

Check Kiting Teaching Notes

What Are the Relevant Facts?

1. Scott has learned of some fraudulent activity in a customer account at his bank-
2. The customer is a personal friend of Scott's wife and is also personally involved with Scott's boss, to whom he would normally report the fraudulent activity.
3. The customer is in a position of responsibility at the other bank involved with the fraudulent activity.
4. The fraudulent activity is technical illegal but has never been prosecuted, and the amount involved in this case is small.

What Are the Ethical Issues?

1. What loyalty does Scott owe to his wife's friend? To his bank? To his boss?
2. Is it ethical for Scott to depart from the normal procedure for handling such matters?

Who Are the Primary Stakeholders?

- Scott
- The check kiter
- Scott's boss
- Management at Scott's bank
- Management at the bank where the check kiter is the chief financial officer
- The local authorities

What Are the Possible Alternatives?

1. Ignore the matter
2. Call the check kiter and give her an opportunity to stop.
3. Inform the boss and follow the standard procedure.
4. Inform the boss's boss and let him/her handle the matter.

What Are the Ethics of the Alternatives?

- Ask questions based on a "utilitarian" perspective. For example:
 1. Which alternative would provide the greatest benefit for the greatest number?
 2. How would the costs and benefits be measured? How do you value the costs of a damaged reputation or the loss of a friend in comparison with the banking costs of check kiting? How do you measure the benefits of stopping the check kiting?
- Ask questions based on a "rights" perspective. For example:
 1. What rights does each stakeholder have?
 2. Which alternative would best respect these rights?
- Ask questions based on a "justice" perspective. For example:
 1. Which alternative distributes the benefits and burdens most fairly among the stakeholders?
 2. If the normal procedure is not followed in his case, is this fair to other check kites?

What Are the Practical Constraints?

1. Although the activity is illegal, the precedent is for these matters to be handled pragmatically. Scott has some freedom to choose his own course of action for stopping the kiting.

What Actions Should Be Taken?

1. What actions should Scott take? Why?
2. Which of the ethical theories contributes most to your decision?