Society, 'What We believe'). In any case, these building societies share two common features: first, they are not driven by profits generation and, second, for their investments they only use

[4] Triodos Bank, https://www.triodos.co.uk/en/about-triodos/.

[5] Making loans with the intention to convert them into securities and sell them to other financial institutions.

[6] For example, see Coventry Building Society (The Coventry) 'Genuinely Different' http://www.coventrybuildingsociety.co.uk/your-society/genuinely-different.aspx#tabs-1. The Coventry immerses its staff in the local communities by encouraging its staff to volunteer and work with community-based groups. See 'Community' http://www.coventrybuildingsociety.co.uk/your-society/community.aspx. See also Ecology Building Society, 'What We Believe' http://www.ecology.co.uk/eco-difference/beliefs/.

their savers' money (i.e. no wholesale money market is accessed to finance their operations).

With regard to credit unions, they are not-for-profits financial institutions which are owned and controlled by their members. Their co-operative model is based on the idea that individuals who have a 'common bond', which is geographical, associational or occupational, can save money together and lend money to each other at a favourable rate of interest. It has been suggested that the requirement of the common bond has an important role in strengthening the community element of these institutions (Edmonds 2015, p. 4). The main focus of these institutions is the financial welfare of their members, and therefore, their objectives include using the members' savings for their mutual benefits, promoting thrift and educating and training their members to make better use of their money (HM Treasury 2014). This means that these institutions are not driven by self-interest, and profit generation is a means to a social end.

Interrogating Ethical Finance in the UK Through the Lenses of Individualism and Unaccountability

Earlier in this article it was argued that the widespread misconduct in the financial markets, which contributed to the 2008 financial crash, can be primarily attributed to two key problems, namely individualism and unaccountability. Therefore, in order to assess the potential role of ethical finance in re-constructing the UK financial market, it must be first judged against the two key problems that heavily contaminated mainstream banking and finance.

It must be noted that considering that the focus of this article is the UK financial market, the following critical assessment of its ethical finance will concentrate on the institutions that were identified earlier as the key players in the UK ethical finance sector.

Individualism and Ethical Finance

The concept of individualism predominantly entails the prioritisation of self-interests as the ultimate goal of a person's endeavour. Objectivist ethics consider this as a moral concept. Ayn Rand, who developed the Objectivism philosophy, argued in '*The Virtue of Selfishness*' that there should not be a stigma attached to 'selfishness' as it is not a vice. On the contrary, Rand found that 'every living human is an end in himself, not the means to the ends or the welfare of others-and….man must live for his own sake' (1964, p. 23). Therefore, she argued in favour of rational selfishness where an individual pursues the ultimate goal of any man's life that is his/her happiness while avoiding 'irrational whims' (Rand 1964, p. 25). Self-interest accordingly is a moral concept as it helps an individual achieve the sole and ultimate purpose of his/her existence, namely his/her happiness. In this regard, this self-interested pursuit of happiness is not morally questionable unless it was contaminated by fraud or brutal force (Rand 1964, p. 20 and Belousek 2009).

While Objectivism has it adherents, it can be argued that the application of the Objectivist ethics in the financial markets has proved to be a failure that brought disastrous outcomes.

Alan Greenspan, former Chairman of the Federal Reserve of the USA and a member of Rand's inner circle since the 1950s, stated before a congressional committee in 2008 that 'Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief…. The whole intellectual edifice…collapsed last summer' (Belousek 2009).[7] He further admitted that he 'made a mistake in presuming that the self-interests of organisations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms'.[8] This clearly does not only apply to the US financial markets but also extends to other global financial markets including the UK where the self-interest ideology was allowed to drive the business, and hence the same malpractices took place.

It can be suggested, therefore, that in the financial business context the prioritisation of self-interest by those individuals running the financial markets was in most cases primarily driven by greed and sense of entitlement. Executives in some of the banks that were bailed out by tax payers' money in the UK paid themselves handsomely, while the share price of their institutions was falling significantly in the market (Farrell 2014; Treanor 2015).[9] This does not show any concern with the self-interest of the institution represented by its shareholders, let alone any concern with wider social interests. On the contrary, this clearly exemplifies the type of self-interest pursuit advocated by Objectivists, the likes of Ayn Rand, where the person is the end and his/her personal happiness is the ultimate goal irrespective of the effects on others. It must be noted, for fairness, that the type of self-interest drive that was uncovered by the crisis exceeded even what Rand approved. Rand disapproved of the use of fraud in the selfish pursuit of personal happiness, while the LIBOR

[7] A statement made before the House Committee on Oversight and Government Reform cited in Belousek (2009).

[8] Cited by Clark and Treanor (2008).

[9] It is reported that staff in the Royal Bank of Scotland (RBS) were paid £588 m in bonuses despite suffering an £8.24bn loss in 2013 where the share price fell 6.7 %. Also in 2014 RBS staff were handed out £421 m in bonuses despite suffering 3.5bn loss and RBS shares slipped 4.4 %. Farrell (2014); Treanor (2015).

scandal showed that traders' pursuit of their personal gains was largely tainted by fraudulent submissions of prices.

In the light of the above discussion, it is reasonable to suggest that reducing the practice of individualism, by ensuring that the strategic focus of the financial institution goes beyond its individual's short-term financial gains, could be part of the solution. In other words, financial institutions should ensure that the pursuit of self-interest by those running the business is not institutionally accommodated. In this regard, it can be argued that the ethical finance sector seems to be better equipped to address this issue. Whether due to the mutual business structure of some of these institutions, which means that there are no shareholders to prioritise, or because of their central social or environmental substratum, the self-interest ideology does not drive the business of these institutions.

As noted above, the sustainability agenda adopted by Triodos bank prevented it from getting involved in activities that are not connected to the real economy, including a range of speculative financial products that profit only traders without maximising social, environmental and cultural sustainability. Further, the mutuality of the business model of some of the building societies and credit unions has kept them close to the local communities in which they operate. Considering that they only have members (customer savers and borrowers), they remain connected to the roots of those members by serving their communities instead of being driven by self-interest. Accordingly, they only lend their savers' money which makes them prudent with their lending decisions and prevents them from using wholesale money markets and their complicated financial products. This reduces the level of leveraging that drives short-term financial gains, which only benefit those running the business.

Restraining individualism, through the structure or the agenda of ethical finance institutions or even both, maps onto the earlier suggested ethical foundations for the financial business—moderation, respect for others and common good. In this regard, there is no doubt that ethical finance institutions are interested in making profits but this is not their only end. Instead, they are set to make profits while achieving their wider social, environmental and cultural objectives. Profits, accordingly, become the means to their end. Therefore, moderation is essential to their investment decisions where the means and the end should be balanced out. By the same token, respecting human dignity will also be observed where individuals are not driven by a selfish pursuit of financial gains at any cost. These institutions will not be selling financial products that do not serve their customers, the local community in which they operate or their social and environmental commitments.

This leads to the last, and most important, ethical ground for the financial business, that is, the common good. As suggested earlier in Part III, the concept of common good should capture the role of personal interests in shaping common good, yet it should not be reduced to an aggregate of private goods of each member of the society. In this regard, ethical finance institutions through mediating between savers and borrowers create conditions that are communal to all individuals and help them realise their potential, while at the same time balancing this with their commitments to social and environmental sustainability. In other words, their financial intermediation is based on linking finance with real productive economic activities, which serves as a means to achieve personal good of the individuals involved while simultaneously advancing the wider social and environmental agenda of these institutions. This falls squarely within the concept of common good as discussed earlier in this article.

Unaccountability and Ethical Finance

The problem of unaccountability is connected to the problem of individualism as the former often fuels the latter. The lack of any form of accountability would certainly increase the self-interest drive of individuals since they are not accountable for any costs associated with their selfish pursuit of personal gains. Applying this to the financial business context means that the less accountable bankers and financiers are, the more selfish and short-sighted they become.

The 2008 financial crisis showed that although some of the complicated financial products that bankers used had handsomely rewarded them in the short run, they were a complete failure in the long term given the high level of toxic debt and institutional deficit that they caused. Yet, those who widely traded these products and rendered their financial institutions nearly bankrupt escaped lightly with very little liability. They remained unaccountable for their actions.

Having earlier considered how ethical financial institutions have certain mechanisms to address the problem of individualism and limit the self-interest pursuit of individuals, it is essential to examine their success in implementing these processes and to measure the accountability of their individuals with regard to the commitments of their institutions.

In this regard, it is evident at the outset that ethical finance has not been immune to the problem of unaccountability. In the wake of the 2008 financial crisis, the UK ethical finance sector was faced with a major blow, namely the near collapse of the Co-operative bank in 2013. Although this was related to one particular institution and was not systemic, it is still very significant considering the

origins of the problem and its effect on the ethical brand that the Co-operative bank has championed for many years.

Setting aside the ethically questionable personal behaviour, drugs possession, of the Co-operative's former chairman Paul Flowers, the bank found itself in a major trouble with the regulators. The Co-operative bank was investigated by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) with regard to prudential issues and governance concerns (HM Treasury 2013). The bank was publicly censured, instead of receiving a substantial fine, due to serious risk management and transparency failings. The PRA found that 'Co-op bank had a culture which encouraged prioritising the short-term financial position of the firm at the cost of taking prudent and sustainable actions for the longer-term' (Bank of England 2015). Additionally, the FCA found that the Co-operative bank published misleading information regarding its capitalisation for the period 21 March 2013–17 June 2013 (FCA 2015).

The findings of the investigations show that despite its claimed ethical agenda, the bank was not pursuing long-term sustainable goals. Instead the bank was prioritising short-term financial gains, which is the exact same practice that contributed to the 2008 financial crash. This does not make the Co-operative bank any different from other banks that never claimed to have an ethical agenda that goes beyond the self-interest of the institution or its individuals.

The only distinction that can be made with regard to the Co-operative bank is that the issue of executives' compensation never came across as the drive behind this pursuit of short-term gains. In any case, this cannot be an excuse for tarnishing the bank's long established ethical brand. Further, the publication of misleading information in breach of the Listing Rules was also another major setback to the integrity of the institution in general, and to its ethical claim more specifically.

It can be suggested, therefore, that these breaches demonstrate a major flaw with regard to the accountability system in the Co-operative bank. In '*the report of the independent review into the events leading to the Co-operative Bank's capital shortfall*', Sir Christopher Kelly found that the Co-operative bank suffered from 'confused or diffused accountabilities in a number of important areas' (Kelly 2014, p. 9).

It is important to note that by identifying the accountability flaw in the Co-operative bank, it is not suggested that all ethical financial institutions suffer or will suffer from the problem of unaccountability similarly to all other mainstream financial institutions. Rather, the key point is that installing the mechanisms required to deal with the problem of individualism does not automatically and on its own improve the accountability culture within ethical finance institutions. Hence, it can be suggested that ethical finance institutions should be equally concerned with ensuring that their systems are capable of holding those in charge accountable for undermining the institution's ethical commitments.

In this regard, the Co-operative bank, as a response and in order to reassure its customers about its ethical brand, has 'codified values and ethical policies in the Bank's constitution by writing reference to them into [its] Articles of Association' and 'established a new, independently chaired Values and Ethics Committee as a subcommittee of the bank's Board to ensure accountability for values and ethics' (the Co-operative Bank 'Our Ethical Policy'). Although these steps show the Co-operative bank's commitment to remain on its ethical path, their effectiveness in addressing the unaccountability problem remains to be tested.

Conclusion

There is no doubt that the 2008 financial crisis exposed the rotten side of the financial sector. At the same time, it brought focus to an important aspect of the same business, that is, ethical finance.

In the UK, the 2008 financial crisis post-mortem analysis showed that a key factor to the failures of 2008 was the disconnection between finance and the real world. In other words, financial institutions were primarily investing in ever more complicated financial products, existing only on trading platforms in wholesale money markets (Davis 2015, p. 31). Accordingly, they became less interested in real productive economic activities. This was predominantly driven by two key elements: first, their self-interest pursuit of financial gains, which these financial products only offered for short term and to a very exclusive elite, and second, the lack of any accountability for fulfilling the commitments of their institutions and for the long-term effect of their actions.

Exposing this dark side of the financial sector brought attention to the business culture that accommodated these practices and accepted them as the norm. As demonstrated earlier, there is a wide consensus that this contaminated culture can no longer be accepted and needs to change. This is where ethical finance comes into play, especially since its underlying foundation stands at odds with the mainstream—no longer desirable—ideology, which suggests that this sector has the potential to grow and play an important role in addressing the cultural contamination problem.

In this regard, ethical finance institutions operating in the UK market have long advocated that profit is a by-product rather than the ultimate objective of their investments. Ethical finance participants in the UK market have

made creating social, environmental and cultural value their ultimate objective. As argued, having such an ethical agenda plays a crucial role in addressing the problem of individualism, which was found to be at the heart of the 2008 financial crisis.

Further, it can be suggested that there is a real opportunity for the ethical finance sector in the UK to break the traditional classification as a niche sector and to join the mainstream, and this is primarily because the gap between these two forms of finance is supposed to shrink.

On the one hand, there is a political will to positively change mainstream finance in the UK and make the sector more caring and so bring ethical standards more into mainstream. Among a number of initiatives to help effect this change, the Banking Standards Review Council was established to look into the banks' behaviour, their culture and effects on customer. This means that banks will have to improve their culture and customers' outcomes. This can be achieved if self-interest and short-term financial gains are no longer the sole drive of the banking business.

On the other hand, the unfolding events post 2008 were eye-opening. Investors in the UK and around the globe realised that earning short-term profits come at an expensive cost in the long run. Therefore, there is a clear place for ethical finance and its sustainability agenda in the market where these institutions can attract individuals who are looking for a sustainable outcome, that is, 'a combination of financial and ethical return' (Davis 2015, p. 32). Additionally, the UK market is very well equipped to empower this sector. The Ethical Investment Research Services (EIRIS) has long been established in the UK, since 1983, to provide the most needed research and information on the available responsible investments (Burlando 2001, p. 376 and EIRIS website).

This leads to the challenges that face the ethical finance industry in the UK. As argued earlier in this article, the problem of unaccountability represents the most significant challenge that the industry should address head-on. Otherwise, it would risk losing its very unique selling point, that is, its ethical brand. Mechanisms that address the problem of individualism are not enough on their own to ensure their effective application as demonstrated in the crisis of the Co-operative bank.

Ethical finance institutions should ensure that their governance systems are capable of holding those in charge accountable for fulfilling the institution's ethical commitments. As demonstrated earlier, this is an area where the Co-operative bank has failed significantly, and as a response, it has decided to establish Values and Ethics Committee as a subcommittee of the bank's Board to ensure accountability for values and ethics. It is a welcome step but its effectiveness is still to be tested. In any case, the forms in which this could be achieved is a subject that requires significant research and goes beyond the remit and the capacity of this article.

To sum up, once the right governance systems are in place, there is no doubt that the three key grounds—moderation, human dignity and common good, upon which ethical financial institution are founded can significantly help re-establish the missing traditional foundations of the financial business, namely responsibility, prudence, trust and honesty. The strong presence and participation of these ethical institutions in the financial market will force their counterparts to improve their ethical standards in order to be able to compete. This eventually would have a collective positive impact on the UK financial market, and its culture, as a whole.

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Compliance with Ethical Standards

Conflict of interest The author declares that he has no conflict of interest.

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