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Globalization Aspect of TRNC Banks in Terms of Ownership

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Abstract

Recent decades prove to be decisive in laying paths for inevitable favours for regional and global integrations in each and every sphere. Political, economic, social and all other aspects are means of both integration and tools for integration. Overall technological developments accelerate this process. The politically unrecognized Turkish Republic of Northern Cyprus (TRNC), though subjected to significant international business transactions, direct shipping and flight limitations and embargoes, still participates in globalization in a peculiar one direction way. The number of the banks with foreign capital in the country is more than 50% of the total. The integration and access of banking and finance sector to overseas is very limited due to political issues of TRNC, minimizing the sector's globalization to almost none. TRNC banking and finance sector has access to international markets only through Turkey and Turkish banking sector. Foreign banks in TRNC do not play any major role in means of financial exchange and communications, which are clearly a source of employment, assets, deposits and placements, In spite of that, in terms of equity, profitability and liquidity, foreign banks have an obvious superiority.

Keywords: TRNC, Banking, Ownership, Globalization

Introduction

Globalization can be described in many ways depending on the mission and or specialization of the organization. Within this framework, some descriptions of globalization can be summarized as follows:

- The word globalization means universal or applying to the whole world. Based on the word globalization, in every field of community life, new definitions are created and used; global market, global company, global product, global manager, global culture, global politics, global labour, global fund are some of those terms (Turan,1994, p. 2).
- Globalization, in one sense, is a coalition of national, economic, politic, cultural structure with some transnational developments and as an ideology; it enables every country to influence one another (Mittelman, 1997, p. 3).

- To sum up, globalization consists of a series of complicated processes which is a result of political and economic effects (Giddens, 2000).
- Globalization is described as an integration of economies in fields of growing liberalization, investment and commerce (Hausler, 2002).
- Alan Greenspan describes globalization as “increasing interaction of national economic systems” and attributes this to technological developments which encourage deregulations, privatizations and related government policies (Greenspan, 1996).
- Jacques Adda describes globalization as ‘a process of surrounding, puncturing and destructing all physical and legal borders that pose obstacles to capital accumulation worldwide.’ (Adda, 2002:10).
- Globalization is a concept including development of economic, social and political relation between countries; better recognition of different communities and cultures, traditions and expectations; concentration of international relations (Akin, 1998).

Some descriptions of globalization, concerning financial aspects, are as follows:

- IMF describes globalization shortly as “integration of commerce and finance” in ‘World Economic Outlook’ Report in 2002.
- One of the most important aspects of economic globalization is movement processes of cross-border capital and financial institutions, which is called financial globalization (Mishkin, 2006).
- The process, expressed by the term globalization, has two components. One is about the capital accumulation process. What is essential here is liberalization of movement of capital; increased acceleration, diffusion in volume and use of new investment tools. This is the main driving force of globalization and financial markets have expanded their horizons in the past ten years as they never did before (Freeman, 1998, p. 56).
- Financial globalization is associated with the deregulations of banking activities, consolidation of corporations and cross-border bank mergers (Baliño and Ubide, 2000).
- Globalization of finance is liberalization of international capital movements; added to demand and supply of funds, ease of transactions by financial market participants without being subjected to geographical limitations. On the other hand, [As the primary necessity of financial globalization] financial Integration is the removal of spread between rate of return and cost of funds across countries’ financial markets (Eroğlu, 2002, p. 18).

TRNC’s finance sector cannot fully experience the globalization due to the unrecognised country and isolations, failing to reach the targeted development potential. Due to the political isolations, productivity and competitiveness of the sector is affected negatively by the following reasons (Okur, 2011):

- TRNC banks are not included in the international bank account standards system, known as IBAN (International Bank Account Number), which is developed by European Committee of Banking Standards (ECBS) as a part of European Union adjustments. IBAN is a system that provides banks with secure, automatic and fast transactions; thus providing opportunity of savings on labour and cost. International Organization for Standardization (ISO) assigned SWIFT foundation (Society for Worldwide Interbank Financial Telecommunication) as the official registry authority of IBAN. However, the non recognition hinders TRNC Banks from SWIFT membership, which provides secure electronic message transfers between banks and financial institutions worldwide. Here at,

TRNC misses the chance of low cost advantage that results from communication infrastructure provided by this system.

- TRNC Central Bank is not included in the TARGET system. (Trans-European Automated Real-time Gross-settlement Express Transfer). TARGET is a payment system, within the scope of the European Central Bank (ECB) money policies, which is designed to enable Real Time Gross Settlement Systems (RTGS) of EU members, regardless if they are participating or not in Economic and Monetary Union (EMU). This payments system network connected with ECB ensures Euro transactions and it has been active since January 1, 1999.
- TRNC Banks are not included in SEPA (Single Euro Payment Area). European Union formed SEPA in order to lower the cost of cross-border payments of customers by removing the differences and the barriers across markets. SEPA is a payment system, in scope of European Union, which would provide all consumers, companies and other economic actors with the opportunity of transacting Euro payments subjected to similar conditions, rights and obligations within or outside the national borders.
- TRNC Banks, fail to access to complex and diversified financial resources. They lack the opportunities of cost-efficient borrowing such as syndication loans, since they cannot integrate with EU financial markets; and as a result, resource and financial costs are at comparatively higher rates.

As stated above, globalization is a one sided process for TRNC financial sector; globalization is experienced by increased activities of foreigners in local finance sector. OECD defines foreignization as constant and lasting economic activity (for profit) of a juridical person investing in a country which is not its' origin by means its corporation (OECD, 2009, p. 3). Lasting interest, in this definition, implies a long term relationship between direct investor and enterprise that is invested in and important effect of direct investor on the management of subjected enterprise. (Yayla *et al.*, 2005, p. 8). Likewise, it is possible to discuss investments in financial sector in this context (BIS, 2004).

Generally, increase in foreign shares is suggested, by IMF, in emerging markets that are subject to IMF policies and increase in foreign bank shares, in banking sector, is observed in countries experiencing EU accession/membership process (Ayaydın and Berberoğlu, 2010, p. 59); whereas foreigners' proportion is low in developed countries, such as European countries, Japan, USA, which do not prefer foreigners in banking sector. For instance, lowest rate observed is 5% in Germany and Canada, whereas the highest is 100% in Estonia (Şanlı, 2007:5). As to analyze regarding Turkey, global capital's share in Turkish banking sector is 21.3%, by March 2009, according to the BRSA data. When 18.5% stock market share, held by domestic investors overseas, is added to that amount, total global capital becomes 39.8% (BRSA, 2009, p. 19).

Foreigner ownership rate in TRNC banking sector is exposed in detail within this study.

TRNC Banking Sector and its Ownership Structure

In determination of foreign-capitalized banks, operating in TRNC, source of ownership in domestic banks is taken into account apart from foreign branch banks. Even if the domestic bank owners with foreign capital consequently acquire TRNC citizenship, their capital is still determined as foreign capital in this study, due to the origin and the source of the capital. Determination date is December 2010.

Range of Commercial Banks

By December 2010, there are 23 commercial banks, of which 13 is foreign-capitalized, operating in TRNC (table 1), 7 of those 13 foreign-capitalized banks, are branches of banks registered and operating overseas.

Table 1. Foreign-capitalized banks in TRNC banking sector (December 2010)

Bank Type	Bank Number	Percentage
Foreign-Capitalized Banks	13	56.5
Turkish Cypriot Capitalized Banks	10	53.5
Total	23	100

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Foreign and domestic capitalized banks, operating in TRNC by December 2010, are listed and named in table 2.

Table 2. Banks operating in TRNC by the end of year 2010

A-TURKISH CYPRIOT CAPITALIZED BANKS
1-KIBRIS VAKIFLAR BANKASI LTD.
2-AKFİNANS BANK LTD.
3-ARTAM BANK LTD.
4-ASBANK LTD.
5-KIBRIS İKTİSAT BANKASI LTD.
6-KIBRIS TÜRK KOOPERATİF MERKEZ BANKASI LTD.
7-LİMASOL TÜRK KOOPERATİF BANKASI LTD.
8-UNİVERSAL BANK LTD.
9-YAKINDOĞU BANK LTD.
10-YEŞİLADA BANK LTD.
B-FOREIGN-CAPITALIZED BANKS
1-HSBC BANK A.Ş.
2-ING BANK A.Ş.
3-T.C. ZİRAAT BANKASI A.Ş.
4-TÜRKİYE GARANTİ BANKASI A.Ş.
5-TÜRKİYE HALK BANKASI A.Ş.
6-TÜRKİYE İŞ BANKASI A.Ş.
B-FOREIGN-CAPITALIZED BANKS
7-TÜRK EKONOMİ BANKASI A.Ş.
8-CREDITWEST BANK LTD.
9-KIBRIS FAİSAL İSLAM BANKASI LTD.
10-ŞEKERBANK KIBRIS LTD.
11-TÜRK BANKASI LTD.
12-VİYABANK LTD.
13-KIBRIS CONTINENTAL BANK LTD.

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Foreign banks' share in sector assets

Foreign-Capitalized banks' share in the assets is only 44.4% although they represent 56.5% on number basis (table 3).

Table 3. Foreign banks' share in sector assets in TRNC (December 2010)

Bank Type	Assets Amount (1000 TL)	Percentage
Foreign-Capitalized Banks	3.723.647	44.4
Turkish Cypriot Capitalized Banks	4.667.686	55.6
Total	8.391.333	100

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Foreign banks' share in sector deposits

Foreign-Capitalized banks hold 42% of sector deposits as similar to assets amount (table 4).

Table 4. Foreign banks' share in sector deposits in TRNC (December 2010)

Bank Type	Deposit Amount (1000 TL)	Percentage
Foreign-Capitalized Banks	2,889,778	42
Turkish Cypriot Capitalized Banks	3,953,010	58
Total	6,842,788	100

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Foreign banks' share in sector lending

Foreign banks' share in sector placements is 31% which is even lower than the assets rate and deposits rate (table 5).

Table 5. Foreign banks' share in sector lending in TRNC (December 2010)

Bank Type	Amount of Lending (1000 TL)	Percentage
Foreign-Capitalized Banks	1,423,413	31
Turkish Cypriot Capitalized Banks	3,195,209	69
Total	4,618,622	100

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Foreign banks' share in sector equities

Unlike their share in assets, deposits and lending; foreign banks represent the majority of sector equities with 60% (table 6).

Table 6. Foreign banks' share in sector equities in TRNC (December 2010)

Bank Type	Equity Amount (1000 TL)	Percentage
Foreign-Capitalized Banks	542,061	60
Turkish Cypriot Capitalized Banks	367,217	40
Total	909,278	100

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Foreign Banks' Share in Sector Liquidity

Similar to the equity rate, majority of sector liquidity, with 58%, belongs to the foreign banks (table7).

Table 7. Foreign banks' share in sector liquidity in TRNC (December 2010)

Bank Type	Liquid Assets (1000 TL)	Percentage
Foreign-Capitalized Banks	1,732,252	58
Turkish Cypriot Capitalized Banks	1,261,648	42
Total	2,993,900	100

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Foreign Banks' Share in Sector Profits

Foreign banks, which are minority in assets, deposits and lending, display a higher performance, on profitability basis (57%), ahead the Turkish Cypriot capitalized banks' 43% (table 8).

Table 8. Foreign banks' share in sector profits in TRNC (December 2010)

Bank Type	Profit Amount (1000 TL)	Percentage
Foreign-Capitalized Banks	82,715	57
Turkish Cypriot Capitalized Banks	63,150	43
Total	145.865	100

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Foreign Banks' Share in Sector Employment

Foreign Banks, which number wise predominate the domestic banks, represent only 43% of the sector in terms of providing jobs and employment (table 9).

Table 9. Foreign banks' share in sector employment in TRNC (December 2010)

Bank Type	Employee Number	Percentage
Foreign-Capitalized Banks	1055	43
Turkish Cypriot Capitalize Banks	1374	57
Total	2429	100

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

Comparative Analysis of Financial Performance of Foreign Banks

In order to indicate foreign banks' financial performances, capital adequacy (CAR), Assets Quality (AQR), Liquidity (L) and Profitability (P) rates will be used. Following ratios are chosen to calculate: Equities/Total Assets (CAR), Total Credits/Total Assets (AQR), Total Credits/Total Deposit (AQR), Liquid Assets/Total Assets (L), Net Term Profit/Total Assets (P), Net Term Profit/Total Equities (P) (Aktaş and Kargin, 2007: 39-40; Ünsal and Duman, 2005; Unvan and Tatlıdil, 2011, p. 33; Şafaklı, 2006, p. 318; Casu *et al.*, 2006, p. 214). Comparative analysis of financial performance of foreign banks, operating in TRNC, is shown in Table 10.

Table 10. Comparative analysis of financial performance of foreign banks (December 2010)

	Foreign-Capitalized Banks	Turkish Cypriot Capitalized Banks
Equities/Total Assets (CAR)	14.5	7.9
Total Credits/Total Assets (AQR)	38.2	68.4
Total Credits/Total Deposit (AQR)	49.3	80.8
Liquid Assets/Total Assets (L)	46.5	27
Net Term Profit/Total Assets (P)	2.2	1.3
Net Term Profit/Total Equities (P)	15.3	17.2

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

According to the table data, foreign banks are observed performing better, generally, in means of capital adequacy, assets quality, liquidity and profitability. In spite of the fact that their asset qualities are negatively affected, higher Credit/Asset and Credit/Deposit ratio shows that Turkish Cypriot capitalized banks are more effective as financial intermediaries.

Turkish Cypriot capitalized banks' profit/equity ratio, being higher comparatively, should not be perceived as a sign of better performance. Primary reason of this is stronger capital structure of foreign-capitalized banks.

Comparative Productivity Analysis of Foreign Banks

Productivity, simply defined is stating the correlation between various factors (inputs) included in a production process and products (outputs) generated as a result of this process, It basically means producing with the effective use of the resources (Yükçü and Atağan, 2009, p. 4). Productivity measurements can be done, for a single input (partial productivity), for more than one input (multi factor productivity) or for all inputs (total productivity). The productivity measure to be used depends

on the reason of measurement; if the reason is to observe the developments in employment productivity, employment will be used as an input measure. By partial productivity calculation, the degree needed to intervene to each factor can be determined. Partial productivity measurements such as employment productivity (output/employment) and machine productivity (output/machine) are frequently used by business firms. However, the measurement to be used, to evaluate a firm's general performance, should be total productivity value which takes all inputs and outputs into consideration (Ar, 2006). In this research, with purpose of evaluating the productivity of foreign-capitalized banks, partial productivity measures considering personnel expenses and alongside with interest expenses are used. Also total productivity measures considering total expenses are used as listed on table 11.

Table 11. Comparative analysis of productivity of foreign banks (December 2010)

	Foreign-Capitalized Banks	Turkish Cypriot Capitalized Banks
Net Profit/Personnel Expenses	1.63	0.73
Net Profit/Interest Expenses	0.55	0.23
Net Profit/Total Expenses	0.09	0.12
Total Assets/Personnel Expenses	73.22	54.06
Total Assets/Interest Expenses	24.77	17.12
Total Assets/Total Expenses	4.35	9.02
Total Deposits/Personnel Expenses	56.82	45.78
Total Deposits/Interest Expenses	19.22	14.49
Total Deposits/Total Expenses	3.38	7.64
Total Lending/Personnel Expenses	27.99	37.00
Total Lending/Interest Expenses	9.47	11.72
Total Lending/Total Expenses	1.66	6.17

Source: Turkish Republic of Northern Cyprus Central Bank (CBTRNC)-Northern Cyprus Banking Association

In means of productivity, domination of foreign-capitalized banks to Turkish Cypriot capitalized banks is generally observed. On the other hand, this domination is lost when total expenses and lending are taken into account. Total expenses of foreign banks are 65% higher, compared to the Turkish Cypriot capitalized banks, because of their non-interest related expenses. Added to this, foreign banks' 31% lending rate lowers considerably their productivity in this regard.

Conclusions

Globalization is experienced on a large scale in TRNC as the case is in almost the rest of the world. However, the lack of political recognition of the country causes integration with foreign investments more within the country rather than integration with the other countries. The *de facto* case that the access of Turkish Cypriot banking and financial institutions to international markets is possible only through Turkey, extremely minimizes the operational existence of TRNC banking in foreign countries almost to impossible.

When numbers are considered, the majority of banks in TRNC are owned by foreign capital. On the other hand, in means of financial intermediation function which is generated by employment, assets and deposits, foreign banks are in minority. Nonetheless, foreign banks still have an obvious superiority in means of equity, profitability and liquidity.

With regards to financial performance, foreign banks' superiority is perceived clearly. Higher ratios in equity profitability of Turkish Cypriot capitalized banks results from serious equity shortages. Furthermore, another aspect to be emphasized on is the asset quality. Essential financial intermediation function, necessary for economic benefits, is carried out more effectively by the Turkish Cypriot capitalized banks. The lower credit/asset and credit/deposit rates increase the asset quality for the benefit of the foreign-capitalized banks.

Similar to their financial performance, foreign banks have an obvious superiority in means of the productivity. However, the productivity of foreign banks fall behind the productivity of Turkish Cypriot capitalized banks when we consider the total expenses, resulted from fixed costs and low rate placements

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