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## Ethical Perceptions of Customers Towards the Services of Foreign Branch Banks in Northern Cyprus

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**Abstract:** Nowadays, the ethical principles, which are institutionalized as generally accepted principles like the human rights, have become very popular in the banking sector like in many other sectors. The implementation of these principles provides public trust and reputation as well as competitive edge to the banks. The branches of the foreign banks, which have their head offices in foreign countries, are expected to be in harmony with the ethical principles more than the local banks. Therefore, ethical perceptions of customers towards the services of the foreign branch banks in Northern Cyprus have been researched in this study. According to this survey, it was found out that the foreign branch banks, generally, respect the ethical principles as expected. However, there is a necessity of institutional and administrative restructuring in the direction of improving the quality of the ethic standards used in these banks.

**Key words:** Ethical perceptions, customers, foreign branch Banks, Northern Cyprus

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### INTRODUCTION

It is generally accepted that gaining competitive edge in the banking sector necessitates meeting customer needs and wants. Within this framework, banks should follow the standards of good banking practice when dealing with persons who are or who may become customers. These standards of good banking practices formularized as code of banking ethics is necessary to ensure that the existing respect for the banking profession in the society is set on a permanent footing, to maintain and improve this social respect, called also as professional honor and to maintain and protect the stability and trust in the banking sector (TBB, 2006; Stein and Yassa, 2005). Since being perceived as trustworthy is crucial for the survival of a bank (Chiami and Fullenkamp, 2002), a respectable bank, being an intermediary between the depositor and creditor is expected to have honesty, integrity, social responsibility, accountability and fairness not to damage reputation and may cause financial loss (Carse, 1999; Souter *et al.*, 1994; Brickley *et al.*, 2002). Therefore, commercial banks must act in a manner that merits public trust, confidence and reputation by integrating core values-such as honesty, trust, respect and fairness-into its policies, practices and decision making and apprehending compliance with legal standards and adherence to internal rules and regulations. Although it is almost impossible to come across with any respectable bank that would claim not to attach high importance to core ethical values, to accept bribes in return for loans, to lend to connected parties and to cheat customers, it is observed that there is sometimes a gap between what banks claim and what they do. History

demonstrated that bribery and corruption have been one of the root causes of the banking problems (Carse, 1999). Some of the common non-ethical behaviours in the banking sector can be revealed as bribery, misuse of authority and exploitation (Hauri, 2000; Carse, 1999), connected lending (Eichengreen and Rose, 1988; Hoening, 1999; Goldstein and Turner, 1996). Lack of transparency (Coşkun, 2001) and the political interferences (Parasız, 2000; Öçal and Çolak, 1999). When the banking crises starting at the beginning of 2000 in Northern Cyprus is analyzed, it is founded out that unethical behaviours such as working against regulations, political interference, asymmetric information, fraud of bank owners and connected lending were among the root causes (Şafaklı, 2003, 2005).

In this study, ethical attitudes and behaviors of branch banks directly linked to the corporate governance in foreign countries have been research. The research based on the ethical perceptions of customers towards the services of the said banks.

According to the data available in December 2005, the foreign branch banks constituted 6 of the 25 banks in Northern Cyprus (26.08%), 25 of the 131 branches (19.08%) and 269 of the total 2,297 banking personnel (11.71%). Similarly, the foreign branch banks represented 31.11% of the total assets, 33.27% of the total deposits and 5.29% of the total credits (TRNC Central Bank, 2006).

### MATERIALS AND METHODS

Before concentrating on the research methodology it is necessary to emphasize the importance of ethical behavior for banking. In the banking sector of many

**Table 1: Perceptions of customers towards the services of Foreign Branch Banks in Northern Cyprus**

Principle	A	B	C	D	E	D+E
Impartiality	6.0	20.0	12.4	54.0	7.6	61.6
Considering public benefit	1.2	12.8	2.8	79.6	3.6	83.2
Refraining from misinformation	4.4	16.0	10.4	56.4	12.8	69.2
Respect to environment	1.6	6.4	47.6	42.4	2.0	44.4
Fighting with money laundering	1.2	8.4	49.0	33.4	8.0	41.4
Honesty	2.4	9.6	8.4	68.4	11.2	79.6
Transparency	1.2	22.4	11.6	54.8	10.0	64.8
Not committing illegal actions	1.2	14.0	13.2	61.2	10.4	71.6
Social responsibility	2.4	21.2	7.2	54.8	14.4	69.2
Secrecy	2.4	10.4	12.4	64.4	10.4	74.8
Objectivity	3.5	14.6	11.1	59.6	11.2	70.8
Confidentiality	1.6	16.4	8.8	66.0	7.2	73.2
Consistency	2.8	14.8	11.6	58.0	12.8	70.8
Open minded	4.8	20.0	6.8	61.2	7.2	68.4
Complying with the law and rules	3.6	12.4	9.2	57.2	17.6	74.8
Quality of services	1.6	22.0	3.2	60.4	12.8	73.2
Finalization of customers' complaints	4.0	23.6	2.8	58.0	11.6	69.6

countries, the main ethical principles such as honesty, impartiality, trustworthiness, harmonization with the legislation of the bank and transparency, integrity, responsibility, accountability, social responsibility and justice have been introduced in written form and taken into consideration (Şafaklı, 2006). A different approach perceives non-ethical behaviors as fraud and forgery, bribery, customer discrimination, power pressure, lying and cheating, robbery by workers, insider trading, spreading negative information and refraining from undesirable information, industry espionage, harming the environment, interest conflict, breaching personal secrecy and money laundering (Hortacsu and Nur Gunay, 2004). Alternatively, basic code of banking ethics applied practically consists of transparency of transactions, confidentiality and banking secrecy, collecting and keeping information on customers, proper use and care of information and proper record keeping, giving right to suspicion, promotion of banking services, service to customers, handling customers complaints, compliance with the code, honesty, impartiality, reliability, observing social benefit and respect to environment, fighting with laundering of crime-originated assets, insider trading, avoiding conflicts of interest, refraining from bribery and corruption, self development and development of others, positive and fair dealings with officials, government representatives and competitors (Hellenic Bank Association, 1997; TBB, 2006; Alliance Bank, 2006; Central Bank of Kenya, 2006; International Moscow Bank, 2006; The First national Bank in Trinidad, 2006; The Bank of New York, 2006).

The survey was made in May 2005 with 250 customers of mainly foreign branch banks, who were selected at random in the district of Nicosia in Northern Cyprus.

Seventeen ethical principles shown in Table 1 were used in the questionnaire. In the questionnaire, the Likert type scale questions were utilized in order to bring to light the compliance of the foreign branch banks with ethical principles. Such that, the expression of Foreign branch banks conform to ethical principle in question is answered by the scale as follows: 1 = I definitely disagree, 2 = I disagree, 3 = I hesitate, 4 = I agree, 5 = I definitely agree. The percentage method has been applied for the analysis of the findings obtained by the scale.

## RESULTS AND DISCUSSION

The individual characteristics of the respondents were identified by demographic variables as gender, age, marital status and educational background. Respondents (250) included 34% female and 66% male and fell in the following categories with respect to age: 18 to 25 (25%), 26 to 33 (36%), 34-41 (20%) and above 60 (19%). The majority (60%) was married. Educational status of depositors shows that they carry high intellectual capacity. Such that 72, 8% of them have the educational level of high school or above while 38% of them possess university and postgraduate degree.

The main findings of the survey, which was about the adherence to the ethical principles by the foreign branch banks, are shown in the Table 1. Two hundred and fifty persons were asked to answer about each of the ethical principles and their percentages are shown under the following codes: (A) = I definitely disagree, (B) = I disagree, (C) = I hesitate, (D) = I agree, (E) = I definitely agree.

According to majority view (D+E>50) the foreign branch banks are perceived as ethical for 15 principles among 17 ethic principles. Regarding the remaining 2

ethical principles which are respect to environment and fighting with money laundering it can not be concluded that banks behave unethical because negative opinion (A+B) of respondents for these 2 principles are not greater than 10%. For both of the two principles, the perception of the hesitating group was about 50%, which means that the bank customers did not have the information and the data, sufficient to make a decision on the subject. Therefore, it can be commented that the foreign branch banks in Northern Cyprus do not behave outside the ethical principles. But one should stress on the level of the ethical behavior. For example, from the point of view of positive perception (D+E), the number of the ethical principles, which make over 70% of the ethical behavior of the banks, are only 9. In this regard, this affirmation can be made. Generally, between 68 and 75% customers feel happy about ethical standards of their banks. Presence of 2 and 9% customers who are still are undecided about some questions may be explained as a matter of lack of knowledge about the performance of their banks. Importantly, 15 and 20% of customers are demanding higher ethical standards from their banks.

### CONCLUSION

The globalization has been experienced in high dimensions in the banking sector and there have been great achievements in the name of international standardization in the developments such as the Basle Accord and the Acquis of the EU. In this framework, the adherence to the institutionalized ethical principles in the banking sector is a generally accepted situation. In comparison to the local banks, the foreign bank branches in Northern Cyprus do not confront with any obstacle in their opening to the foreign world and thus, they act like the locomotive of the Turkish Cypriot banking. Therefore, it is deemed as if the foreign bank branches in Northern Cyprus adhere to the ethical principles and this postulate is not rejected by this survey. However, it was found out that it is necessary to institutionalize and enhance the dimension of the ethical behavior in an environment of dynamic competition. As an example, it is necessary that the adherence to the ethical principles should be institutionalized. The personnel should be in continuous education in order to perceive the necessity of adherence to the ethical principles and to have an understanding of leadership. The perception of ethical principles by the customers about the banking services should be surveyed continuously. And finally, proactive precautions should be taken in this direction.

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