

NEAR EAST UNIVERSITY



**Faculty of economics and administrative
sciences**

Department of Banking and Finance

Graduation Project (BANK 410)

**Customers' perceptions of ethical standards in
foreign branch banks operating in T.R.N.C.**

Student: Nicolae Luca (20011445)

Supervisor: Asst. Prof. Dr. Okan Şafaklı

Lefkoşa-July 2005

ACKNOWLEDGEMENTS

Every work is a product of not only the author who writes it, but also of many individuals who directly or indirectly influence that work. This project is not exception. At the beginning I would like to thank my friends: Cihan Murat, Dinara Abdullina, Nikolay Vornikov. These guys are really very nice people. And I am happy about the years we spent together in NEU!

I am grateful to my advisor Asst. Prof. Dr Okan Şafaklı for offering helpful suggestions. Without his advices it would be much more difficult to finish this work. Thank you for that!

Finally, I owe a special debt to my parents and sister. I can't measure the moral support they gave to me. Without their help I wouldn't be able to come where I am now. These people have my ever lasting love. I will never forget what you have done for me!

ABSTRACT

As professionals, bankers are judged by their conduct. That is why they must act in a manner that merits public trust and confidence. Because of the nature of the banking business, many people hold the banks to a higher standard than the general business world. That is why bankers have adopted Code of Banking Ethics (in other words a set of rules of conduct with customers). To help ensure that industry still retains its integrity and merits public trust and confidence.

This study aimed to explore, describe and test the perceptions of ethical standards of customers of foreign branch banks established in T.R.N.C.

As methods of study, both literature and questionnaire researches were applied. Literature review provided some empirical views on the problem, while the questionnaire was carried out in the way to explore the ethical standards in T.R.N.C. based foreign banks. Theoretical model focusing on factors composing ethics in banking was proposed and discussed.

The conclusion reached was that banks should give more concern to ethical problems in the way to keep their customer base. To do this, they must continuously make independent researches about customer's perceptions of ethics in banking.

Keywords: code of banking ethics, ethical values.

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SECTION 1 STUDY GUIDE.

1.1 Introduction

This section introduces the subject of the study, the problem statement, literature review, methodology and the brief contents of the remaining sections of the study.

1.2 Problem situation

The progressive liberalization of banking system from administrative regulations has created a need for rules of good conduct which would govern relations between credit institutions themselves as well as with their customers and with third parties. Bank's philosophy is to give customers that "extra something" - be it courtesy, fairness, flexibility, efficiency or professionalism. This special service must be reflected in the attitude of all who work for the organization.

Competitiveness of foreign branch banks in T.R.N.C. depends in many ways on their ability to apply code of banking ethics. Modern economic realities force banks to correspond high quality standards. If institution fails in completion this task it will not survive.

1.3 Purpose of the study and study questions

The purpose of this study is to explore, identify and describe the ethical perceptions of foreign branch bank customers in the T.R.N.C. and to emphasize the importance of adopting the Code of Ethics in the banking industry. To complete the task, this study has following questions to answer.

- What is ethics in its common sense?
- What is banking ethics?
- What are ethical perceptions of foreign branch bank customer's in T.R.N.C.?
- How ethical working environment can be created?

1.4 Sections of the study

Section 2: in section 2 the **literature review** information available from other sources is granted. These sources include scientific books and on line articles.

Section 3: section 3 is the **methodology section**. In this section all the steps involved in exploring the discussed topic are listed and explained.

Section 4: this is a **theoretical model section**. The model comprises all the factors determining the ethical position of a bank. Each of them is defined and explained in details.

Section 5: this section is related to the main **findings** of the study. Here the final results off customer's perceptions of the ethics in foreign branch banks in T.R.N.C. are presented.

Section 6: the last section of this study is **conclusions and recommendations**. It includes the conclusions that came out from the findings. Advantages and limitations of the study are listed as well. And finally, recommendations for following researches are provided.

1.5 Conclusion

This section serves as a guide. It is designed to help the reader to orient in the stack of pages. The subject of the study and brief contents of the following sections are introduced here.

SECTION 2 LITERATURE REVIEW

2.1 Introduction

This section presents empirical views on banking ethics and provides some existing solution for ethical problems. It also introduces some different views on the need of ethics in banking sector. However, at the beginning some general information about banks is given.

2.2 Origins of banks.

Functions that today are identified with banking were performed by the organizers of Champagne Fairs in the twelfth and thirteenth centuries. They issued tokens to particular merchants, with each token representing deposit of coin, plate, and bullion that had been tasted. The merchants used these tokens to net out their accounts before settling in the deposited gold. At the same time, scriveners – clerks who wrote letters and contracts in an illiterate age – reduced transaction cost.

For professors of money and banking fondly describe how medieval goldsmiths accepted gold for safekeeping, and how the receipts they issued eventually became money. The goldsmiths assayed bullion samples, certified their quality, and issued receipts that were easier to carry than metal. Thus, they added value by producing verifiable information and reducing transaction cost. From here, it was but a short step to making loans.

Institutions more recognizable as banks, such as the Casa de San Giorgio in 1407 and the Bank of Amsterdam in 1609 arose on the continent. These firms provided safekeeping and security, assessed and certified quality, and enable transfer payments. Although funds transfers had to be conducted at the bank, transaction cost were relatively low compared to carting gold through the streets.

This brief history holds several lessons. First, many of these functions still survive, though modern banks' methods of providing loans and a convenient means of payment are considerably different. Second, the institutional form has changed dramatically – from guild to corporation. E.g. banking and goldsmith are no longer combined.

(Zeki Erkut BANK 305 lecture notes.)

2.3 The nature of banking

Because modern multinational banks have engaged in a whole range of activities not necessarily associated with traditional banking it is difficult to give a simple definition to a term nature of banking. However, the following definitions exist:

2.3.1 The common law definition.

- Bank is a financial institution accepting money from and collecting checks for the customers and placing them to the credit.
- Also they honor checks and orders drawn on them by customers when presented for payment and debiting customers accordingly.

Because of these characteristics banks must keep current accounts in their books in which the debits and credits are entered. But such a definition is insufficient. That is why another one exists.

2.3.2 Statutory definition.

Statutory law deals with problem of listing approach and formulary approach.

- Listing approach. Here the law lists the activities covered by bank. There are of course difficulties because bank must make it clear which activities from list, if not all, the body must perform if it is to be treated as a bank.

- Formulary approach. Here banking is defined in terms of a few generalized characteristics. Again there are problems. Can bank go beyond the activities set out in the formula and what are the essential futures?

(Dr. Anthony Hodson, BANK 406 lecture notes.)

2.4 Legal relationships between bank and customer

Customer is a natural or legal person or association of persons who effects single transactions or establishes a long-standing contractual relation with a bank. The capacity of customer is deemed to exist not only during the pre-contractual stage of the exploratory contacts and/or negotiations with the bank, but also after completion of the transaction or termination of the transactional relation.

The customers of the retail banks consist of millions of private individuals, hundreds of thousands of small businesses- some formed as private limited companies, the majority being sole traders or partnerships- thousands of public limited companies, some with shares quoted on the Stock Exchange, and a few giant multinational companies.

Legally speaking, the relationships that can exist between the bank and its customers are:

- Debtor/creditor (or vice versa)
 - Principal/agent
 - Baylor/bailey
 - Mortgagor/mortgagee
 - Relationships defined by the rules of banking practice
- The basic legal relationship is that of **debtor/creditor** respectively, although the roles are, of course, reversed when the customer is overdrawn. The bank undertakes to receive money for its customer account, and that money so received is not held in trust for the customer but borrowed from him with a promise to repay it or any part of it

during banking hours at the branch of the bank at which the account is kept, against the customers written order addressed to the bank at the branch. Thus the general rules of the law of contract apply, in that both bank and customer are required to carry out certain courses of action and a failure to do so may result in a breach of contract and could result in a legal action by one party against the other.

- The relationship between the two parties is that of **principal/agent** when a bank is acting as its customer's agent by collecting checks for him.
- The **bailor/baylee** relationships is established when a bank takes charge of valuables of a customer for safe custody. The bank is then bound to take reasonable care of its customer's property.
- The **mortgagor/mortgagee** relationships apply when a bank takes a mortgage over securities when granting an advance to a customer.

The **rules of banking practice** that have developed over the years are generally enforced by courts of law. For instance, a bank that failed to follow the practice of taking references or other suitable procedures when opening a current account would be held to be negligent.

(Cox, David, 1946- Success in elements of banking.-3rd ed. - pp.184-187)

2.5 General information about foreign branch banks in T.R.N.C.

2.5.1 HSBC

HSBC Holdings plc. is incorporated in England, with its head office in London. The establishment in 1999 of HSBC as a uniform, international brand name ensured that the Group's corporate symbol has become an increasingly familiar sight across the world. HSBC GROUP has over 9,800 offices worldwide. 223,000 employees in 77 countries and

territories. Over 110 million customers worldwide, with a total e-customer base of more than 14 million.

(<http://www.hsbc.com.tr/English/AboutUs/> June 16, 2005)

2.5.2 IS BANKASI

The inception of the country's first truly national bank following the promulgation of the Republic dates back to 26 August 1924, mandated by Atatürk, consequent to the First Economy Congress in İzmir. Is bank begun to operate with two branches and 37 staff under the leadership of Celal Bayar, the first General Manager to run the bank.

(<http://www.isbank.com.tr/english/about-history.html> June 16, 2005)

2.5.3 Oyak Bank

Oyak Bank, whose headquarters are located in Istanbul, is one of the biggest privately-owned banks in Turkey. In 1984 the core of present-day Oyak Bank begins operation in Turkey as the Istanbul branch of the US-based First National Bank of Boston. After a number of transformations in 2002 on January 11th, OYAK's two banking subsidiaries were formally combined and a brand-new Oyak Bank was born.

(http://www.oyakbank.com.tr/english/introducing_oyak_bank.asp June 16, 2005)

2.5.4 Garanti Bank

Amsterdam-based GarantiBank International N.V. was established on 3 October 1990 and started its operations in April 1991. GarantiBank International N.V. is a 100 % owned subsidiary of T.Garanti Bankası A.Ş., which is located in Istanbul, Turkey. T.Garanti Bankası A.Ş. is the flagship of the finance arm of the Doğu Group. Doğu Group is the third-biggest conglomerate in Turkey with a wide range of business activities from finance to automotive distribution. GarantiBank International N.V. has been functioning under the

laws of Netherlands and the supervision of the Dutch Central Bank (DNB). The Bank's name was changed from United GarantiBank International N.V. to GarantiBank International N.V. at the beginning of 2002.

(<http://corp.garantibank.nl/Welcome/OurHistory.php> June 16, 2005)

2.5.5 Other banks

Information about other two banks wasn't found because of technical reasons

2.6 Is ethics in banking a threat or an opportunity?

Bankers breach confidentiality, obtain and use insider information to their own advantage, do business with corrupt governments, and it may appear that nobody knows or cares. While 'getting caught' or 'not getting caught' is a real concern for bank managers, avoidance of scandal is not what should motivate that manager to take ethics seriously.

Values, quality and excellence are all considered international business issues. Ethics is an integral part of each of them. Therefore, what is important is that one views the development of ethical standards as a benefit to the way he is doing his work, not as a hindrance or a threat to success. Managers don't want their employees to be demotivated. As usual, in such a situation employees start to wander about their prospects in the organization. And that is not good way to do business. However, there are no long-term studies of the bottom line implications of addressing ethics. There are no guaranties that an ethical environment leads to higher profits. But there is much to be said for creating an environment in which values are considered to be important. Ethical dilemmas are a fact of business life. They are complex, difficult and uncomfortable to deal with, but ignoring them isn't the way.

However, a great deal can be won if address ethical concerns. We have been living with and guided by standards all our lives. Integrity, trust and responsibility are as important to the success of a bank as they are to its customers. That is why bankers have a role to play in installing those concepts and ensuring that business is done ethically.

If people trust each other, they are able to collaborate, to be open. Mistrust leads to fear and limited risk-taking. If people are honest with each other, they will share information even if it is negative, rather than wasting energy second guessing how others might react to the news. If people feel responsible to each other, to the bank, to the community, they will earn respect and as a consequence avoid difficulties or confrontations with stakeholders. It is really too much to gain by developing an ethical environment in banking.

(Tierney Elizabeth P, 1996 Business ethics. pp. 28-31)

2.7 Pros- and contras- for ethics in banking

There are some managers who consider the notion of relating ethics and banking as a joke. Others view the juxtaposition of the words as impossible or improbable. Still others consider discussion of ethics as irrelevant. And still others avoid talking about ethics because of some vague fear that they will be overheard, the anxiety stemming from the likelihood that such conversations might be constructed as an admission of guilt or wrongdoing. Nothing could be further from the truth.

However, more and more forward-thinking bankers from around the world are recognizing that the old debate about ethics in banking should be addressed anew. Unlike their doubting colleagues, these bankers view the recent refocusing on values, on how we provide services, as an opportunity for banks to reexamine what they stand for and where they are going in order to compete successfully in a complex and competitive global economy.

Such people do not see discussion on ethics in banking as a joke, as a threat or as a weakness, but rather as a natural outgrowth of the current movements in industry towards excellence and quality.

- High personal standards lead to high business standards.
- Make your company's reputation shine.
- A good reputation brings in more business.

Managers automatically set standards by their own behavior, in addition to training and coaching their staff. High ethical standards protect bank's reputation. The costs of being unethical are significant, although it may be some time before they show up on the balance sheet.

Throughout the study, the following words are used interchangeably: values, ethics and standards. Values refer to principles, standards to the degree of excellence and ethics to the rules of conduct.

2.8 What actually ethical dilemma is?

Here are some examples of what might be an ethical dilemma:

- Whether or not worker of a bank should accept an expensive weekend from one of his bank's clients?
- Whether or not worker of a bank should give clients the results of research that he knows they want to hear rather than what he knows to be true?
- Whether or not worker of a bank should sell a service that gives the bank higher commission rather than serve the needs of a particular client?
- Whether or not worker of a bank should manipulate figures to achieve a desired end-of-year result or target?
- Whether or not to ask employees to withhold certain information?
- Find oneself under continuing pressure from a superior to mislead a client?

- Worker of a bank became aware of the misuse of bank's property by one of his superiors...etc.

The reality is that ethical dilemmas may occur anywhere or any time: in the marketing department, the accountancy department, security department, anywhere, any time. Ethical dilemmas are tough problems to solve. They are worrisome. They are common. They are frequently full of intangibles. They may involve harming someone, and they can have a variety of implications for different stakeholders.

To reiterate, ethical dilemmas are situations that are not black and white; they are grey. Resolving dilemmas requires a person to make decisions when he is not guided by laws, regulations, statutes, or absolute truths. Ethical dilemmas are fraught with 'what ifs', with 'maybes', with 'on the other hand, we should ...', but on the other hand if we do..., but then again, if I don't, they might...' etc.

(Tierney Elizabeth P, 1996 Business ethics. p. 19)

2.9 Some harmful consequences if ignore ethics and keep ethical dilemmas unresolved.

Banks operate in a competitive environment, a global village. And their management has to recognize that ethical dilemmas are a reality. Thus the necessity to establish ethical standards as a fact of banking practice has become unavoidable.

The world is smaller; communications and information technology are such that the availability of, speed of and appetite for news means that malfeasance in New York can be headlines in London. Poor ethical decision in Tokyo can be seen on cable in Moscow. Today's journalists are tenacious and mobile, and consumers are demanding. Simultaneously, groups and associations are committed to expressing their concerns and having attention paid to such diverse aspects of life as the quality of our drinking water, our

beaches, and our air, the well-being of our own and of other species. In addition, there are social movements and lobbyists currently raising awareness about nutrition, disease, aging, sexuality, disabilities, health and safety. The list is very long and ethical issues in banking are not exception.

Therefore, from a pragmatic point of view, if one of bank manager's action is found to be unethical, is determined to have caused harm to individuals, or the environment, he might some day find that name of the institution he works for have become, if not bold headlines, than simply news. If to look at the bigger picture, we can see the names of such institutions as BCCI, Barings Bank, Exxon Valdez involved in the ethical conflicts. These names have been mentioned in the news because of their involvement in questionable business practice. Now these institutions don't exist.

All banks are subject to potential public scrutiny. All they take chance that their good names will be putted at risk or bank's reputation will be damaged by a potential loss of profitability as they lose customers. As a consequence of such notoriety, it may be found that the need for reallocation of resources for damage control or reparation has appeared. E.g. If bank X operates using poorly paid labor, it won't be long in today's technologically advanced world before such information is widely known. If bank Y is doing business in a country with a history of human rights violations, that information will surface as well. Disapproving customers may take decision to avoid banks X and Y and choose to do business with Z instead.

2.10 Why people act unethically?

2.10.1 People are taught to be good.

Our families, teachers, headmasters, bosses, scout and guide leaders, religious leaders, political leaders, even our favorite heroes in films, books and TV may have served as

examples for us to live by. Regardless of whether we chose Pooh or Superman, or Agatha Christie or Lewis Carroll's Red Queen, each individual modeled good behavior or, on the other hand, demonstrated what might happen if we violated rules. In the other words, along with learning what was right and what was wrong, we also learned that there was a price to be paid if you weren't good, or if we weren't well-behaved, or if we didn't do the right thing.

Given all that exposure throughout our childhood to the notion of what it is to be good, one would think that for the rest of his live he would all have little difficulty making the choice between doing what is right or doing what is wrong. Presumably we know that:

- We shouldn't lie
- We shouldn't steel
- We shouldn't hurt anyone

We are also well aware that we should give credit where credit is due. Some of us may have been thought: do to others as you would have them do to you. Notice the use of the phrase: 'some of us'. Although we all may have standards, they are different for different people. So even though we are taught to be good, we aren't always so. One may ask why? And the answer will be like following.

2.10.2 People have diverse standards.

There are numerous incidents in the workplace in which otherwise fair, kind, civilized people may be perceived as cheating, lying and stealing as a matter of course. They themselves may not believe that they are cheats, liar or thieves and while some managers may not believe they are, other managers surely will.

2.10.3 We are human.

As young people we have our standards set for us by people we respect. Why, then, are these standards ignored later in life? Why do people cut corners, or engage in shady behavior, and yet choose not to see what they are doing in its true light? Why do some people expect to be excused for what they may think of as mere oversights when, in fact, these peccadilloes are actually unethical behavior? The answer is simple. It is because each of us is a unique individual, and each of us is human.

Each one of us is a complex combination of fears and doubts, of hopes and dreams, of dreads and worries. Each one of us is different. If scratch the surface, one can see that with a bit of creativity, each of people's foibles or their aspirations might easily fit a character in *Eastenders*, *Coronation Street* or *The Bill*. In our own way, we are as idiosyncratic as those characters.

All people are a unique combination of heredity, environment, abilities, talents and experiences. Just as one come to school or to marriage with those qualities, he will come to the workplace with those strengths and weaknesses too; people come with talent, with 'baggage', with needs, sensibilities, sensitivities, and values. Finally, people come with different kinds of education. Some lessons we learned at our mother's knee or by being bent over it, or we learned them on the playing field, in the classroom, in the church, synagogue or mosque, or from the lollipop lady.

Just as one may have been born with blue eyes and brown hair to a particular set of parents in a particular location in the world – Kent, Singapore, San Antonio – we all have a personality that was both determined by birth and influenced by that environment. It is all well and good to focus on completing the contract or finishing the report, meeting the deadline or distributing the product, but all of those activities involve human beings and human interactions for the way in which business is done. Our dreams affect the way we do

business. Our values affect the way we do business. Our ethics affect the way we do business. And our dreams, values, idiosyncrasies and ethics affect the way people do business with us.

Yes, we are reared with a set of values given to us by diverse people, and yes, we are all idiosyncratic, with dreams and aspirations that vary with each of us. In addition, each of us is a complex bundle of standards and dreams, of doubts and convictions. We also have varying motivations and needs at different times in our lives. Given the combination of what each of us wants and what is important to us, given what drives us and what we value, one can see that any time each of us may behave in ways that enable us to best achieve what we want and need.

2.10.4 Pressure may cause a person act unethically.

Diverse influences may affect our ethics. What we want or need may outweigh our considerations of right or wrong. As a result, personal pressure may put our needs above those of others. Sometimes those pressures are such that we behave unethically.

2.10.5 People forget to think about values.

Although a few people may be motivated by some Machiavellian need for power over others and might deliberately go to extreme lengths to achieve their ends, when it comes to making unethical decisions the reason, more often than not, is that we just don't think about ethics of the situation. People are so focused on getting the job done that even doesn't take time to reflect on the values involved in the situation.

Because of all these reasons, bankers must keep in mind that we are all brought up with standards, that we all are unique and are motivated by different needs and drives. Managers

should think about themselves and their staff as people with strengths and weaknesses. They should ensure that the staff is encouraged to reflect on themselves, on what they are doing, on why they are doing it, as well as on what they may be forgetting to do in their rush to get the job done.

Simply, if unethical events happen wittingly or unwittingly in business relationships, whether between bankers themselves or between bankers and the public, there are serious implications for those errors or oversights. In other words, each action has an reaction or cost.

(Tierney Elizabeth P, 1996 Business ethics. pp. 31-36)

2.11 Cost of unethical behavior. Different views

There already were given some names that have become increasingly better known for reasons other than quality of their services. BCCI, Barings Bank was included. In fact, these represent only a fraction of banks that have been in the news because of questionable dealings in some grey, undefined or unregulated area.

There could be compiled another kind of list, but it would more difficult doing so, because no newspapers or TV headlines would help to identify where to locate these banks. This second list entitled, 'The Ones Who Pulled it Off', would include the names of banks who have employed fraudulent practices for years and who have never been caught.

Some bankers reject any discussion of ethics. They fail to see the merit in the positive implications of the issue and don't want to see the costs associated with unethical practices. Therefore, they definitely argue against the practically being ethical in banking. One reason for that view is that the outcomes of shady dealings are not all negative. To the contrary,

some bankers are successfully at making money that way; why else they would embark on such courses of action?

Despite the view that suggests there is no need to address ethics, increasing number of bankers are becoming aware that more banks are getting caught, that politicians are resigning, or that even major athletes are being sidelined because of questionable practices. Of course, not everyone is caught, resigned or is sidelined. Charlatans have had successful careers. Many banks have become 'rich quick' on the gullibility or dreams of other people.

This is not intended to suggest that all bankers are dishonest. But there are many banks that who have been behaving unethically because they look about them and see how many have been getting away with such behavior for years. Crimes go unsolved, and criminals get away with murder, despite the efforts of police. In the same way, those who succeed in business by employing unethical practices may get away with it as well.

2.11.1 Cost related to the individuals working in the institution

These are related to the individuals working in the bank.

- **Less effective teamwork**

One of the important bank requirements is teamwork. If there is no trust among the members of a team than goals, tasks and projects will not be implemented efficiently. Each member of the team will face difficulties in doing his job. Employees may hold back, may not be available for the meetings, may not take risk or offer creative solutions.

- **Loss of confidentiality**

A decline in the sharing of confidential information, both positive and negative is another outcome. If one employee doesn't know what another employee will do with information provided to him, how can he risk sharing that data? Or letting that another employee to attend a meeting at which sensitive matters are discussed? The answer is simple. He can't.

- **Censored communication**

As the trust diminishes, as confidentiality wanes, what happens to communication, a vital component in the health of a bank? If one employee doesn't trust another, he will probably no longer trust his work, his calculations. He will no longer have faith that his colleague will do the job that needs to be done. So, the reputation of that colleague will continue to fall in his partner's eyes.

- **Loss of self-esteem**

People's first instinct in the case of violated confidentiality is to kick themselves for not seeing the obvious and then to ask why they trusted that person in the first place.

When someone we trusted breaks confidentiality or neglects responsibility, typically the first person people find fault with are themselves. Thus they start to blame their own judgment. Humans are highly self-critical. And such situations may reinforce people's doubts and insecurities.

- **Lack of commitment**

If person's self-esteem is damaged he becomes unsure about the efficacy of his actions or the wisdom of his ideas, it is not surprising for his enthusiasm for the position and for the

bank to wane. If team's energy is being expended on protecting flanks from attacks by colleagues or from upper management, then it shouldn't be long before the desire to perform well for success of the bank will fade.

- **Declining loyalty**

Loyalty goes hand to hand with commitment, to say nothing of responsibility. When employees are disaffected then they don't want to share any ideas with management because of the fact they believe those ideas will be stolen without acknowledging their initiative. The main assumption here is why employees must give their loyalty if bank is giving nothing back to them.

- **Resignation**

Sooner or later such an employee is sure to retire from the job or opt to leave the bank in search of greener, fairer pastures. On the one hand, bank could be left with the cost of recruitment, induction and training of a new employee and the possible need to double up responsibilities while the position is vacant. On the other hand, if employee doesn't leave, bank will concern about the messages and attitudes he is conveying to other members of the department. In either event, quality of service is likely to decline.

- **Trust matters**

Certainly, other factors also affect performance. Some employees are inherently lazy, are not skilled or are unwilling or unable to learn, or they enjoy resting more than they do work. However, more often than not, most employees thrive on positive aspects of work: growth, trust, and responsibility. It is difficult to have pride in your own work if you are given no responsibility or are not trusted to be committed to doing a job well. If it is so then on personal level an individual is devastated. Now multiply that individual's reaction by

several more people in a department or by several departments. It is seen that individual loss of trust might change attitude, which in turn might impact creativity, productivity, motivation or performance.

2.11.2 Cost of unethical behavior to the bank itself.

Instead of examining the impact on an individual working in an uncomfortable, unethical environment, let's look at the possible impact of unethical practices on the bank as a whole. There is no doubt that major banks of the world have paid mightily when their nefarious conduct was revealed. In extreme cases some individuals have been imprisoned. Others may have chosen suicide, rather than face the public humiliation that such scrutiny leads to. Others have forfeited their careers.

- **Loss of trust**

Success of a bank is, in part, contingent on his ability to establish trust. The loss of trust might lead to loss of confidentiality, to censored communication, to poor self-esteem, to lack of commitment, to diminishing loyalty. With the exception of the last, resignation, each one of these words represents an intangible element which is essential to bank's success. The basic assumption is that successful business relationships are built on the conviction that each party believes that what other person is saying is true.

- **Loss of good name**

Another cost associated with unethical behaviors or practices resulting from the loss of trust may be bank's good name. It is known that unhappy customers tell more people about bad services than they do about good services. In that very way, the fine reputation may be replaced with a poor one. A bank previously known for its good name can quickly become

infamous for double-dealing, for promises not kept or for employing other shoddy business practices.

Damage to a bank name or the suggestion of impropriety may lead to a fall-of in accounts. Customers may opt to deal with another bank, credits will decline. Ultimately, so the profits. Question will be asked: has there been mishandling of public money and public trust? What are likely implications of unethical conduct? Litigation, for one. If that's the case, lawyers and barristers cost money. Trials cost money, so do in and out court settlements. Legal paperwork is expensive. What about image of the bank. It definitely will be tarnished.

It is difficult to drive full speed ahead with your eyes on the rear-view mirror. A bank that is dealing with the burden of the public awareness of unethical dealings cannot be focusing on the road ahead, on its mission and objectives, on who or what is gaining on it, or even passing. Instead, such a bank is expending resources working out where it has been and on how it got there. That rearward-looking behavior is a consequence of unethical practice.

- **Expenditure of energy**

There are costs associated with success through deception. Expenditure of energy might be one. Imagine investing precious resources to ensure that your questionable practices don't become too public, that you don't get caught, or that you don't become prey to blackmailers. Picture such a bank needing two sets of books, hiding accounts in false bottom drawers or on exotic islands, ensuring that no one sees certain papers or overhears phone conversations. It must be wearying to swear people to secrecy. It must be tiresome that the Inland Revenue won't notice that customers overlooked slightly inflated prices for services. It must be draining to anticipate a problem and then have to script a way out of it.

Ethics may appear to be a subject that is soft and intangible. However, in the final analysis, the lack of ethics may damage what is hard, tangible and measurable, the bottom line, the dollars and cents, the pounds and pence. In addition, reputation and career may be ruined because ethics is ignored.

2.12 How ethical working environment can be created.

If there are so many costs damaging the financial position of the bank then one might ask 'what should be done in the way to establish ethical standards in the institution?'. Revolution in the bank must start from the top. That means that at the beginning management of the bank have to recognize the need for ethical working environment. Following are some steps that should be implemented by bank managers:

1. The decision to commit ethics should be made.
2. Recognition that managers are models by definition, by their actions and their values.
3. Assuming the responsibility for instilling ethical behavior.
4. Determining what ethical practice is.
5. Articulating the values.
6. Training the staff.
7. Encouraging open communication.
8. Being consistent.

Now, let's have a closer view on each of the listed steps.

Step 1. Decision to commit ethics.

The first step in the process requires that management of the bank make a decision to commit ethics. If it is decided that ethics is important, than extra resources should be

invested in the way to foster an ethical climate. The most of those resources will involve the allocating time to ethics. At a later stage, staff's time will be needed as well.

Step 2. Recognition that managers are models for employees.

Managers are role models by **definition**. Managers have the power because they have been given a job with specific responsibilities and functions. Managers have a title. Their relationships with the people with whom they do business-subordinates, customers-are affected by that role, by the title and by the decisions they make in that capacity. Managers call the meetings. Managers decide who will or will not attend. Managers set the agenda.

Managers are role **models by action**. Management is about decision making. Managers are the bosses. Their subordinates know that manager's evaluation, appraisal, affects their careers as well as the pay packets. Bank's staff knows that in the way to succeed they will have to meet with manager's approval and expectations. Managers are always watched and scrutinized. The physical trappings of the role are noticed too: the polished shoes, the quality hair cut, the style of the clothes, the condition of the office as well as the amount of paperwork on the desk.

Finally, managers are **role models by their values**. To foster the growth of an ethical environment, managers have to accept they are a role model, not only because of their choice of clothing and office layout, but also because of their values. Manager's attitudes, decisions, practices, behavior are scrutinized and replicated by the staff. It is important not to underestimate how visible some of unspoken values are. Like manager's speech pattern or phone manner, his standards affect the people. Staff has to be trained to do high standard business. If the manager is rude and abrasive on the phone when he is under pressure, than it is easy for members of the staff to model that behavior.

The lesson to be learned is that if the boss does it, so can I. In essence, without even calling a meeting to articulate ethical standards, rules, or values, what manager do and how he behave reflect his inner values.

Step 3. Assuming the responsibility.

The responsibility for setting ethical standards starts at the top. If one speaks about importance of being responsible or fair, but behave himself in a manner that is neither responsible nor fair, that behavior will outweigh those words. Negative values are transmitted to people one contacts. Therefore, the responsibility must be assumed. The mantle of power is on manager's shoulders. He is role model, he is the one who has the impact on others. Manager should precisely know what that is he stands for.

Step 4. Determining what is ethical practice.

Having accepted the responsibility and the power, manager should analyze what he believes is acceptable or unacceptable practice. Is profit at any cost the most important thing? Would the bank extend a credit to a company that has questionable business practices or human rights violations? To make ethics a priority and to instill values in the staff, manager has to determine what is important about the way of doing business. To do that, manager must think about all aspects of the bank practice: customer relationship, hiring, advertising, accounting system etc.

Step 5. Articulating the values.

In this step manager must consider the mechanisms available to share his views with the staff. The staff must precisely know what they are expected to do. They shouldn't guess what they are, rely on innuendo or interpret manager's body language. In many banks, mission statements, vision statements, codes of conduct, credos or codes of practice are

used as mechanisms for articulating standards and values. One of the ways to learn is by rote memory. So, it may be the best way for the staff to understand the values of the bank if to write them on a sheet of paper and ask them to memorize it. E.g. 'I will be responsible to my customers', 'Fairness is important in all dealings'.

Step 6. Training the staff.

To ensure that staff knows what manager means when referring to 'dignity' or 'fairness'; he must bring them to talk. The ways of doing business in ethical way should be discussed during those meetings. Real work situation that just happened may be one of the topics proposed for analyze. Once manager has decided that ethics belongs on the table, not in the back corner of the yard, and that there is some consensus about what 'dignity' or 'fairness' mean he can pass to the following step.

Step 7. Encouraging open communication.

Manager has to foster communication among the staff. They need to feel free to bring issues involving standards, values and ethics to discussion without fear of reprisal, fear of losing job or damaging their careers. Manager must be approachable. He must devote an extra time for this type of problems. Some large banks created positions, the sole function of which is to address ethical problems.

Step 8. Being consistent.

The final step is to ensure that people are being consistent and open. Manager must be sure that if bank's standards are violated, the individual who has breached the code will pay an appropriate price for that inappropriate behavior. If there are no consequences to unethical actions, than manager is modeling the fact that what he says has nothing to do with what he does.

In essence, in the way to create an ethical environment manager must reflect on his role and on relationships he has and wants to keep with all stakeholders. He must assume the responsibility for instilling ethical behavior, determine what he considers to be ethical practice, then articulate those values. Having done that, he must ensure that his staff is trained to recognize, understand and handle ethical dilemmas and to see that they work by the values manager articulated. Manager should encourage open communication and be consistent in his dealings.

(Tierney Elizabeth P, 1996 Business ethics. pp. 68-73)

2.13 Conclusion

This section presented some empirical views on banking ethics. It defined the ethical dilemma and supplied a method for establishment ethical environment in bank.

SECTION 3 METHODOLOGY

3.1 Introduction

This section explains the methods used for the purpose of this study.

3.2 Theoretical information

As a first step of this study **literature review** was carried. Its purpose was identifying the problem of ethics in banking and providing some existing remedies for establishment of ethical environment in the institution. Information was obtained from variety of sources. All references are made in the special section of the study called **references**. A theoretical model of ethics in banking was constructed with the help of assessed information. Model is presented in details in **section 4 theoretical model**.

3.2 Questionnaire

As a next step in the research, customer's interrogation was carried out. Questionnaire itself was obtained from Asst.Prof.Dr.Okan Şafaklı and translated in English. It consisted of 17 questions related to the customers' perceptions of ethics in the banks they use (see appendix). It was offered a sample out of 250 respondents. Decision about the number of respondents was made in cooperation with Asst.Prof.Dr.Okan Şafaklı. Number and addresses of foreign branch banks operating in T.R.N.C. were found from internet after what each branch was visited in apart.

Table available from internet is presented on the next page of the study.

FOREIGN BANKS BRANCHES

1) T.C.Ziraat Bankası	105, Girne Avenue Lefkoşa, TRNC	0392 2283050	0392 2282401
2) Türkiye Halk Bankası A.Ş.	6, Osman Paşa Avenue Lefkoşa, TRNC	0392 2288545	0392 2282900
3) HSBC Bank A.Ş.	78, Girne Avenue Lefkoşa, TRNC	0392 2270300	0392 2270303
4) Türkiye İş Bankası A.Ş.	9, Girne Avenue Lefkoşa, TRNC	0392 2283133	0392 2278315
5) Oyak Bank A.Ş.	Girne Street Atatürk Avenue No7/A Lefkoşa, TRNC	0392 2285510	0392 2286815
6) Türkiye Garanti Bank A.Ş.	Osman Paşa Street Lefkoşa, KKTC	0392 2290980	0392 2290981

(<http://www.kktcmb.trnc.net/ENGLISH/banks/banks-eng.html> 16 June, 2005)

While interrogation, customers of T.R.N.C. foreign branch banks, were asked to answer all the questions from the questionnaire. Unfortunately, permission to performing this questionnaire inside the bank building wasn't given. Managers appealed to the need of special permission from regulatory bodies. All respondents were asked to fill the questionnaire at the banks' doors. There were some respondents found in the NEU campus as well.

3.3 Systematization of findings

After, results of questionnaire were systematized in the bar chart presented in the **section 5** of this study. Followed the conclusions after each chart. Major findings of the study were presented in the **section 6 conclusions**.

3.4 Conclusion

This section discussed the steps involved in carrying out the research.

SECTION 4 THEORETICAL MODEL

4.1 Introduction

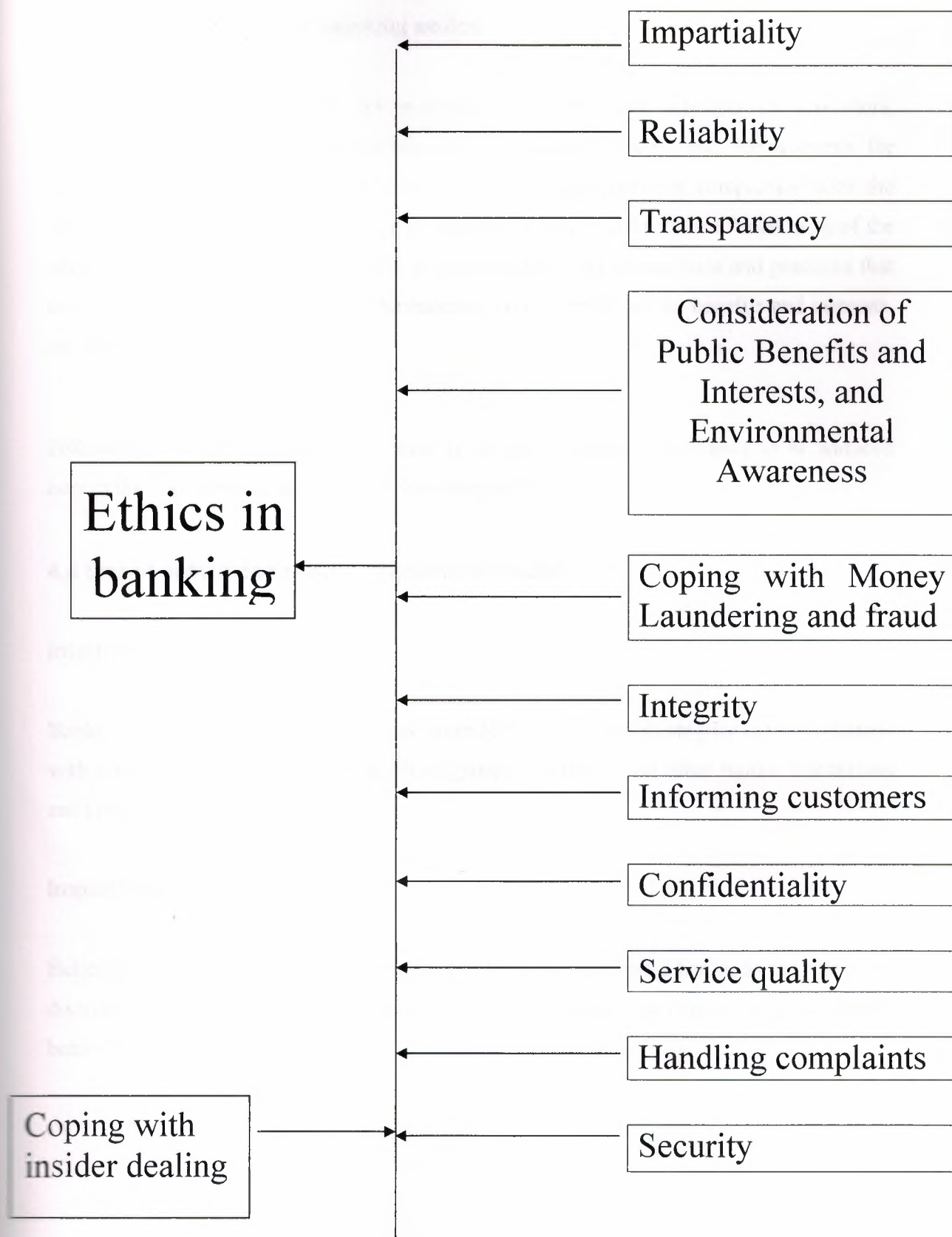
In this section a theoretical model of ethics in banking is offered. Some important definitions related to banking ethics and bank's duties owed to the customer will be supplied. Theoretical model is constructed with the help of information assessed in the previous sections of the study.

4.2 Theoretical model of ethics in banking

Banking ethics is a set of rules of good conduct which governs relations between credit institutions itself as well as with its customers and with third parties. Bank's philosophy is to give customers that "extra something" - be it courtesy, fairness, flexibility, efficiency or professionalism. This special service must be reflected in the attitude of all who work for the organization.

The purpose of these rules is to establish standards of good banking practice, as these have evolved from customary law and internationally accepted principles of conduct and to enable financial institutions, regulatory bodies and their employees to know in clear terms what acts, conducts, omissions and practices are considered unethical, and the appropriate sanctions that would apply for non-compliance with the code. It is expected that this code would bring about discipline and professionalism in the industry.

The basic aim of the Code is to increase transparency and openness during transactions and, above all, to consolidate a climate of mutual trust, in the relations between banks and in their dealings with customers. The rules encourage and promote healthy competition between financial institutions and allow market forces to operate freely, thus achieving improved quality of services and products for the benefit of customers.



4.3 General principles of banking ethics

Considering the requirements for protection of rights and interests of depositors, establishment of stability and confidence in financial markets, and requirements for economic development, banks have to pursue their operations in compliance with the following general principles. They have to ensure effective and efficient functioning of the deposit and credit systems. They have to avoid and prevent transactions and practices that could cause important damages to the economy, consider the public benefits and interests, and to protect environment.

Followings are definitions of terms used in the previous table. They have to be adduced here in the way to avoid ambiguity in their interpretation.

4.4 List of definitions used in theoretical model

Integrity

Banks, while performing their activities, consider the principle of integrity in their relations with customers, employees, shareholders, group companies and other banks, institutions and corporations.

Impartiality

Believing the importance of respecting people for being successful banks do not make any discrimination among their employees or their customers, and avoid any prejudiced behavior.

Reliability

In all services and transactions, banks serve the customers in a mutual understanding of confidence, and provide their customers with clear and accurate information, and render customer services completely and on a timely basis.

Transparency

Banks inform customers in a clear and lucid manner on subjects such as rights and obligations. Customer information - Transparency of transactions

Relations between banks and their customers should be based on mutual trust; both parties will always encourage honest and systematic exchange of information on all aspects of their transactions.

When executing transactions, banks will show due diligence; they must make available in their premises information leaflets on the basic banking services offered, and provide, in each case, all the necessary details, in clear and simple form.

Banks must use a uniform terminology with a common meaning.

Customers must be notified in advance of any change to the terms and conditions governing their relationship with the bank, in the most appropriate manner in each case, collectively or individually. They must be given reasonable notice before any change takes effect, to enable them to terminate their relationship with the bank if they so wish.

Actions, benefits and risks of the products and services provided to them.

(<http://www.frontierbank.com/?type=273>) May 20, 2005

Consideration of Public Benefits and Interests, and Environmental Awareness

Banks may fulfill their social responsibility and environmental awareness through supporting social and cultural activities.

Coping with Money Laundering and fraud

This is a dishonest concealment of the through source of money. Money laundering is usually related to the trafficking dangerous drugs and people selling. That is why a customer must be identified when opening an account or transacting business involving huge sums in a single transaction. Bank must pay special attention to any transaction which looks it may be money laundering.

When complying with their obligations, under the existing legislation on the prevention and control of money laundering, banks should be extremely careful and take the necessary organizational and administrative measures to ensure respect of the law, avoid causing undue injury to customers' reputation and provide their employees with the necessary administrative and legal support in each case.

Fraud can be committed by insiders or outsiders. One of the ways to fight it is by bank auditors. They now have a duty to report to the regulators anything which gives rise to the concern over the bank dealings. Fraud by outsiders may be at a expense of the bank.

Within the framework of international and national regulations, banks cope with offences such as fraud and money laundering and cooperate with other banks, with other relevant institutions, establishments and government agencies for this purpose. They also take necessary measures in their own organization, and provide their personal with training courses against fraud and money laundering.

Coping with insider dealing

Bank officials would be in this group if there were a business relationship between a bank and company. Officials in a corporate finance department of the multinational bank would be caught if they informed bank security department with information expecting it to make a certain deal.

This problem could be avoided by setting out a 'Chinese Wall'. That is a barrier between 2 arms of a business working independently from each other. In a present example such a barrier would be erected between corporate finance and security department to ensure there is no risk that managers in a security department benefit from insider information provided by their colleagues in corporate finance department.

Secrecy

Banks may request, collect and store primarily financial information on customers provided this information is essential to determine whether the necessary conditions for extending, developing or ceasing to provide bank services, are met. Banks will ensure the lawful use and safety of the above information, in accordance with the legislation in force.

Banks are required by law to satisfy themselves about the identity of a person seeking to open a deposit account or to conclude any other agreement for banking services, by examining all legal documents in proof.

The one duty that all customers expect from their banks is that of secrecy and breach of this duty gives a customer a claim to damages which will be awarded by the court in proportion to the damage done to his financial reputation. Care should be exercised in all dealings with customer's statements, request from other banks for status reports and references, and when returning checks for lack of funds on the account. In particular, telephone inquiries

concerning the balance of the account should be handled cautiously: each bank has its own regulations but, generally speaking, the balance should be disclosed only upon the positive identification of the customer. This is difficult over the telephone but the caller could be asked to state the amounts of recent standing orders or items paid in during the past week or so, or to estimate the balance of the account.

Under following circumstances, information about a customer's account can be disclosed.

- Under compulsion of law;
- Under a public duty;
- Where required by the interests of the bank;
- Where made by express or implied consent of the customer.

The exchange of consolidated information between banks relating to groups of customers, as part of the electronic transfer of quantitative data on transactions and/or for statistical purposes, does not constitute a breach of confidentiality.

(Cox, David, 1946- Success in elements of banking.-3rd ed.-pp.201-203)

Service quality

Banks must offer all customers the same level and quality of service and avoid, when providing such service, any discrimination on grounds of nationality, religion, sex, financial situation or professional capacity.

However, the following may not be construed as discrimination or categorization of customers and diversification of service:

- refusing to provide services or providing same in a manner not consistent with statutory provisions or established practice, when this is dictated by legal and economic reasons relating to a particular customer;
- using diversified tariffs for services offered, based on the calculated or potential Volume of business which the customer represents or on a risk assessment;
- providing different operational conditions for customer service because of the nature of the transactions or the need to effect them reasonably quickly;
- Offering to groups or categories of customers or prospective customers who share common characteristics, financial products or versions of same, especially designed to satisfy the requirements of such customers.

Banks should constantly seek to modernize and improve the technological features of their products and services and ensure that the electronic services they offer are supported by widely used application systems, i.e. systems that can be easily operated by the average customer. In addition, they should guarantee the interoperability of their systems both at national and international level.

Banks must ensure that the technical and other operational conditions relating to services based on the use of new technologies are clear and can be easily understood by people who are not very familiar with the use of new technology in respect of banking operations.

Before concluding any agreements requiring the use of new technology in relation to specific products, services or transaction systems, banks must provide information to customers on the possible shortcomings associated with the use of such technologies and the way they can be handled, as well as on the rights and obligations of the contracting parties.

Banks must explain to their customers the estimated financial or operational advantages of new technology, as well as any costs they may incur in case they should stop using such technology.

Banks must ensure that transactions effected by means of electronic devices comply with the contractual and legal rules governing such transactions and take all legal measures for the protection of the personal data of the contracting parties, in the course of the system's operation.

They must guarantee the safety of the transactions initiated by means of electronic devices and the accurate recording, display and storing of the relevant operations in the bank's files. The above obligation of banks does not relieve the customer from the responsibility of complying with the rules relating to the use and safe keeping of the electronic device which, directly or indirectly, in total or in part, would permit the use of such technology by unauthorized third parties in order to communicate with the bank and/or effect transactions.

Banks will not be held liable for any misuse of the electronic device and ensuing economic and other consequences for the lawful user, until they have been notified of the fact.

Handling customers' complaints

Banks must handle with courtesy and care and investigate impartially any complaints or grievances of their customers concerning their relations with the bank.

To this end they will:

- must dispose of a special service for the investigation of complaints or grievances, independent from the other bank departments.
- must inform customers about their internal procedure for receiving, investigating and assessing complaints or grievances;
- must reply to customers in writing, within a reasonable time, after receiving their complaint;

Banking ombudsman

The Ombudsman for Banking Services and Investments is an independent dispute-resolution body that investigates unresolved customer complaints related to financial-service providers including banks and other deposit-taking institutions, investment dealers, mutual fund dealers and mutual fund companies.

When the Banking Ombudsman decides to investigate a complaint it is assigned to an investigator. The investigator will obtain all the necessary information from both customer and the bank to assist in resolving customer's complaint. If the complaint is unable to be settled with the assistance of the investigator, the Banking Ombudsman will personally review the complaint and will make a decision on it.

If it is decided that a bank has acted wrongly and that customer have suffered a loss as a result, the Banking Ombudsman can require the bank to pay compensation – up to \$120,000 for direct loss or damage, or \$150,000 in the case of banking services relating to insurance and up to \$4,000 for inconvenience (stress, embarrassment etc).

If the Banking Ombudsman thinks that the bank has treated a customer fairly, or has not caused the loss, damage or inconvenience they will tell so.

(<http://www.bankombudsman.org.nz/faq.html>. June 16, 2005)

4.5 Conclusion

In this section a theoretical model of ethics in banking was offered. Some important definitions related to banking ethics and bank duties owed to the customer were supplied.

SECTION 5 FINDINGS

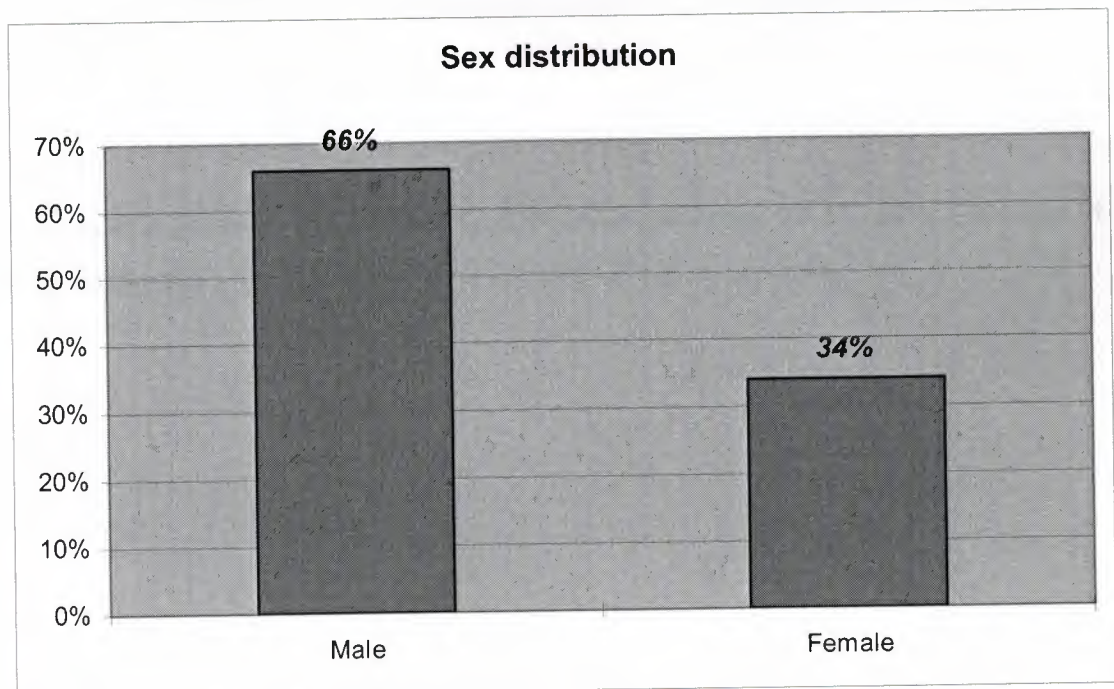
5.1 Introduction

Followings represent the findings from the questionnaire carried out during the May 16, 2005 till May 21, 2005. In this section all results related to this study are presented. Short comments and major findings follow each bar chart distribution. The results are reported on question by question basis.

5.2 Questionnaire results

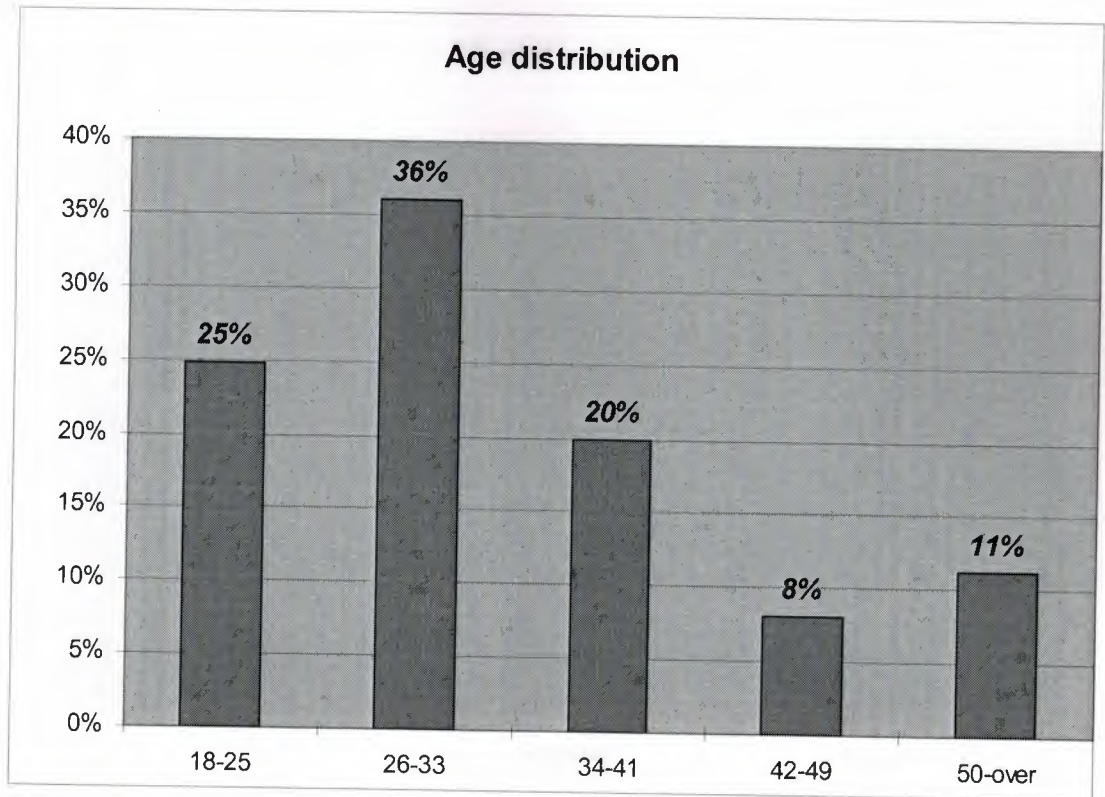
5.2.1 Demographic questions.

Q 1.



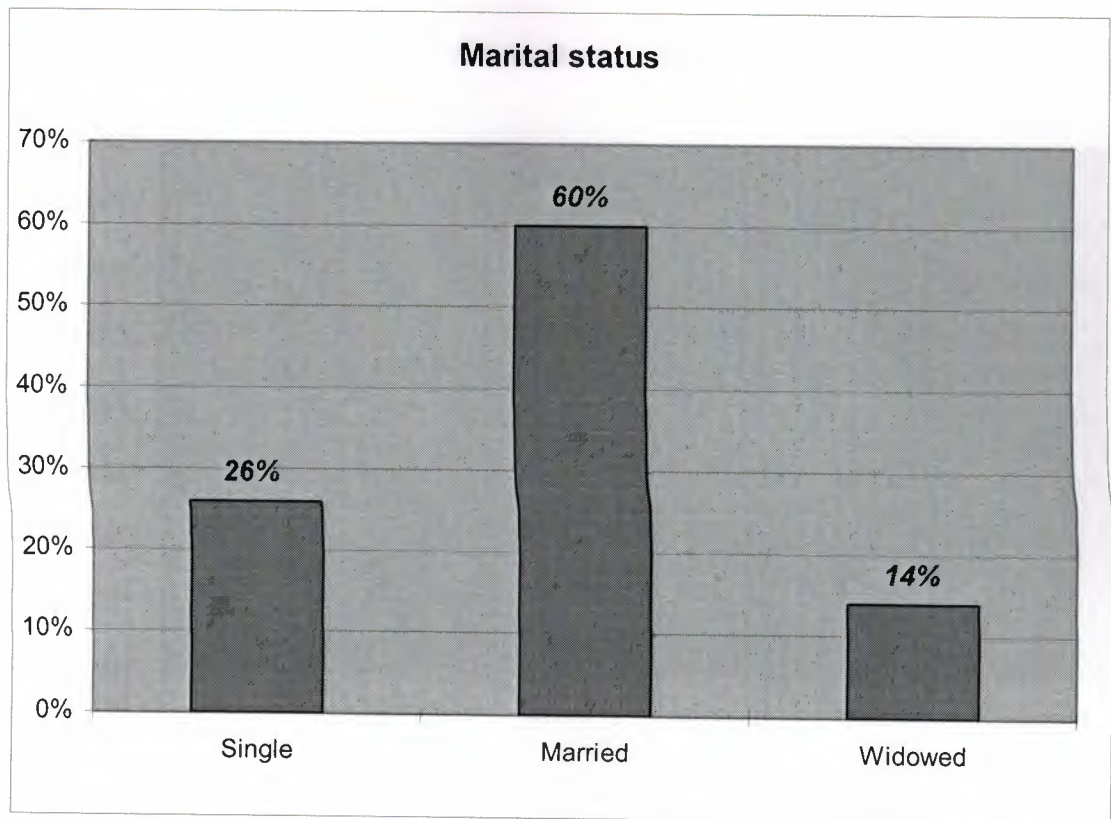
Majority of respondents are male. They make up 66%. Females are presented by 34% of respondents.

Q 2.



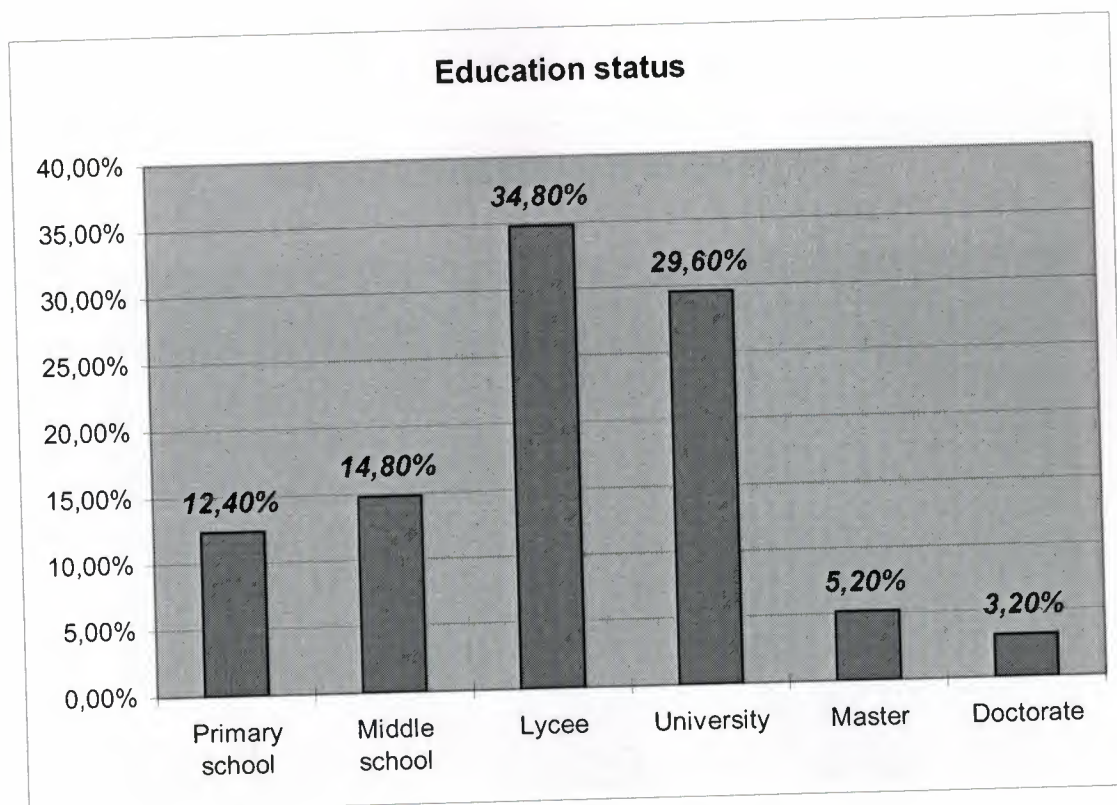
Respondents between 18-25 make up 25% of respondents. 26-33, 36%. Between 34-41 20%. Between 42-49, 8%. 50 and over are just 11% of respondents.

Q 3.



Majority of respondents are married. They make up 60% of the interrogated customers. 26% are single. And only 14% widowed.

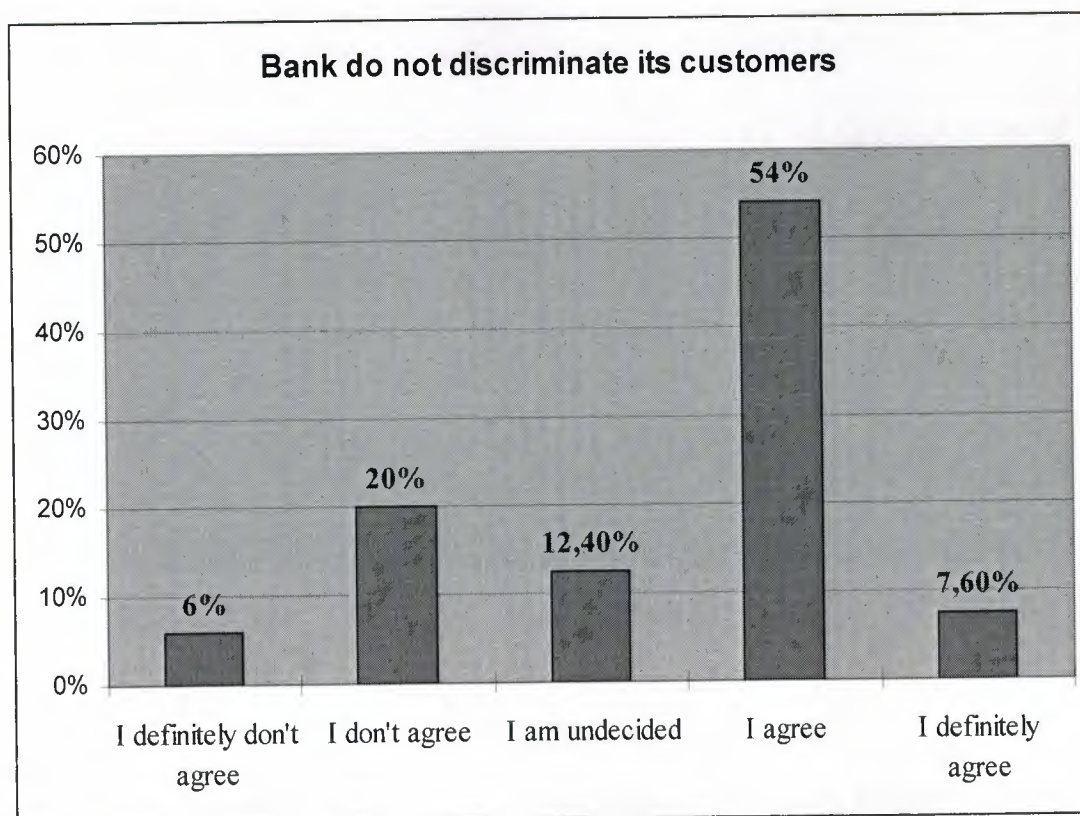
Q 4.



Majority of respondents are lyceum graduates. They make up 34.8% of respondents. Followed by 29.6% university graduates. 14.8% middle school graduates. 12.4% primary school graduates. 5.2% masters and 3.2% doctors.

5.2.2 Questions related to the ethics in banking

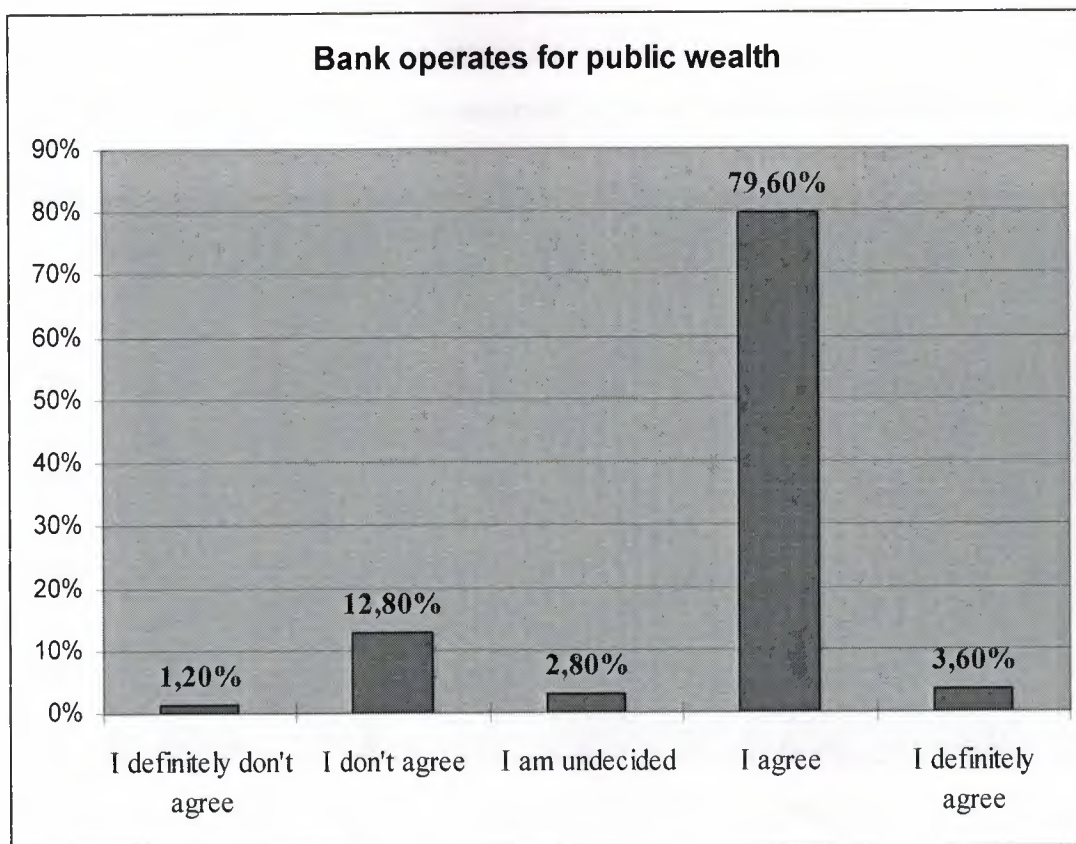
Q.1



Majority of respondents gave positive answer on this question. 54% and 7.6% agree or definitely agree correspondently. However, there are people who think that banks do discriminate customers. As a total share of respondents they are presented by 20% and 6% who don't agree or definitely don't agree correspondently. In the following discussion the shares of those who agree or definitely agree will be combined as a matter of convenience. The customers who are undecided about this question make up 12.40%.

Major finding here is that 61.6% of respondents believe that banks don't discriminate customers. However, the matter of concern is that 26% believe that they do so and still 12.6% are undecided.

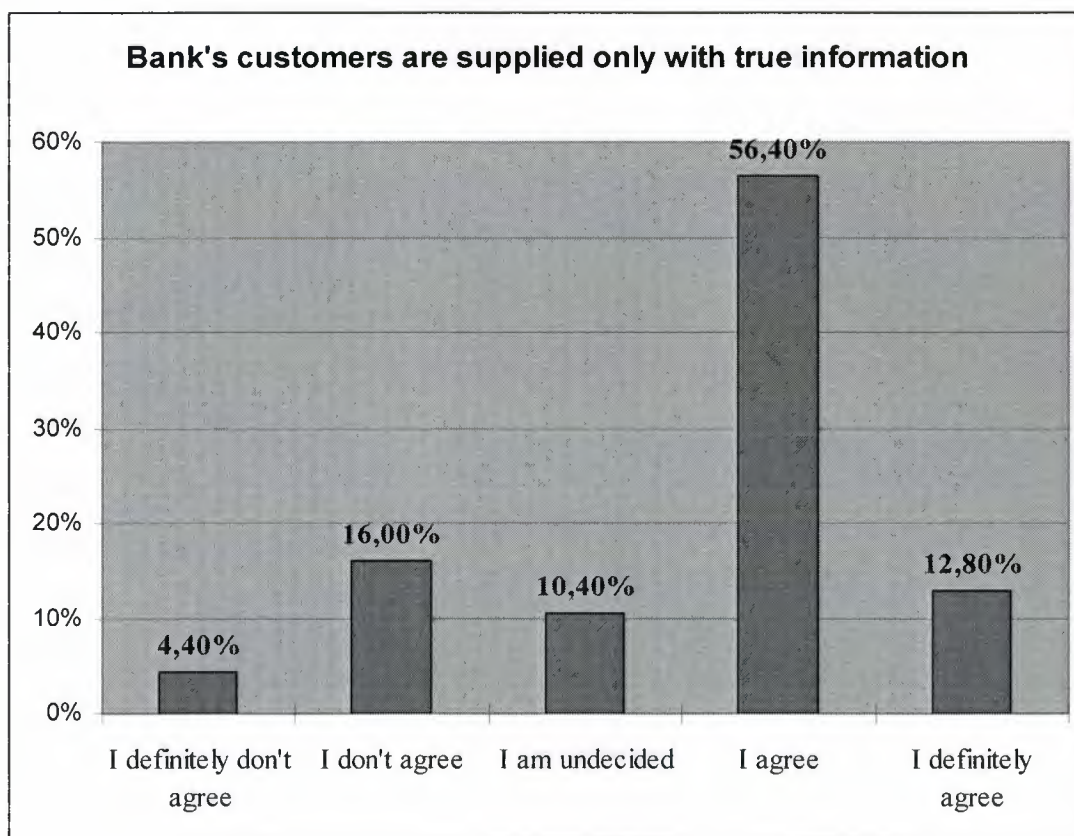
Q 2.



Majority of respondents do really believe that banks are operating for public wealth. Their number is 83.2%. The difference between those who believe and do not is lower in this case. As a total share of all respondents who gave negative answer is only 14%. Customers who are undecided about this question make up 2.8%.

Major finding is that 83.2% of respondents support the confirmation that bank operates for public wealth.

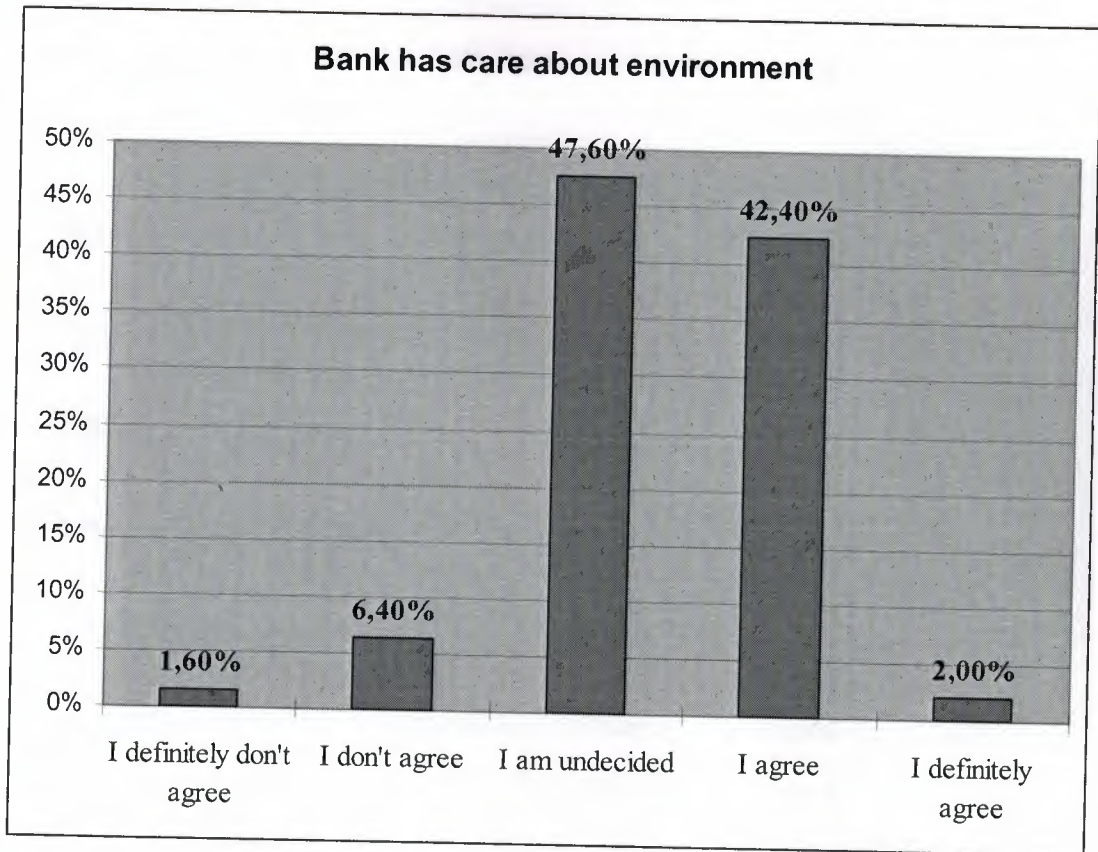
Q 3.



69.2% of all respondents agree with stated affirmation. 20.4% have their own view that definitely does coincide with majority. And still are those who are undecided. They make up 10.4% as a total share of all respondents.

By the 69.2% majority banks are believed to be honest with customers. This is good credit of trust to the institutions.

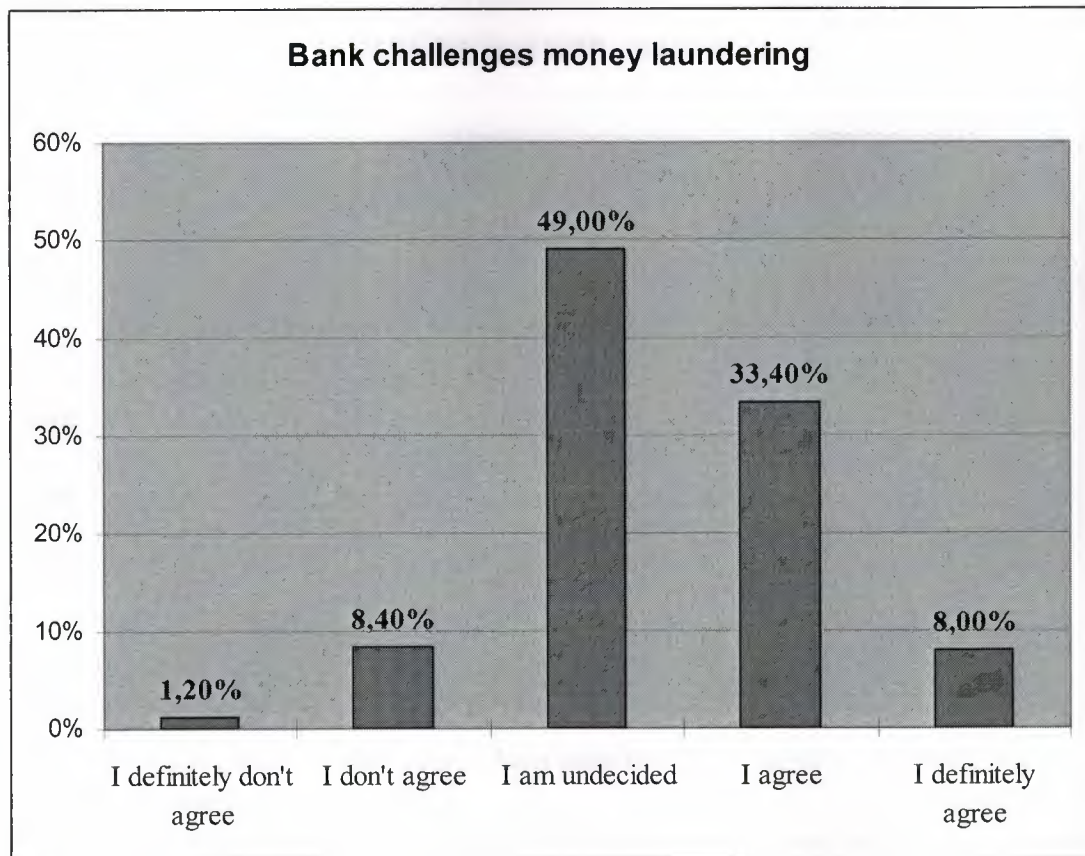
Q 4.



This question appeared to be difficult to answer. The main reason for that is lack of understanding of the subject. Not surprisingly 47.6% of respondents are undecided. 44.4% agree and 8% don't.

As a major finding, indecisiveness of majority of respondents comes to the first plan. Lack of understanding of the subject made 47.6% of respondents give neither positive nor negative answer.

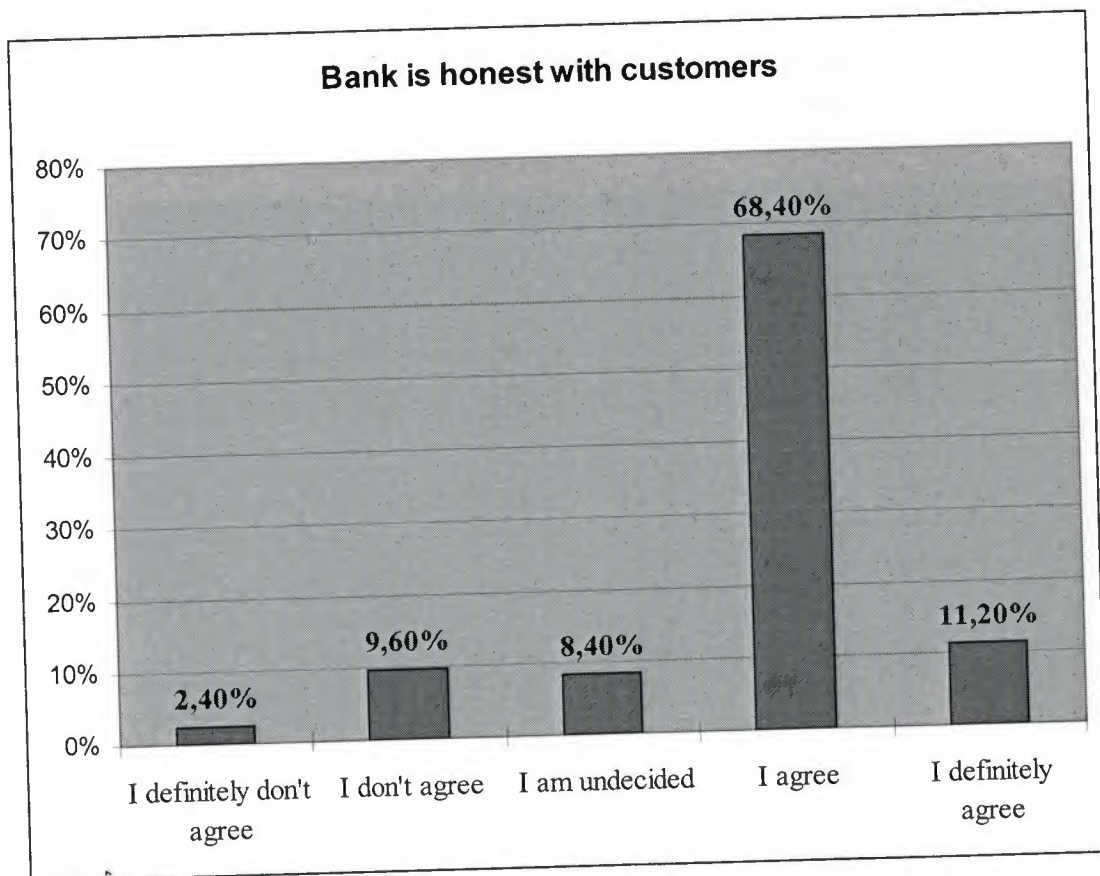
Q 5.



As in the previous question, we have 49% of respondents who are undecided about the problem of money laundering. 41.4% believe that bank struggles in this field. And only 9.6% don't believe in the cleanness of the institution.

As a major finding, we can point the fact that the situation with money laundering is unclear for customer's majority. 49% of all respondents meet difficulties in answering this question.

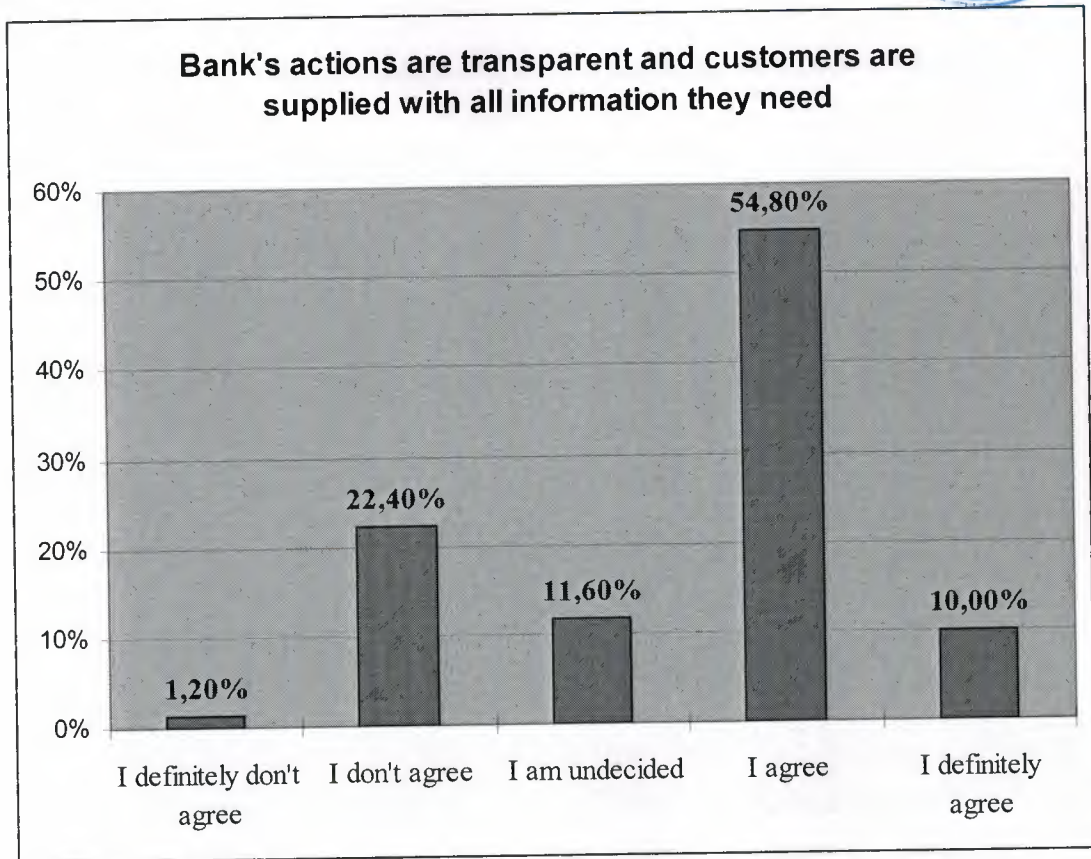
Q 6.



79.6% of the respondents believe that banks are honest with them. They make up the majority followed by 11.8% of those who think bank isn't honest and 8.4% of those who, still, is undecided.

In relation to customer's believe in honesty of the institution bankers may stay calm. 79.6% of respondents gave positive answer to this question.

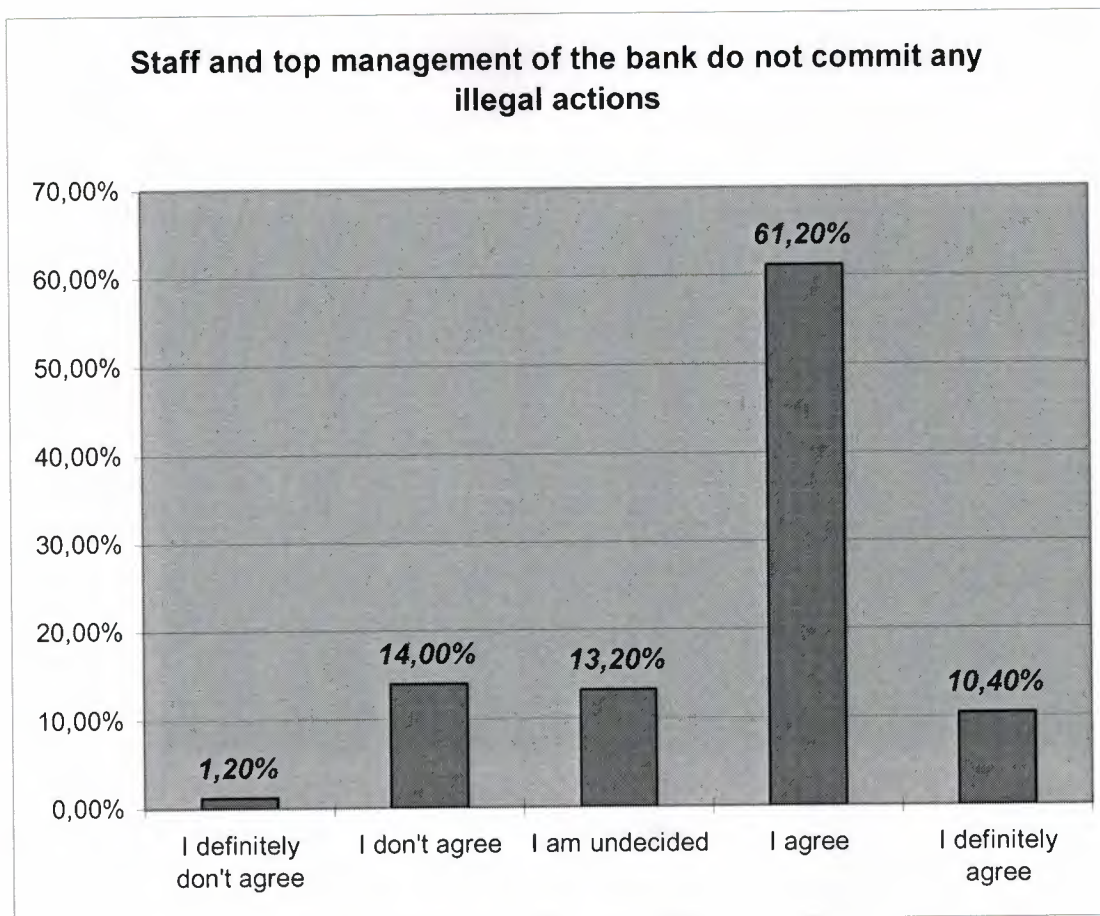
Q 7.



64.8% confirm the affirmation that bank's actions are transparent and they are supplied by all kind of information they need. However, the matter of concern is 23.6% share of customers who can't say the same about bank's actions followed by 11.6% share of customers who are undecided about this subject.

In spite the fact that 64.8% of respondents are satisfied with transparency of the bank there is still big share of those who wish changes to be made in this area.

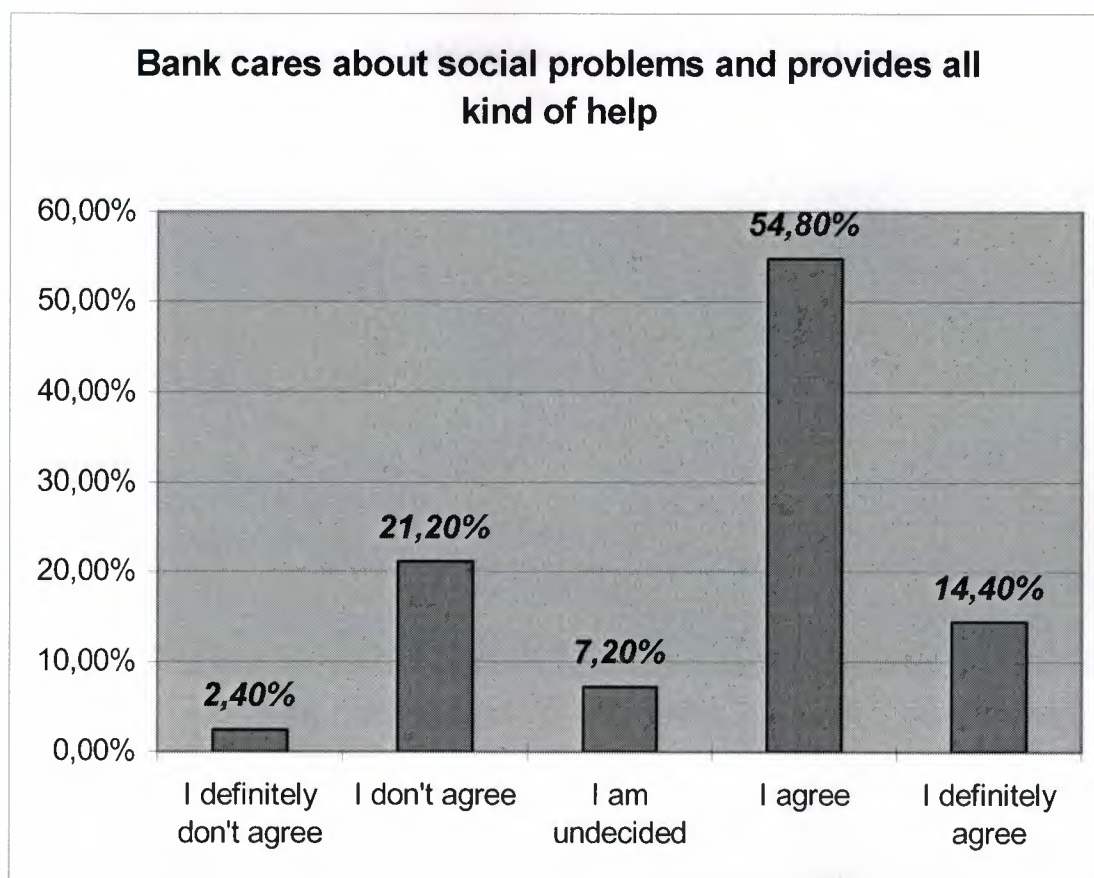
Q 8.



71.6% of the respondents strongly believe in the legality of whole staff's and top management's actions. 15.2% accept the possibility that they might act illegally and 13.2% can't supply definite answer.

As a major finding, a strong believe in the legality of all bank's actions, could be mentioned. People who gave positive answer on this question make up 71.6% of all respondents.

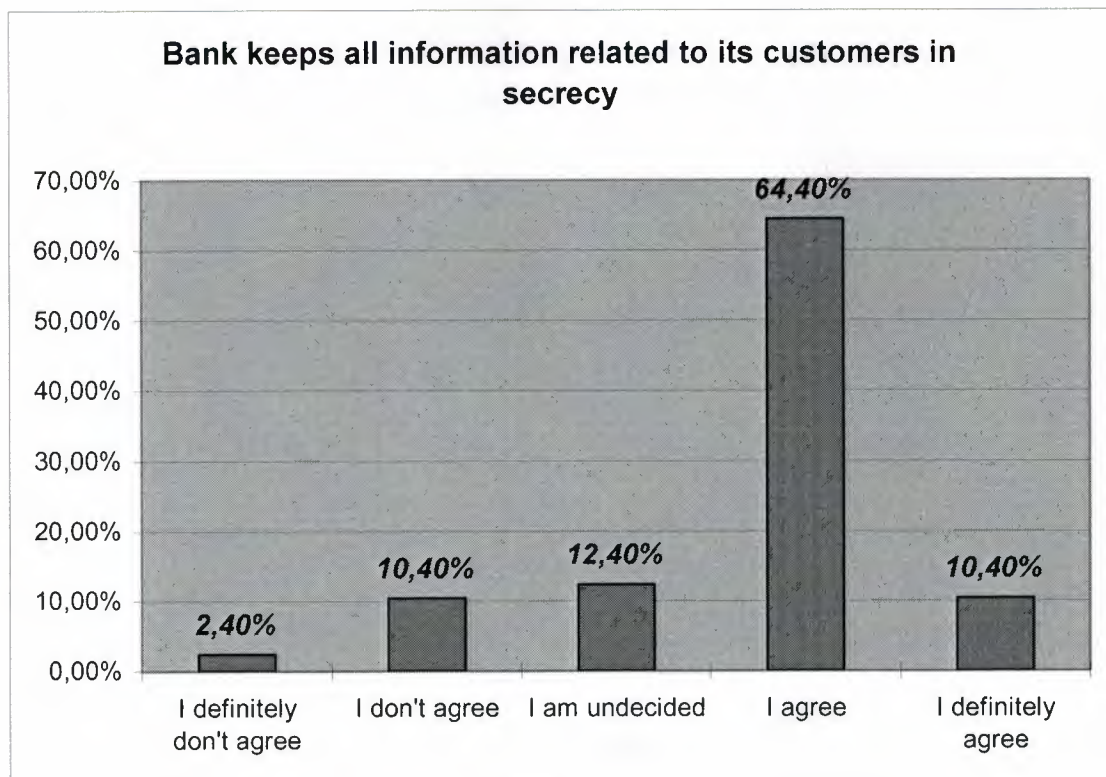
Q 9.



69.2% of respondents are satisfied with the bank's actions in the social field. 23.6% consider the possibility of greater involvement in the social problems. However, 7.2% of respondents still are undecided about the question asked.

Major finding here is that bank's involvement in the social life of community is considered to be enough by the majority. They make up 69.2% of the total number of respondents.

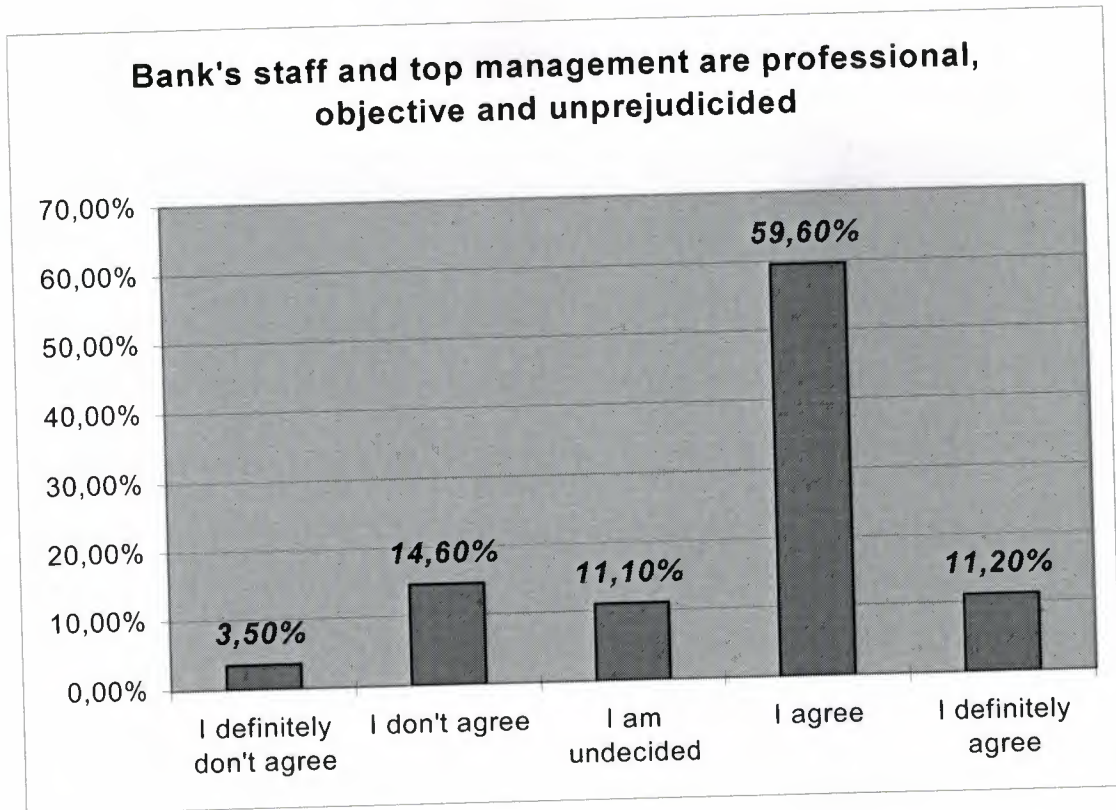
Q 10.



74.8% of respondents are satisfied with the bank's actions related to the secrecy. 12.8% doesn't share the opinion of the majority followed by 12.4% of those who are undecided about this question.

As a major finding, a strong believe in the security of information related to the customer can be mentioned. People who gave positive answer on this question make up 74.8% of all respondents.

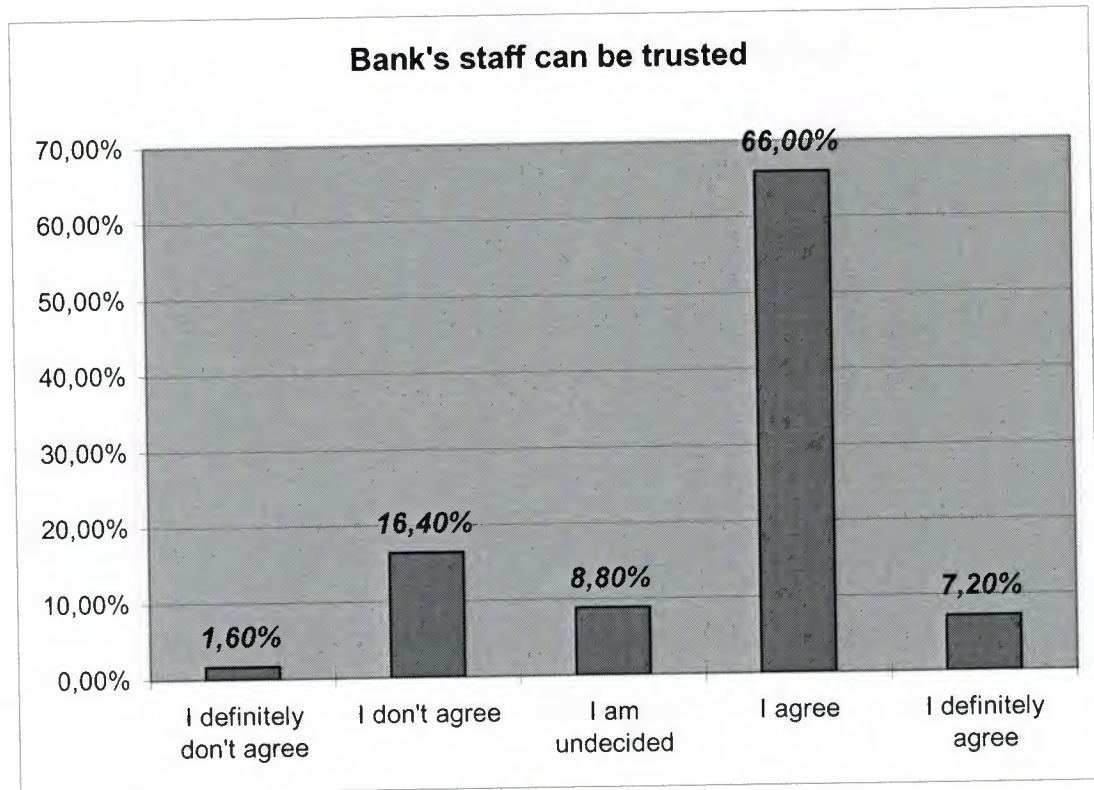
Q 11.



70.8% of respondents believe in professionalism and objectivity of bank's employees. They consider them unprejudiced and fair in relations with customers. 18.1% of respondents don't share their believe and 11.1% are just undecided about the question asked.

It has become usual for majority to supply affirmative answers on questions asked. 70.8% of the respondents fill satisfied with the employees' professional characteristics.

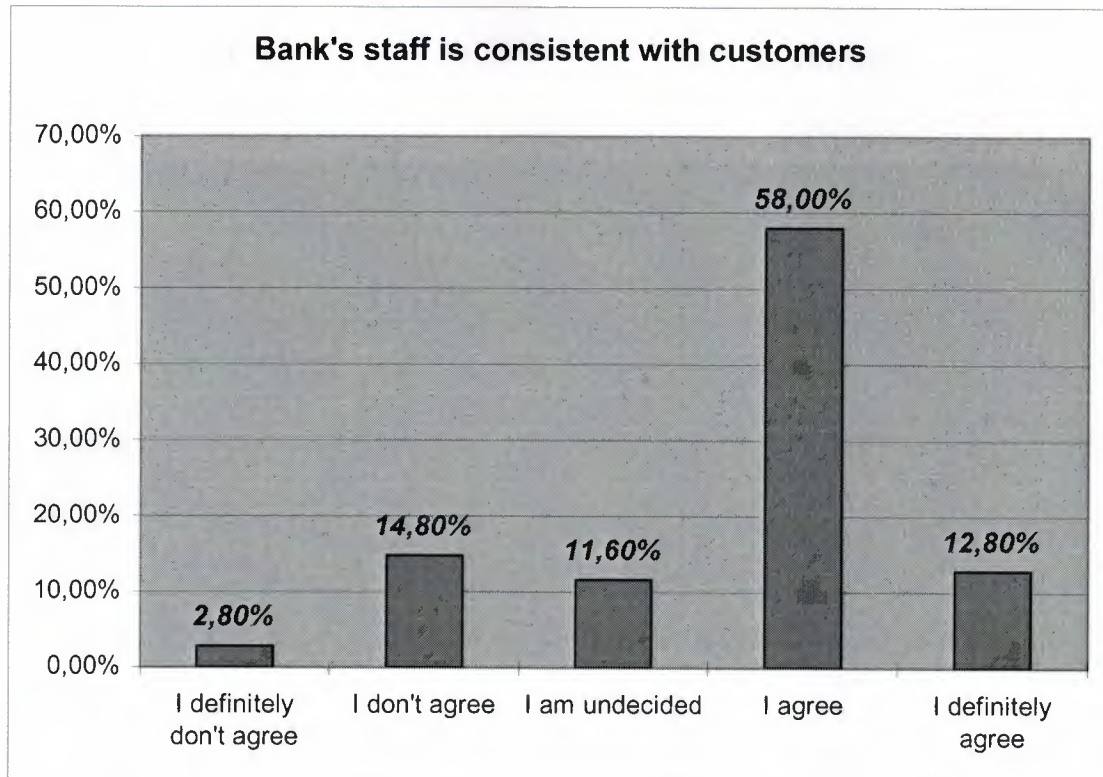
Q12.



This question was asked in a different form earlier. However, the answers received do not copy previous ones. Majority of respondents agree that bank's staff can be trusted. They make up 73.2% share. 18% prefer to trust some one else but not the bank's staff. While 8.8% are undecided about this question.

73.2% of customers trusting their bank is a good sign. However, the primary matter of concern should be the 18% share of those who don't trust the bank's staff and 8.8% share of those who are undecided yet.

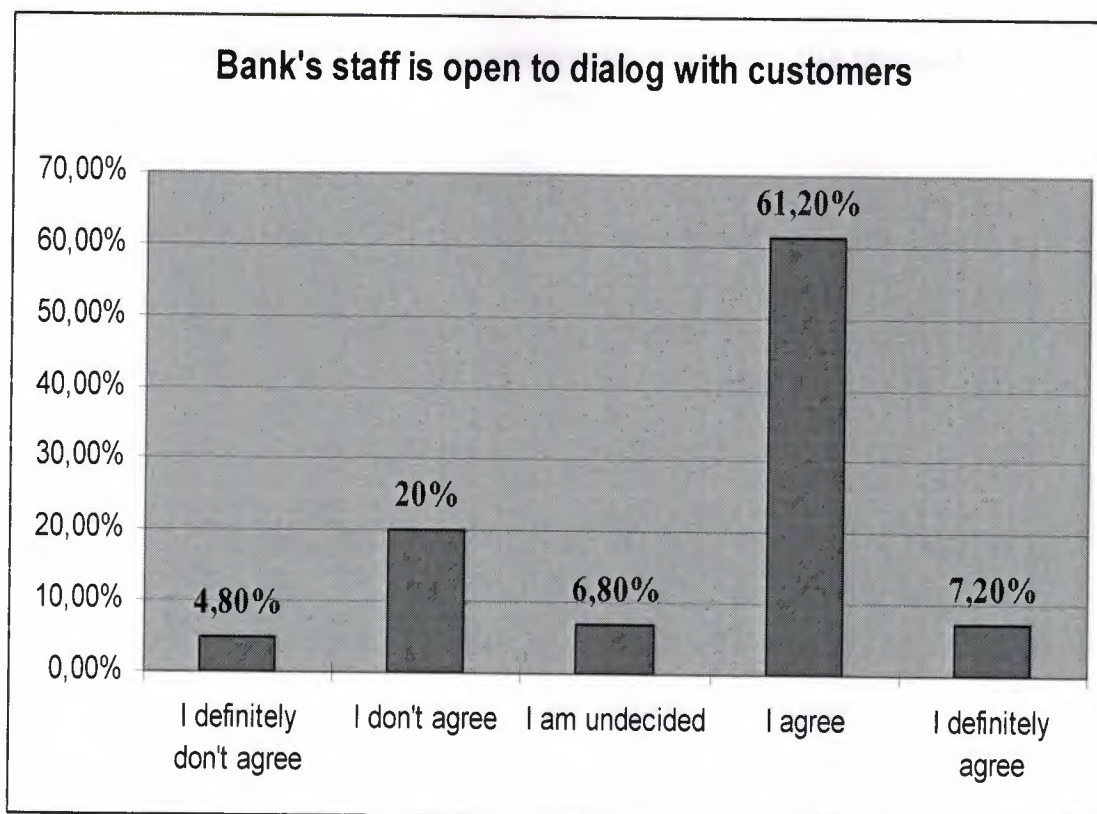
Q 13.



70.8% of customers do not see any changes in attitude against them from the staff's side from visit to visit. Bank's staff is believed to be consistent with customers. From the other side, 17.6% of respondents consider themselves to be treated differently from visit to visit. While 11.6% don't share neither positive nor negative perceptions of consecutiveness.

The major finding here is that 70.8% of the respondents confirm that they are treated in the same way from visit to visit. However, 17.6% feel the changes in employee's attitudes from visit to visit.

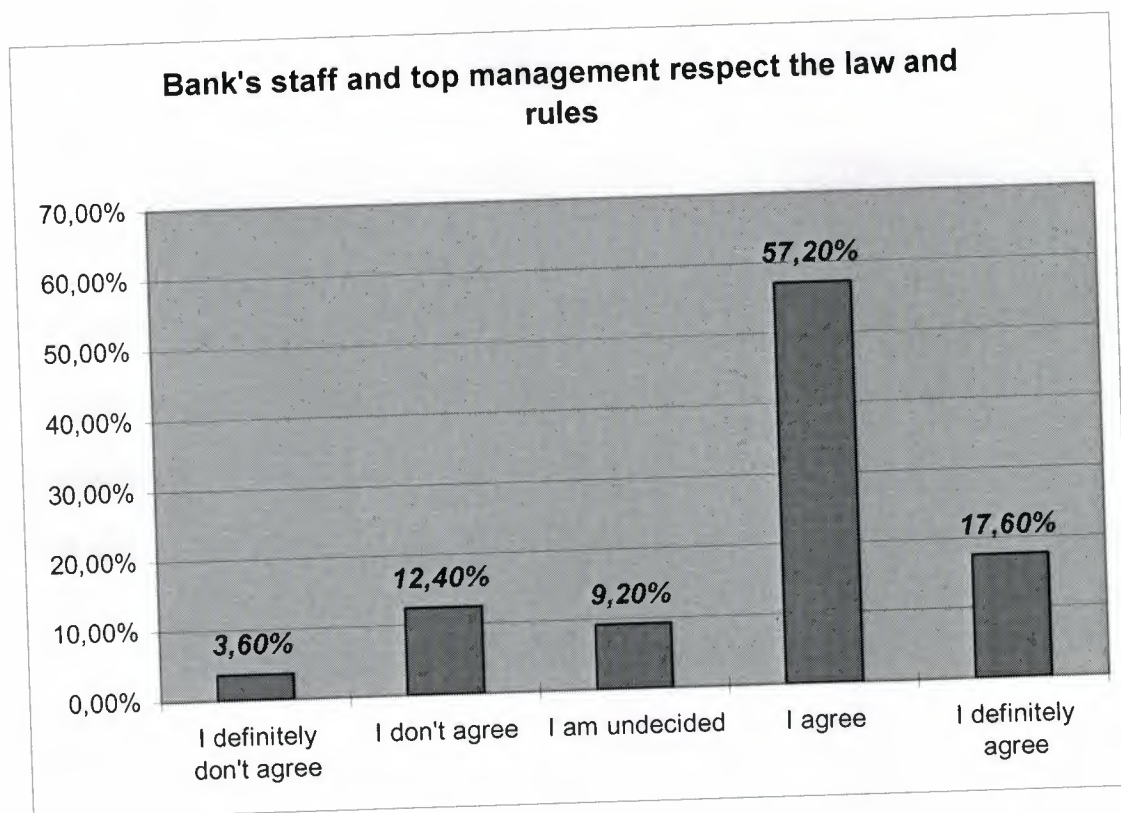
Q 14.



68.4% of respondents believe in the possibility of equal dialog with the bank's staff. While 24.8% don't think so or consider this to be improper deal. 6.8% of respondents meet difficulties in supplying the answer on this question.

According to the majority's point of view there is a possibility of equal dialog between customer and bank.

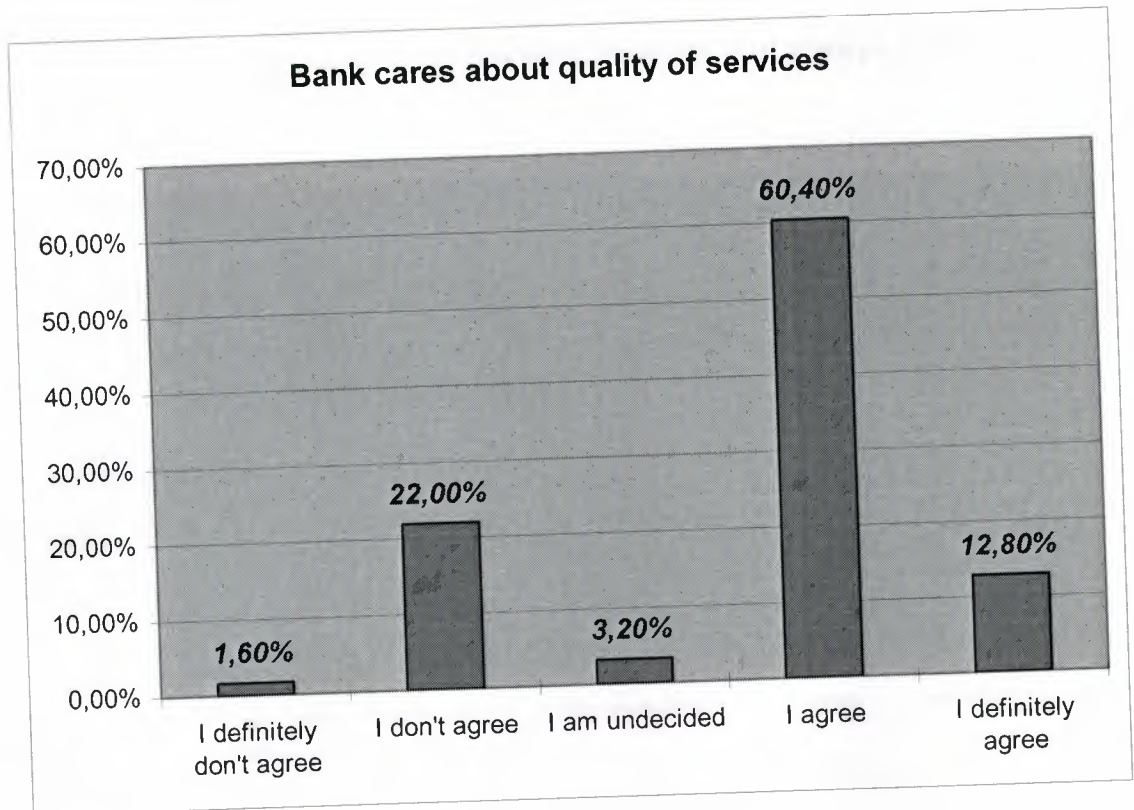
Q 15.



Similar question was asked in the earlier stages of this study. However, stated differently the distribution of answers have changed as well. 74.8% of respondents believe in the staff's compliance with the laws and rules. According to their experience 16% gave negative answer. While 9.2% are undecided about this subject.

According to the majority's perceptions bank's staff is believed to act in compliance with all the laws and rules. People who gave positive answer on this question make up 74.8% share.

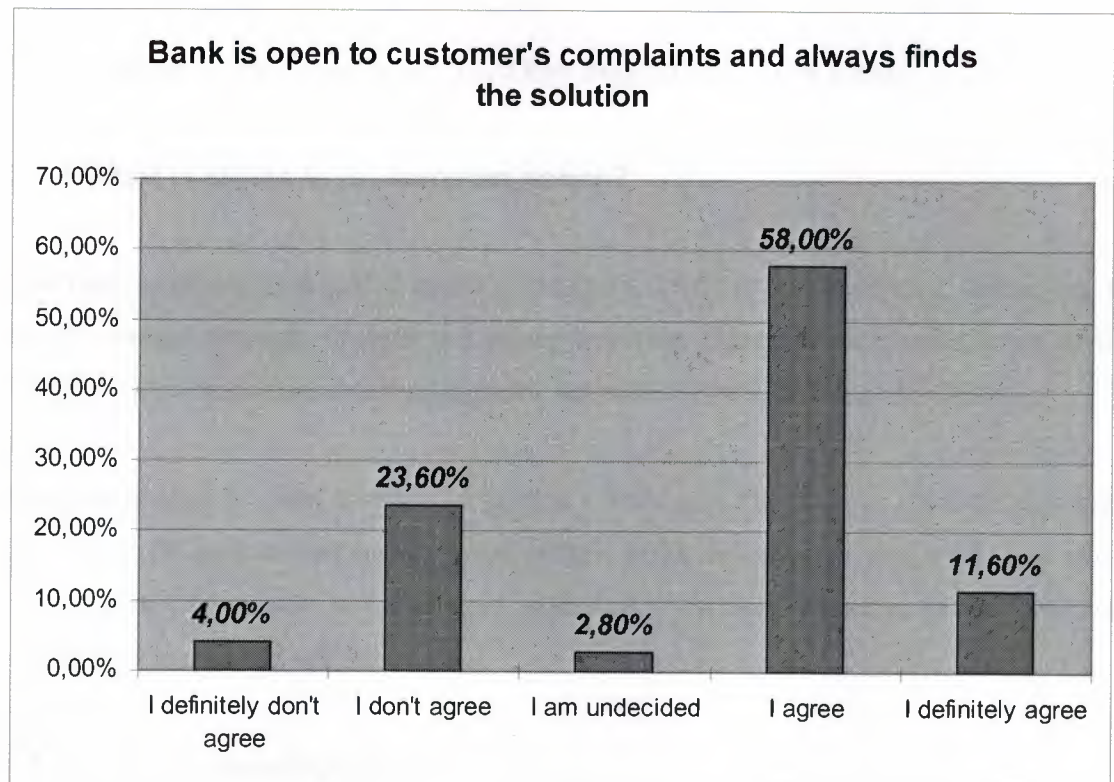
Q 16.



73.2% of respondents believe that bank cares about the quality of services provided. 23.6% wish the services provided in more qualitative manner. While only 3.2% of respondents are undecided about this subject.

According to the 73.2% majority, the overall quality of bank services is on the good level and bank continuously develops new ones with better characteristics.

Q 17.



69.6% of the respondents are satisfied with the bank's actions in relation to customers' complaints. 27.6% would don't share the majority's point of view by declaring insufficiency of bank proceedings in this field. 2.8% can't join neither majority nor minority.

69.6% majority is happy enough with bank's complaint proceeds.

5.3 Conclusion

In this section the results of the questionnaire were presented with short comments and major findings followed each bar chart distribution. More complex conclusion is provided in the next section of the study.

SECTION 6 CONCLUSIONS

6.1 Answers to the questions from the beginning of the study

6.1.1 What is ethics in its common sense?

The field of ethics, also called moral philosophy, involves systematizing, defending, and recommending concepts of right and wrong behavior. Ethical theories usually are divided into three general subject areas: metaethics, normative ethics, and applied ethics.

Ethics is studied in order to improve people's lives, and therefore its principal concern is the nature of human well-being. What people need, in order to live well, is a proper appreciation of the way in which such goods as friendship, pleasure, virtue, honor and wealth fit together as a whole.

6.1.2 What is banking ethics?

Banking ethics is a set of rules of good conduct which governs relations between credit institutions itself as well as with its customers and with third parties. The purpose of these rules is to establish standards of good banking practice, as these have evolved from customary law and internationally accepted principles of conduct and to enable financial institutions, regulatory bodies and their employees to know in clear terms what acts, conducts, omissions and practices are considered unethical, and the appropriate sanctions that would apply for non-compliance with the code. It is expected that this code would bring about discipline and professionalism in the industry.

The basic aim of the Code is to increase transparency and openness during transactions and, above all, to consolidate a climate of mutual trust, in the relations between banks and in their dealings with customers.

6.1.3 What are ethical perceptions of foreign branch bank customer's in T.R.N.C.?

To answer this question an empirical research was carried on. Majority's point of view was considered to be a determinant of the current situation with ethics in the studied institutions. The results are as following.

According to the majority view banks don't discriminate customers. 61.6% of respondents gave positive answer on this question. However, the matter of concern is that 26% believe that banks do so and still 12.6% are undecided. 83.2% majority supports the confirmation that bank operates for public wealth. 69.2% say that banks are honest with customers and that is really good credit of trust to the institutions. Situation with another question is something different. Indecisiveness of majority of respondents about bank relations with environment comes to the first plan. Lack of understanding of the subject made 47.6% of respondents give neither positive nor negative answer. Situation is the same with question about money laundering. This subject is unclear for customer's majority. 49% of all respondents meet difficulties in answering the question. In relation to customers believe in honesty of the institution, bankers may stay calm. 79.6% of all respondents believe that banks supply them all information they need and that information is undoubtedly true. However, in spite the fact that 64.8% of respondents are satisfied with transparency of the bank, there is still big share of those who wish changes to be made in this area. A strong believe in the legality of all bank's actions is another "three basket point" for bank's team. People who gave positive answer on this question make up 71.6% of all respondents. Involvement in the social life of community is considered to be enough by the 69.2% majority. Customers believe in the security of information they supply to bank. People who gave positive answer on this question make up 74.8% of all respondents. It has become usual for majority to supply affirmative answers on questions asked. This is the case when 70.8% of the respondents fill satisfied with the employee's professional characteristics. Customer's fillings against bank staff could be characterized as warm enough. 73.2% of respondents trust the staff of their bank. However, the primary matter of concern should be the 18% share of those who don't trust staff and 8.8% share of those who are undecided

yet. The reason for trust may be the fact that 70.8% of the respondents confirm that they are treated in the same way from visit to visit. While 17.6% feel the changes in employee's attitudes from visit to visit. According to the majority's point of view there is a possibility of equal dialog between customer and bank. 68.4% gave positive answer on this question. Majority gives positive answer in relation with another question as well. Bank's staff is believed to act in compliance with all the laws and rules. People who gave positive answer on this question make up 74.8% share. 73.2% states that the overall quality of bank services is on the good level and bank continuously develops new ones with better characteristics. And finally, 69.6% are satisfied with banks ability to resolve customer complaints.

As a summary of conclusion an affirmation can be made. Generally, between 68%-75% of customers fill happy about ethical standards of their banks. Presence of 2%-9% customers who still are undecided about some questions may be explained as a matter of lack of knowledge about the performance of their banks. And finally, 15%-20% of customers are demanding higher ethical standards from their banks. Banks should give more concern to ethical problems in the way to keep their customer base. To do this, they must continuously make independent researches about customer's perceptions of ethics in banking.

6.1.4 How ethical working environment can be created?

Revolution in the bank must start from the top. That means that at the beginning management of the bank have to recognize the need for ethical working environment. Following are some steps that should be implemented by bank managers:

1. The decision to commit ethics should be made.
2. Recognition that managers are models by definition, by their actions and their values.
3. Assuming the responsibility for instilling ethical behavior.
4. Determining what ethical practice is.

5. Articulating the values.
6. Training the staff.
7. Encouraging open communication.
8. Being consistent.

6.2 Recommendation on how ethical situation in T.R.N.C. banking may be improved

One possible measure to force banks keep high level ethical standards is opening an independent body for revising customers' complaints. In spite the fact that majority of respondents is satisfied with the bank's proceeds in relation to their complaints it wouldn't be superfluously to open a body like Banking Ombudsman in T.R.N.C. When banks will see the consequences of pure ethical standards on their balance sheets, then this problem will be approached from completely different point of view.

Another measure could be characterized as a mix of social and psychological changes. New society living in accordance with ethical rules must be created. In such a case the problem of ethics in banking will no longer exist.

6.3 Limitations of the study

Approach used in this study doesn't correspond to the existing scientific techniques of research. That is way it couldn't be classified as scientific study.

Another limitation is related to the process of interrogation. There is a small part of questionnaires that can't be trusted. Because of the fact that questionnaire was carried at the doors of the banks, respondents haven't enough time to read all questions properly and think before giving answer. Some of them were in hurry when living the bank. That's why they just filled questionnaire very quickly. Hot whether made the situation even worse.

6.4 Recommendations for future studies

Existing scientific approaches in relation to the research should be applied. Questionnaire should be carried in more suitable environment.

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APPENDIX

QUESTIONNAIRE

Demographic questions.

Q.1 Sex Distribution

☐ Male ☐ Female

Q.2 Age distribution

☐ 18-25 ☐ 26-33 ☐ 34-41 ☐ 42-49 ☐ 50 and over

Q.3 Marital status

☐ Single ☐ Married ☐ Widowed

Q.4 Education status

☐ Primary school ☐ Middle school ☐ Lyceum ☐ University ☐ Master ☐ Doctorate

Questions about banking ethics

Q.1 Bank do not discriminate its customers

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.2 Bank operates for public wealth

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.3 Bank supplies its customer's only true information

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.4 Bank has care about environment

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.5 Bank challenges money laundering

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.6 Bank is honest with customers

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.7 Bank's actions are transparent and customers are supplied with all information they need

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.8 Staff and top management of the bank do not commit any illegal actions

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.9 Bank cares about social problems and provides all kind of help

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.10 Bank keeps all information related to it's customers in secrecy

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.11 Bank's staff and top management are professional, objective and unprejudiced

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.12 Bank staff can be trusted

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.13 Bank's staff is consistent with customers

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.14 Bank's staff is open to dialog with customers

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.15 Bank's staff and top management respect the law and rules

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.16 Bank cares about quality of services

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree

Q.17 Bank is open to customer's complaints and always finds the solution

☐ I definitely don't agree ☐ I don't agree ☐ I am undecided ☐ I agree ☐ I definitely agree