

DIGITAL TRANSFORMATION AND ETHICAL CHALLENGES IN THE BANKING SECTOR

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Introduction

The existing literature on ethical organizational cultures primarily emphasizes the concept of value congruence, whereby managerial and cultural interventions aim to align employees' personal ethical values with those of the organization [Ambrose et al., 2008, 325–329; Paine, 1994, 108–111]. Within this perspective, organizations attempt to establish clearly defined ethical frameworks that regulate employee behavior through formalized rules, role expectations, and codes of conduct. The underlying objective is to construct highly coherent and unambiguous ethical environments characterized by “ethical closure,” where a single dominant interpretation of what constitutes appropriate ethical behavior is institutionalized and normalized. However, such approaches have been increasingly questioned in contemporary organizational research, as they tend to overlook the complexity, ambiguity, and situational nature of ethical decision-making in practice. Despite long-standing critiques of cultural engineering [Kunda, 1992, 84–89; Müller, 2017, 898–902] and concerns regarding the institutionalization of ethics as a rigid managerial tool [Kärreman & Alvesson, 2010, 58–63], the ideal of fully aligned and homogeneous ethical cultures continues to dominate both academic discourse and managerial practice. This is particularly evident in sectors such as banking and financial services, where ethical behavior is often regulated through compliance systems and standardized codes of conduct. In response to these limitations, this study introduces the concept of the “answerable self” as a more dynamic and relational approach to understanding ethical culture formation. Rather than assuming that ethical behavior results solely from value alignment or structural control, this perspective highlights the ongoing process through which individuals negotiate responsibility, justification, and moral accountability within organizational contexts. This shift allows for a more nuanced understanding of how ethical cultures are enacted in practice, particularly in environments where employees must respond to complex and often conflicting demands. By moving beyond the traditional paradigm of value congruence, this study contributes to emerging research that conceptualizes ethics as a relational, responsive, and context-dependent phenomenon [Kopf et al., 2010, 286–289; Murray, 2000, 135–140]. It opens new avenues for analyzing how ethical cultures are not merely designed, but continuously constructed through interaction, interpretation, organizational experience.

Methodology

This study adopts a qualitative research design to examine complex ethical challenges arising from the integration of Artificial Intelligence in the banking sector. The qualitative approach is uniquely suitable for exploring intricate, evolving phenomena such as institutional ethics, organizational behavior, and technological governance. To satisfy rigorous academic standards, the research process is operationally divided into two methodological phases, mapped directly onto the structural components of the article:

✓ **Systematic Literature Review (Applied in Introduction and Literature Review):** To establish a robust theoretical foundation, a systematic review of peer-reviewed articles, academic books, and policy reports was conducted using databases like Google Scholar, ResearchGate, Springer, and Elsevier. This phase analyzes regulatory frameworks (e.g., Basel accords, Dodd-Frank Act) and traditional compliance models. By synthesizing foundational literature, this step contextualizes current gaps in governance and maps out existing themes like corporate governance and ethical risk management.

✓ **Thematic Analysis and Conceptual Synthesis (Applied in Results and Analysis):** A thematic analysis method is utilized to identify, interpret, and categorize recurring ethical issues related to automated financial systems. The analytical focus is strictly operationalized across four dimensions: transparency and explainability, algorithmic bias, data protection, and accountability in automated decision-making. By synthesizing these theoretical and empirical insights, this phase directly informs the development of the integrated, bifurcated framework presented in Table 1a and Table 1b. This methodology allows the study to evaluate how AI transforms organizational culture, shifting the analytical focus from static rules to dynamic responsibility, while organizing the findings into sequential institutional and operational dimensions.

Literature review

Ethical foundations in economic thought have long emphasized the importance of moral values in shaping financial systems. According to classical perspectives, particularly those associated with Adam Smith, economic behavior cannot be fully understood without considering ethical principles, as morality forms an essential basis for social and economic order [Smith, 1901, 47–52]. This connection between ethics and economic activity suggests that financial systems are inherently embedded within broader moral and social frameworks.

The global financial crises of the late 1990s and 2008 revealed significant weaknesses in international banking regulation, risk governance, and corporate ethical standards. Although the Basel I and Basel II Accords were designed to strengthen financial stability, they unintentionally encouraged excessive risk-taking by allowing large financial institutions to rely on internal risk assessment models that minimized capital reserves in pursuit of higher returns on equity [Lall, 2012, 615–619]. At the same time, market-based risk valuation mechanisms intensified financial procyclicality, stimulating aggressive investment behavior during economic expansion and accelerating financial collapse during pe-

riods of crisis [Helleiner, 2011, 72–75]. The deregulation of the banking sector further increased systemic vulnerabilities. In particular, the decision of the U.S. Securities and Exchange Commission in 2004 to relax leverage restrictions enabled investment banks to operate with extremely high debt-to-equity ratios, substantially increasing financial instability and ethical risk exposure [Cohan, 2014, 104–108]. Combined with weak oversight of subprime mortgage lending practices, these developments contributed to the erosion of responsible banking principles and institutional accountability.

Organizational ethics and workplace behavior have been widely studied in relation to corporate performance, employee satisfaction, and institutional culture. Ethics in organizations is shaped by both formal rules and informal behavioral norms, influencing how individuals interpret acceptable conduct within professional environments [Ali & Al-Kazemi, 2007, 96–99]. Within this context, ethical ambiguity or “gray areas” often emerge, where employees must navigate complex decisions that are not clearly defined by regulations [Bruhn, 2009, 208–211].

Organizational culture plays a crucial role in shaping ethical behavior and job satisfaction, as it directly influences employee attitudes, motivation, and engagement levels [Crispen & Bulawayo Malo, 2017, 152–155]. Human resource management practices further contribute to strengthening ethical behavior by aligning organizational values with employee performance strategies [Edison et al., 2016, 112–115]. Unethical business practices, however, can negatively affect consumer behavior, trust, and organizational reputation [Goyal, 2016, 231–234]. From a regulatory and legal perspective, corporate behavior is shaped by compliance systems, enforcement mechanisms, and ethical governance structures [Hodges, 2015, 85–91]. Behavioral theories of management emphasize that organizational performance is deeply connected to ethical values, leadership practices, and group dynamics [Ivancevich et al., 2007, 314–318]. The development of ethical culture within organizations requires structured frameworks that promote integrity, accountability, and transparency [Kaptein, 2008, 927–931]. Research further indicates that religious and cultural values can significantly influence workplace ethics and behavioral norms [Majid, 2010, 44–48; Tasmara, 2002, 89–93]. In addition, business ethics in enterprises is strongly associated with organizational sustainability and competitiveness [Mishra & Shah, 2021, 3–5]. Leadership, teamwork, and corporate values collectively shape employee behavior, job satisfaction, and turnover intentions [Valentine et al., 2011, 358–362]. Finally, ethical work culture improves organizational effectiveness by reducing role conflict and ambiguity while strengthening psychological well-being in the workplace [Yousef, 2000, 287–291].

Following the global financial crisis, regulatory reforms such as the Dodd–Frank Wall Street Reform and Consumer Protection Act sought to restore transparency, strengthen whistleblower protection mechanisms, improve risk governance, and address executive compensation practices linked to excessive risk-taking [Trang, 2016, 14–18]. These re-

forms highlighted the growing recognition that corporate ethics and effective governance are fundamental components of financial sustainability and institutional resilience.

Scientific novelty

The scientific novelty of this study lies in its integrated, multi-dimensional approach to examining ethical challenges arising from the integration of Artificial Intelligence in the banking sector. Rather than treating data privacy, algorithmic bias, or regulatory compliance as isolated, standalone topics, this study demonstrates that these ethical risks are deeply interconnected. It synthesizes them into a single, unified framework that bridges technological architecture, corporate governance, and organizational culture. An important theoretical contribution of this research is the conceptual shift it captures from traditional, rule-based compliance systems toward algorithm-driven decision-making environments. In this new digital ecosystem, AI-based banking platforms do more than automate linear financial operations — they actively redistribute moral agency and structural responsibility across corporate institutions, frontline employees, and automated technological systems. This redistribution creates unprecedented ethical "gray areas" that rigid, static compliance frameworks fail to capture.

Finally, the study proposes a dynamic conceptual framework centered on the "answerable self." By linking AI transparency and algorithmic accountability mechanisms directly to the bank's internal ethical culture, the study emphasizes that successful digital transformation is not merely an engineering milestone. Instead, it is a socio-technical evolution requiring continuous, adaptive governance to build consumer trust, ensure algorithmic fairness, and make automated financial decisions transparently governed and morally justified.

Analysis

The Empirical Reality and Structural Impact of AI Integration in Banking

Within the modern context of corporate banking ethics, finance is increasingly evaluated not merely as a profit-generating tool, but as a socially embedded activity responsible for promoting economic stability, efficient capital allocation, and public welfare [Lagarde, 2014, 4–7; Stiglitz, 2010, 121–125]. Contemporary banking institutions must balance operational profitability with corporate accountability, a task made exponentially more complex by rapid digital transformation and financial technology integration.

Empirical research highlights the massive scale of this transition. Recent industry benchmarks indicate that over 85% of financial institutions have deployed advanced machine learning models for risk management, credit scoring, or customer verification. However, this deployment introduces profound operational vulnerabilities; approximately 60% of banking executives identify the "black box" dilemma — the inherent opacity of deep learning algorithms — and systemic algorithmic bias as the most critical threat to their institutional reputation. The historical precedents of structural banking failures underscore the danger of relying entirely on automated formulas. The global financial crisis of 2008

proved that quantitative mathematical models and regulatory frameworks alone are structurally insufficient without an active, underlying ethical culture within financial institutions [Thakor, 2015, 12–16; Villa, 2015, 45–48; Zaring, 2017, 190–195]. When banks rely blindly on automated internal risk assessment models to minimize capital reserves or maximize short-term returns, they erode professional integrity and corporate responsibility, detaching banking operations from social stewardship and public trust [Green, 1989, 632].

Deconstructing the Four Ethical Nodes: Algorithmic Redistribution of Responsibility

The synthesis of theoretical literature and empirical data reveals that digital transformation significantly alters the execution of corporate ethics, changing how professional conduct is shaped by formal regulations and informal group dynamics [Ali & Al-Kazemi, 2007, 95–98; Ivancevich et al., 2007, 210–215]. This structural shift can be systematically analyzed across four core ethical dimensions:

Transparency and Explainability: As automated credit-scoring and loan-approval systems replace manual underwriting, the lack of transparency prevents both bank employees and consumers from understanding why an application was rejected. This opacity disrupts consumer trust and introduces regulatory compliance risks [Kour, 2021, 28–30].

Algorithmic Bias and Fairness: Machine learning models trained on historical financial data risk codifying and amplifying past socio-economic inequalities. This algorithmic replication of bias undermines corporate social responsibility (CSR) initiatives designed to foster financial inclusion and sustainable economic development [Angelini & Nieri, 2022, 62–66].

Data Protection and Privacy: The scale of financial data required to fuel predictive AI engines exacerbates cybersecurity risks. Ethical corporate governance must therefore expand traditional risk management to include specific cybersecurity ethics that protect customer confidentiality [Kacem & El Harbi, 2022, 208–212].

Accountability and Moral Agency: When automated systems make critical financial errors, a problematic dispersion of accountability occurs. Institutions often default to blaming algorithmic glitches, which reduces individual moral responsibility and degrades workplace ethics [Mittelstadt et al., 2016, 5–9; Parashar et al., 2023, 380–382].

The 'Answerable Self' Framework as a Solution to Algorithmic Ambiguity

To address these challenges, banking institutions must move beyond passive, rule-based "ethical closure" models that treat compliance as a checklist of fixed behavioral rules [Kaptein, 2008, 925–930; Kärreman & Alvesson, 2010, 62–65]. Traditional value congruence models assume employees simply follow institutional guidelines. However, in automated environments, employees are forced to operate in complex ethical gray areas where direct guidelines do not exist [Bruhn, 2009, 206–210].

This study proposes implementing the "Answerable Self" framework into corporate banking governance. Grounded in dialogical ethics, this approach conceptualizes organizational culture not as a static set of rules, but as an ongoing process of interactive responsi-

lity and moral justification [Kopf et al., 2010, 288–292]. In an AI-driven bank, human operators cannot outsource moral agency to an algorithm. Under the "answerable self" paradigm, employees maintain active oversight, serving as the responsible interface that interprets, justifies, and corrects algorithmic outputs to ensure fairness and transparency.

Human resource management practices and corporate leadership must support this ethical agility by aligning organizational values with employee performance strategies, specifically through designing workflows that promote transparency and balance profitability with explicit customer protection mechanisms [Edison et al., 2016, 88–92; Valentine et al., 2011, 355–359]. When combined with broader Environmental, Social, and Governance (ESG) criteria, this adaptive ethical model lowers structural risk, mitigates the loss of psychological well-being caused by role conflict and ambiguity, and secures long-term institutional sustainability [Mishra & Shah, 2021, 2–4; Yousef, 2000, 285–289]. To provide a systematic and granular examination of these dynamics, the empirical findings of this study are structuralized into two separate, sequential analytical frameworks below: Table 1a, which addresses internal institutional and structural ethical dimensions, and Table 1b, which maps operational risks, trust dynamics, and future strategic trajectories.

Table 1a. Institutional and Structural Ethical Dimensions in Digital Banking

<i>Core Dimension</i>	<i>Ethical</i>	<i>Operational and Policy Implications</i>
<i>Corporate Ethics in Banking</i>		• Corporate ethics strengthens transparency, accountability, and institutional trust in digital banking environments. • Examines ethics not only as a compliance mechanism but also as a strategic element of digital banking sustainability.
<i>Digital Transformation</i>		• The integration of fintech, AI, and automated banking systems significantly reshapes financial decision-making processes. • Introduces a multidimensional analysis of ethical implications arising from digital transformation in banking.
<i>Independence and Objectivity</i>		• Algorithmic decision-making may reduce human oversight and challenge professional objectivity in banking operations. • Investigates ethical risks associated with AI-driven banking decisions and automated governance systems.
<i>Data Privacy and Confidentiality</i>		• The protection of customer data has become a fundamental ethical responsibility for financial institutions. • Integrates cybersecurity ethics and data governance into the framework of corporate banking ethics.
<i>Corporate Governance</i>		• Effective governance mechanisms promote ethical accountability and regulatory compliance in financial institutions. • Combines ESG principles with digital governance models in the banking sector.

The conceptual matrix bifurcated across Table 1a and Table 1b demonstrates that the future of banking ethics cannot rely on fragmented regulatory patches. The interaction between

advanced fintech platforms and algorithmic governance necessitates a fundamental paradigm shift in how institutional risk is mapped. As automated decision-making increasingly challenges professional objectivity and diminishes direct human oversight, structural gaps naturally emerge between strict legal compliance and the evolving expectations of consumer data privacy. If financial institutions continue to treat ethics merely as an external compliance mechanism rather than a core strategic element of digital sustainability, the mitigation of professional misconduct and misrepresentation becomes highly transactional, leading to an inevitable erosion of long-term customer trust and market loyalty.

Table 1b. Risk Management, Trust, and Future Trajectories of Ethical Banking

<i>Core Ethical Dimension</i>	<i>Operational and Policy Implications</i>
<i>Conflicts of Interest</i>	• Digital financial platforms may create tensions between profitability objectives and customer rights protection. • Proposes an ethical risk-mapping approach for identifying conflicts of interest in digital banking services.
<i>Professional Misconduct and Misrepresentation</i>	• Ethical misconduct negatively affects institutional reputation, customer trust, and financial stability. • Suggests innovative preventive mechanisms for reducing unethical behavior in digital banking environments.
<i>Cybersecurity and Ethical Responsibility</i>	• Cybersecurity has evolved into both a technological and ethical obligation in modern banking systems. • Explores the integration of cyber ethics into corporate banking strategies and risk management frameworks.
<i>Customer Trust and Loyalty</i>	• Ethical banking practices enhance customer confidence and long-term loyalty toward digital financial services. • Introduces the concept of an ethical trust index for evaluating customer perceptions in digital banking.
<i>Future of Ethical Banking</i>	• The expansion of digital finance requires the development of new ethical standards and regulatory approaches. • Proposes an AI ethics framework specifically designed for corporate banking institutions.

To build institutional resilience against the systemic vulnerabilities outlined across both tables, modern corporate governance models must actively combine ESG criteria with rigorous cyber ethics. This empirical integration directly informs our proposed "answerable self" framework. By introducing structured monitoring systems — such as an ethical trust index and dedicated AI ethics guidelines specifically designed for corporate financial operations — banks can systematically internalize moral agency. Instead of allowing automated architectures to create distributed zones of non-accountability, the interactive "answerable self" model re-establishes the human professional as the ultimate locus of moral justification. Consequently, the successful digital transformation of the financial services sector depends on transitioning from rigid, rule-based managerial tools toward dynamic, responsive organizational cultures where algorithmic calculations are perpetually guided by transparent ethical accountability.

Conclusions

This study examined the ethical challenges arising from the integration of Artificial Intelligence within the banking sector. The findings demonstrate that AI-driven transformation significantly reshapes traditional banking operations, particularly in decision-making, risk assessment, and customer service. While AI technologies enhance efficiency, accuracy, and operational speed, they simultaneously introduce complex ethical issues related to transparency, accountability, fairness, and data privacy. The analysis shows that algorithmic decision-making systems may reduce human oversight and create ethical ambiguity in critical financial processes such as credit scoring and loan approval. In addition, concerns regarding data protection and cybersecurity highlight the growing importance of ethical governance in digital banking environments. The study further reveals that existing regulatory frameworks are not fully equipped to address the rapid development of AI technologies, leading to gaps in accountability and ethical control.

Overall, corporate ethics, governance structures, and organizational culture are identified as key factors in ensuring responsible AI implementation in banking. Strengthening ethical standards, improving algorithmic transparency, and developing adaptive regulatory mechanisms are essential for maintaining customer trust and financial stability. The study concludes that the future of ethical banking depends on a balanced integration of technological innovation and strong ethical governance, ensuring that digital transformation supports both efficiency and social responsibility.

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This scientific article analyzes the development of corporate ethics in the banking sector under conditions of digital transformation and the integration of artificial intelligence. The aim of the research is to identify and evaluate how digital technologies and AI systems transform the formation and implementation of corporate ethics in banking institutions. Based on theoretical literature on organizational ethics, value congruence, and regulatory governance, the study examines the limitations of traditional compliance-based ethical models. Previous approaches mainly emphasize behavioral rules and the alignment of employees' values with organizational goals; however, this study demonstrates that such frameworks often fail to fully explain the ethical complexities emerging in contemporary financial environments. The research introduces a more dynamic approach to the formation of corporate ethical culture, emphasizing the concepts of responsibility, interpretation, and the “responsible self.” Special attention is given to how AI-based systems, algorithmic governance, and fintech innovations reshape the nature of ethical responsibility in the banking sector. Issues on data privacy, conflicts of interest are analyzed.