



**PRACTICES OF CUSTOMER PROTECTION IN  
FINANCIAL INSTITUTIONS: THE CASE OF SELECTED  
PRIVATE COMMERCIAL BANKS**

**BY: MULUGETA BEKELE**

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**ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE  
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### **ABBREVIATIONS**

AIB	Awash International Bank s.c.
BIB	Buna International Bank s.c.
CBO	Cooperative Bank of Oromias.c.
CI	Customer International
EBA	Ethiopian Bankers Association
G20	A group of financial ministers and central bank governors from nineteen countries and the European Union
TCCPA	Trade Competition and Customers Protection Authority
NBE	National Bank of Ethiopia
SAMA	Saudi Arabian Monetary Agency

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## **ABSTRACT**

*The trends of customer protection are not well practiced in many countries including Ethiopia especially in the area of financial supervisory organ and voluntary association. Thus, this thesis explores the extent of the practice of customer protection in financial institutions in the case of selected private commercial banks (AIB, CBO, and BIB). Data were collected through questionnaires from randomly selected customers; and interview from supervisory organs of the financial institutions, representatives of the above three private banks, authority of TCCP, and representative of EBA. Secondary data were also utilized to explore the current practice of customer protection in the industry. Out of 390 questionnaires distributed 384 of them were collected. Thus, the researcher has analyzed the questionnaires and the interviews to generate the findings of the research. The findings include the practice of customers' protection in the banking business from the general principles point of view is found in a persuasive status, yet there is no comprehensive directive of the topic by NBE which refer to customer protection in banking business, and the performance of EBA regarding developing and implement banking code is inadequate. Accordingly, the study finally recommendations that the supervisory organ of the financial institutions should develop code for customers protection, at the same time banks should have to include the concept of customer protection in their operational procedure and also utilize different electronic-media*



*(programs) to develop awareness and skills of customers to use their rights, and the last but not the least Ethiopian bankers Association has got to bring its final draft of banking code and standards to effect.*

*Keywords: Customer Protection, financial institutions, and Supervisory organs*

## **CHAPTER ONE**

### **INTRODUCTION**

This chapter presents background of the study, statement of the problem, research question, objectives of the study, significance of the study, and scope of the study. The detail of each topic is stated as follows.

#### **1.1 Background of the Study**

In broad terms, customer protection refers to the law and regulations that ensure fair dealings between service provider and consumer (customer). Customer protection, is crucial a concern for both customers (consumers) and organizations which provide goods and services including financial institutions. Customer protection is a subjective and qualitative term and expressed in terms of general principle or in code of conduct. *“Customer protection in financial service can be derived from various sources; direct from generic legal terms, indirect from laws or voluntary standards aimed at protecting the consumer in general and customers of financial service in particular”.* (Customer International, 2012)

Some concepts of customer protection in the case of financial institution particularly the banking business will be reviewed in the literature review of the research. SAMA (2013) under its

banking Customer protection document listed out ten principles of consumer financial protection principles, developed by G20. The themes of these principles are; Fair Dealing, Disclosure and Transparency, Financial Education, Behavioral Ethics, Protection Against Fraud, Protection of Privacy, Complaints Handling, Competition, Third Party, and Conflict of interest.

The world federation customer group, named as Customer International or CI (2013), serves as an independent authoritative global voice for consumers. It has listed out eleven principles which are welcomed by its 240 members found in 120 countries and that is practiced for customer protection. The main topic of the principles are; The Legal and Supervisory Framework, The Role of Oversight Bodies, Minimum Standards for Financial Products to Ensure Fair Contract Terms and Charges, Equitable and Fair Treatment, Disclosure and Transparency, Financial Education, Responsible Business Conduct of Financial Provider, Protection of Customer Asset, Protection of Customer Data and Privacy, Complaint Handling, and Competition.

In the recent few decades there is a high concern for customer protection in many parts of the world, namely; USA, European Parliament, South Africa, Ireland, Kenya, Saudi Arabia, Ghana and others. The basic reason for the existence of customer protection is the presence of high level of social and economical inequality; like poverty and illiteracy. Furthermore, the existences of different kinds of abusive practice of business are pushing for the issuance of customer protection. For this government intervention and regulation is imperative for the matter of customer protection.

In this regard Ethiopia has endorsed a law on customer protection, even though its implementation is not as strong as others. The proclamation is issued under Proclamation No 813/2013 in March 2013 as Trade Competition and Consumer Protection. The major objectives of the proclamation are: to protect the business community from anti-competitive and unfair market practices, and also consumers from misleading market conducts, and to establish a system that is conducive for the promotion of competitive free market; to ensure that consumers get goods and services safe and suitable to their health and equivalent to the price they pay; and to accelerate economic development. (Proclamation No,813/ 2013).

Along liberalization and economic policies in Ethiopia since 1991, generally there is economic growth particular in the financial institutions, (The World Bank Group, 2014). These were due

to the economy policy of the country which is convenient to the banking industry, and the nature of financial institutions specifically the banking business is found more dynamic and competitive.

The basic roles of banking business are; serving the center of point of exchange of money throughout the economy, gather saving from small and large depositors, granting loan, run the payment system, coordinating financial transactions, FDRE Proclamation (No 92/08). Currently the country has sixteen private commercial banks and three Government owned banks in aggregate nineteen banks. The population of the country is (around 92 million), and it is the highest in the continent next to Nigeria.

According to the Banking Business Proclamation No. 592/2008, the financial sector, in addition to banks, includes insurance companies, micro finance institutions, postal services, and money transfer. Among these financial sectors the banking sector has shown the highest growth.

Since the financial services found in the industry are crucial to the country's economy, and also because the sector is susceptible to different types of financial risks, the National Bank of Ethiopia (NBE), which is the supervisory organ of the financial institution, has issued different circulars to regulate the financial institutions and monitor that they work properly according to the policy of the country.

This research paper has explored the practice of customer protection in the financial sector, with particular focus on selected branches of three private commercial banks, which are Awash International Bank (AIB), Cooperative Bank of Oromia (CBO), and Buna International Bank (BIB). The study focuses on the implementation of general principles of customer protection, the legal framework of proclamation No 813/2013, Banking Code and Standards of Ethiopian Bankers Association (EBA), and compliance to directives of The National Bank of Ethiopia by the selected banks.

## **1.2 Statement of the Problem**

The law of Customer Protection works to bring ensures a fair exchange between financial service providers and customers. Accordingly, many countries' financial institutions, like USA, India,

South Africa, Uganda, Bulgaria and Kenya have formulated laws and practicing customer protection. However, in Ethiopia such law's enforcement framework and practices of customer protection is not satisfactory in financial institutions.

The rationale for such problem is the absence of clear directive and procedure which is issued by the supervisory organ of the financial institutions that is the National Bank of Ethiopia to ensure customers' right from unfair actions of the industry.

Most studies focus on the interest of product and service provider rather than the interest of customers. Here also few studies such as Desalegn Abera, (2011) and Tesema Elias, (2011) were focusing on the legal and institutional framework of the law, and the enforcement of trade practice and customer protection, respectively. Thus, there is research gap regarding the practice of customer protection in area of financial institutions with particular reference to private banks in Ethiopia.

Hence, the research explores the extent to which private banks have been exercising customer protection in accordance with the general principles of customer protection as well as from the legal point of views of the country, wherein no study prior to this has been made in the same topic at an individual and institution level.

### **1.3 Research Questions**

As the topic of the thesis is searching for practices of customer protection in financial institutions, then the following five research questions have been raised and resolved.

- a) What are the purposes of customer protection in financial institutions?
- b) What are the practices of customer protection in the selected private banks from perspectives of general principle and the customer protection law?
- c) To what extent are customers of financial institutions aware and utilize of the general principles and the law of customer protection?

- d) To what extent does the law of Trade Competition and Customer Protection delegate functional autonomy to the supervisory body of financial institutions, which is National Bank of Ethiopia?

## **1.4 Objectives of the Study**

### **1.4.1 General Objective**

The major objective of the study is to analyze the practices of customer protection in the selected private banks in connection with the existing law and principles that are Trade Competition and Customers Protection on Proclamation No. 813/2013 and the general principles on customer protection.

### **1.4.2 Specific Objectives**

The analysis of practices of customer protection in the private banks aim at addressing the following specific objectives:

- a) To describe the purposes of customer protection from the context of financial institutions.
- b) To identify practices of customer protection in those selected private banks.
- c) To assess the awareness level of customers in customer protection that has been practiced in financial institutions.
- d) To assess the degree of compliance of the supervisory body of financial institutions in the application of customer protection on the banks.

## **1.5 Significance of the Study**

The study in general has significance for academic purposes. Furthermore, it has significance for initiate develop and amend policies and procedures. Among other things, the study has the following specific significance:

- It gives critical and specific information for the supervisory organs to enable them to work on customer protection.

- .It conveys suitable information for the Bankers Association regarding the awareness and utilization level of customer protection rights, by so doing the institution scans its performance and get in the way for the gap accordingly.
- It gives basic idea and illustration for the banking industry of the country regarding the practice of customer protection by similar international financial organizations to work on it.
- It serves as a stepping stone for further related study.

## **1.6 The Scope of the Study**

In one way or another everyone of the whole population is customer for product and or service supplied in the market. From the total market financial institutions in general and banking sector in particular are providing service business to the customers. Here for the purpose of exploring the application (practice) of customer protection in the financial institutions it ought not to be limited to randomly selected customers from the banks; rather it needs to cover the whole customers of the industry.

The main limitations of the study were the study did not take the whole customers of the three banks and also did not take all existing financial institutions or banks. Furthermore, the researcher has faced challenge of shortage of time, and lack of knowledge of the concept by some customers.

## **1.7 Organization of Research Paper**

This research paper is comprised of five chapters. The first chapter presents the introduction of the thesis. Chapter two holds different relevant literatures which have superior input for the study. Under the third chapter, the basic features of the research methodology are explained. Chapter four interprets and discusses the findings of the study, and the last chapter of the research, i.e. Chapter five states the conclusion and recommendations of the study.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

This chapter briefly presents historical background of customer protection and definition of customer protection and how it relates with customer service. Practice of customer protection in the general marketing context and in the specific financial institutions is also covered. Besides to this, the basic principles of customer protection and its benefits are presented. Finally, the paper presents the role of supervisory organ in managing the issue of customer protection.

#### **2.1. History of Customer Protection Law**

One of the very familiar topics referring to protection law is the law which is expressed in a generic term and focuses on consumers within the commercial market. Dr. A. Rajendra (1994:132) states that *“historically India is one of the earliest nations which practice consumer protection law. Consumer Protection has its deep roots in Indian civilization, which dates back to 3200 B.C”*. In the ancient period of India human values were cherished and ethical practices were considered of great importance. For that rulers felt that the welfare of their subjects were

keen interest in regulating not only the social conditions but also the economic life of the people by establishing many trade restrictions to protect the interests of buyers.

Followed by, in the middle and late the 20 century a number of legislations on consumer justice and protection have been passed by many different nations' parliament throughout the world; namely, United Kingdom, India, and some African counties for instance South Africa. European Union and United Nation have also passed guideline for customer protection in 1999. The role of nongovernment organization in this regard is enormous, like Consumer International (CI), which is nongovernmental world federation of customer group. According to this group: The concept consumer protection derived from Generic legal texts, such as civil law, which is an indirect laws or voluntary standards aimed at market regulation; and specific rules, voluntary, aimed at protecting the consumer in general or the consumers of financial service in particular. It also categorizes customer protection law in to two; 'hard law' and 'soft law'. The hard law is found in the European Union member, the United States of America, Australia and several Asian countries (China, Korea, Indonesia, and Malaysia) states through the transposition of directives. The soft law is to be found in almost all countries, with some important difference; like some countries (India and Hong Kong) rely on codes of practice/voluntary standard, and others (Kenya and Thailand) targets at market regulation. (CI, 2013)

## **2.2 Definition of Customer Protection**

Prior to defining 'customer protection', it's better to define 'consumer protection', and then distinguish the two concepts. According to Comptroller's (2011:6) "*Consumer is a person, or that person's legal representative, who obtains a financial product or service from a financial institution that is to be used primarily for personal, family, or household purposes*". In other words, consumer is the one who has a "customer relationship" with a financial institution. Thus, "*a customer relationship is a continuing relationship between a consumer and a financial institution under which the institution provides one or more financial products or services to the consumer that are to be used primarily for personal purposes*". The distinction between consumer and customer is that financial institutions have additional disclosure duties regarding customers. Since all customers are consumers, in other word not all consumers are customers, and all regulation set for Consumers will adopt for customers too.



A study made in Uganda defined “Financial consumer protection”; treat regular and potential customers fairly by financial services providers. It also stated that, the regulation of consumer protection does not extend to secure the financial soundness and effective management of financial service providers. Shaun Mundy and Christopher Musoke (2011:16).

Oya Pinar Ardic, Joyce A. Ibrahim, and Nataliya Mylenko(2011:2) defined customer protection in broad sense as, laws and regulations that ensure a fair interaction between service providers and consumers. Here government intervention and regulation in the area of consumer protection is justified on the basis of inherent information asymmetries and power imbalances in markets, with producers or service providers having more information about the product or service than the consumers. Thus, a consumer protection framework includes the introduction of greater transparency and awareness about the goods and services, promotion of competition in the marketplace, prevention of fraud, education of customers, and elimination of unfair practices.

### **2.3 Customer Protection Framework**

Framework of customer protection holds various redressing mechanisms through which customers get solution for different deceptive practices they face.

According to Oya Pinar et al. (2011:2) effectiveness of consumer protection frameworks are expressed as, financial services business is becoming more complex and a greater number of people rely on it. Thus, to be effective in consumer protection framework, three complementary aspects are involved; first, laws and regulations which governing relations between service providers and users, by ensuring fairness, transparency and recourse rights; second, effective enforcement mechanism including dispute resolution; and the third, promotion of financial literacy and capability by helping of financial businesses to acquire the necessary knowledge and skills to manage their finances.

### **2.4 Customer Protection and Customer Service**

In most of the cases business institutions are drafting policies and establishing procedures on the issue of customer service quality of their business, and they give less attention for the subject of customer protection.

The issue of customers' protection focusing on resolving an imbalance of power, information and resources; which placing customers at a disadvantage position, between consumers and their service providers.

The idea of consumer protection has wide view in customers' right to obtain proper information, file cases on behalf of customers by association which is established by consumers, and various remedies available to consumers.

Here, the notion of customer protection is not only favorable for consumer but also it is equally important for businessmen in a diverse ways. Namely, when the interest of customer is properly satisfied, then entail of businessmen to retain in the market will be attained.

Martin Christopher, Adrian Payne, and David Ballantyne (1991:3), noted that customer services vary considerably from one company to another. Contextual perspectives of customer service ranging from accepting customer order then process deliver and at the end build customer orders through a sociability manner at the service encounter. Customer service is not just an issue in the context of the company and immediate relationship with customers but in its downstream relationship with ultimate consumers as well as its upstream relationships with suppliers and even the supplier's suppliers.

## **2.5 Practice of customer protection**

### **2.5.1 Customer Protection in the Context of General Business**

Most developed nations of the world are practicing customer protection by setting up laws of consumer protection. Usually the laws are designed to ensure the rights of consumers, fair trade competition in the market, and the free flow of truthful information in the marketplace. Besides to this the laws are designed to prevent businesses that engage in fraud or specified unfair practices from gaining an advantage over competitors; in addition to this the law may also provide additional protection for those weak and unable consumers to take care of themselves.

Consumer protection laws are a form of government regulation, which aim to protect the rights of consumers. For instance, a government may require businesses to disclose detailed information about products—particularly in areas where safety or public health is an issue, such

as food. Consumer protection is linked to the idea of consumer rights, and to the formation of consumer organizations, which help consumers make better choices in the marketplace and get help with consumer complaints.

Organizations that promote consumer protection include government organizations and self-regulating business organizations such as Consumer Protection Agencies and organizations, the Federal Trade Commission, Ombudsmen, and etc. Consumer interests can also be protected by promoting competition in the markets which directly and indirectly serve consumers, consistent with economic efficiency. Consumer protection can be asserted via non-government organizations and individuals as consumer activism.

In Ethiopia there is a law of Trade Competition and Consumer Protection Proclamation under (Proclamation No. 813, 2013:7313), which has repealed the previous law by including trade competition and it was named as Trade Practice and customers' protection Proclamation No. 685/2010. The latest law enacted has the following major objectives:

To protect the business community from anti-competitive and unfair market practices, and also consumers from misleading market conducts, and to establish a system that is conducive for the promotion of competitive free market; to ensure that consumers get goods and services safe and suitable to their health and equivalent to the price they pay; and to accelerate economic development.

Here the scope of application the new law shall be to any goods and services commercial activity or transaction conducted or having effect within the country, and its provision may not affect the applicability of regulatory functions and administrative measures to be undertaken in accordance with other laws. According to the proclamation TCCPA is accountable to the Ministry of Trade. The new bill protects the rights of consumers: to get sufficient and accurate information on the type of goods and services offered; buy goods and services on the basis of his or her choice; not to be obliged to buy for the reasons made price bargain; be received humbly and respectfully by any business person; and claim compensation for damages suffered due to damages he/she suffered because of purchase or use of the goods or services.

### **2.5.2 Customer Protection in Financial Institutions**

According to establishment of NBE Proclamation No 591/2008, financial institution is business entity engaging in activities that are financial in nature or incidental to such financial activities. It includes banks, microfinance institutions, postal savings, money transfer institutions and other similar financial institutions. Thus, for the purpose of this research, financial institution is excerpted in relation with banking business, and illustrates some tasks performed by different Governments in this area.

In the United Kingdom (UK), the government always emphasizes that greater competition can facilitate the protection of consumers. Hence, it has formulated a regulator of the financial services industry named Financial Services Authority (FSA) which was established under the Financial Services and Markets Act (FSMA) in 2000. The FSA has consumer-related objectives: (a) to promote public understanding of the financial system and (b) to secure an appropriate degree of protection for consumers. Under the FSMA, the FSA creates a compensation scheme for the protection of consumers and establishes a new single financial ombudsman office for the resolution of consumer disputes. The FSA also promotes consumer education which encompasses education for financial literacy. Office of the Comptroller of the Currency (2011)

According to Mr. Jackie WU and Ms Vicky LEE (2001), industry found in the UK also plays an important role in the area of consumer protection. The industry associations sponsor the issue of the Banking Code which sets out the minimum standards of services that banking institutions should provide when dealing with their customers. The Code is enforced by the Banking Code Standards Board (BCSB), which is an independent agency and may discipline banking institutions which have been found to breach the Code through disclosure of breaches, issue of a warning or reprimand, public censure, suspension or cancellation of the institution's registration as a subscriber to the Code. The Code does not regulate banks fees and charges and it only demands that banks must act "fairly and reasonably" in all dealings with their customers. Nowadays, most banks in the UK do not charge for the general operation of a bank account provided the customer keeps a cleared credit balance on the account, and also provide customers with personal notification at least 30 days before any increases to their fees and charges take effect.

Mr. Jackie Wu and Ms Vicky Lee (2001), also described that in the USA subject relating to protection for banking consumers are handled by the Federal Trade Commission (FTC) as well as other financial regulators, namely the Office of the Comptroller of the Currency, the Board of the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. These regulators are empowered to take enforcement actions if banking institutions are found to have violated any laws for protection for banking consumers. There is no federal law regulating fees and charges for banking services. The Truth in Savings Act (TISA) requires that consumers are to be provided with adequate information so as to assist them in making the best choice among the various types of accounts. This act also requires banks to give an advance notice to their customers at least 30 days before any adverse changes made to the terms and conditions of an account.

In 2003, Patricia S. Pollard compared the world's two most prominent central banks, the Federal Reserve System (FRS) of USA and the European Central Bank and found that apart from conducting monetary policy, both central banks have a variety of similar monetary policy functions. The key difference between the two central banks is implementation of consumer protection. Here the Federal Reserve System of the USA is implementing the law of consumer protection, whereas some of member nations of the Euro System Central Bank (ESCB) are not implementing the laws of consumer protection.

In the South Africa, the Banking Association of South Africa set out a voluntary Code of Banking Practice which hold the minimum standards for service and conduct the customer can expect from a bank with regard to the services and products it offers, and how the bank would like to relate to the customer. The Code will serve as a guide for the customer when transact with a bank, and it will help the customer better understand his/her rights and responsibilities as well as the bank's responsibilities in serving the customer. When summarized the code, the relationship between the bank and the customer is guided by four principles: fairness, transparency, accountability, and reliability Banking Association of South Africa, (2012).

According to Shaun Mundy and Christopher Musoke (2011:16) found that the Uganda Financial Consumer Protection Legislation and Regulations typically include provisions which are intended to ensure that, among other things:

A financial product or service is provided to consumers in a clear, prominent, transparent and timely manner; marketing, advertising and other communications from, or on behalf of, financial services provider are fair and clear; any advice which is provided to a consumer is suitable for that individual; consumers can rely on financial services providers being effectively regulated and supervised; there are adequate arrangements for considering and responding to complaints, with consumers who have been treated in a materially unfair manner receiving redress .

The parliament of India passed Consumer Protection Law in 1986. According to the law the expression “Consumer” was intended to include the term customer. Thus, Consumer is the one who has a bank account with the bank or a person who purchases a bank draft, hires locker facility or obtains bank guarantee from a bank are all “consumers” and can prefer complaints under the Act for “deficiency in service” on the part of the bank or for “restrictive trade practice” or “unfair trade practice” adopted by the bank (Subash, 2005).

## **2.6 Principles of Customer Protection**

Consumer confidence and trust in a well-functioning market for financial services promotes financial stability, growth, efficiency and innovation. As a result of this, to strengthen and enhance financial in line with general principle of consumer protection is considered necessary to address more structural developments.

Accordingly, the United Nations Department of Economy and Social Affairs (2003:3) developed a general guide Line of consumers’ protection to be endorsed by member governments. Thus, legitimate of the nations is intended to meet the following rules:

- a) The protection of consumers from hazards to their health and safety.
- b) The promotion and protection of the economic interests of consumers.
- c) Access of consumers to adequate information to enable them to make informed choices according to individual wishes and needs.
- d) Consumer education, including education on the environmental, social and economic impacts of consumer choice
- e) Availability of effective consumer redress.

- f) Freedom to form consumer and other relevant groups or organizations and the opportunity of such organizations to present their views in decision-making processes affecting them.
- g) The promotion of sustainable consumption patterns.

Hence, member states of the United Nations are urged to produce customer protection policy and procedure in their land, since consumers often face imbalances in economic terms, educational levels and bargaining power; and bearing in mind that consumers should have the right of access to non-hazardous products, as well as the right to promote just equitable and sustainable economic and social development.

In view of that, the general guideline of customer protection has been practiced by different member states, and for the purpose of this paper the majorly acknowledged principles of financial customer protection are adopted, which are produced by G20 nations in the year 2011. The principles set up by these nations are considered at high level standard.

SAMA, (2013) gives details of these ten principles to develop their own financial regulations particularly these related to consumers.

The first Principle of customer protection is “*Fair and Equitable dealing*”, which means banks should deal fairly, honestly and equitably with consumers at all stages of their relationship, so that it is an integral part of the culture of the bank. Care should also be made and special attention given to low income, little education, older people and those with special needs of both sexes.

The second Principle of customer protection is “*Disclosure and Transparency*”, which means banks should update information about products and services provided to consumers, so that they are clear and concise, easy to understand, accurate, not misleading and can easily access this information without unnecessary inconvenience, especially the key terms and features. This should also include the right and responsibilities of each party, details of prices and commissions charged by the bank, fines, risks and the mechanism for termination of the relationships and the consequences thereof. In addition to provide information on the alternative products and services provided by the bank.

The third Principle of customer protection is termed as “**Financial Education and Awareness**”, which means banks should develop programs and appropriate mechanism to help existing and future consumers develop their knowledge, skills and awareness to appropriately understand basic risks, and assist them to take informed choices and effective decision and direct them to obtain the assistance when they need it.

The fourth Principle is named as “**Behavior and Work Ethic**”, and according to this concept a bank should work in a professional manner for the benefit of customers during their relationship, where a bank is primarily responsible for the protection of the financial interests of the customer.

The fifth Principle is “**Protection against Fraud**”, which is described as banks should protect and monitor consumer deposits and savings and other similar financial assets through the development of control systems with high level of efficiency and effectiveness to reduce fraud, embezzlement or misuse.

The sixth Principle is stated as “**Protection of Privacy of Information**”, which means that consumers financial and personnel information should be protected through development of high level control systems which include appropriate mechanisms. These mechanisms should define the purposes for which the data may be collected and processed.

The seventh Principle of customer protection is “**Complaints Handling**”, which is expressed as consumers should have access to adequate complaints handling mechanism that is accessible, fair and efficient through which complaints are handled and followed up without delay.

The eighth Principle is described as “**Competition**”, according to this principle consumers should be able to search, compare and where appropriate switch between products and services and providers easily and clearly at a reasonable cost.

The ninth Principle of consumer protection is named as “**Third Parties**”, which means banks should ensure that external parties under outsource arrangements shall comply with these principles and that they work in the best interest of their consumers and bear the responsibility of consumer protection. Providers of financial services shall assume the responsibility of the procedures taken on behalf of banks or consumers.



The tenth Principle of consumer protection is “*Conflict of Interest*”, which means that banks must have a written policy on conflict of interests, and ensure that this policy will help to detect potential conflict of interest, when the possibility of a conflict of interest arises between the bank and the third party, this should be disclosed to the consumer.

## **2.7 Consumers Relationship to Financial Business**

Customer relationship with financial institutions often involves the way in which customers communicate and deals with financial institutions. According to European Parliament Directorate General (2014) Consumers’ relationship to a financial institution service has the following four main stages of life-cycle: During the first stage, the consumer wishes to acquire a new financial product by undertaking some research into the financial product of interest and providers of such products with a view to find the best value for money offer. During the second stage, the consumer undertakes the actual acquisition of the financial product of interest. During the third stage, the consumer holds the product even though some financial products have a finite duration (for example, a personal loan or a mortgage loan, or a credit card). During the fourth stage is the financial product mature or liquidation.

## **2.8 Benefits of Applying Customer Protection in Financial Institutions**

Protection made to customer in financial services is an important component of financial sector development. It is not only beneficial for the customers but also for businessmen (financial institutes). Most of the time consumers of financial businesses have less information than providers, and are therefore at a disadvantage in the market. Consumer protection regulation therefore attempts to correct that market disparity through improved transparency and market discipline.

Some of the major benefits obtained when applying customer protection are the following (Development Innovations Group, 2009): It deepens retail financial markets, avoids customer exploitation in financial market through greater transparency, and also there exists an effective consumer advocates (organized customers), industry, and Government, which then apply issue within the context of the country. Similarly, when customer protection rule is applied properly it also benefits businessmen in the following framework: to take notice of the interest and

satisfaction of customers by so doing businessmen don't lose their customers and the existence of the business will not be in a query, to carry out its social responsibility, to persuade practice of moral/ethical value, and retain customer.

## **2.9 Role of Supervisory Organ Regarding Customer Protection**

Supervisory organ of financial businesses, central banks of countries, mostly have the following roles; define and implement monetary policy, Issue banknotes, conduct foreign exchange operations, act as the fiscal agent for the government, supervise and regulate banks, participate in international monetary institutions, and others.

Besides to these roles, central banks have other key roles in creation and implement of customer protection in the industry. Some of them are: find out concrete and effective ways of improving consumer protection in financial services through financial literacy; monitor a code of conduct which is developed by the sector-specific association, like bankers association; strengthened

financial regulation and consumer education to protect and empower consumers; and set up guidelines (general principles of customer protection) against which existing policies, laws and regulations, institutions and initiatives can be measured and assessed.

### **Summary of the Chapter**

To sum up, the concept customer protection is focusing on fairly treating customers within commercial market. Here the notion of customer protection is not only favoring for customer but also it is equally important for businessmen in a very diverse ways, like preventing those business engaged in fraud or unfair practices. As a result of this, several nations and consumer protection agencies are practicing and promoting customer protection by establishing laws and guideline of customer protection. For instance, Government of Ethiopia has endorsed a law named as Trade Competition and Consumer Protection in 2013.

The term financial institutions means those business entities engaged in banking, micro-finance, postal, and money transfer institutions. Thus, for specificity of the topic, the paper is focusing on practices of customer protection in banking institution.

According to different sources, Central Banks and Bankers Associations of different countries have a sound practice of customer protection law and voluntary code of banking practices. However, this practice is not suitably set up by these two institutions in Ethiopia.

In order to evaluate the well-functioning of financial institutions, many different countries of the world accepted the general guideline (principles) of customer protection which is produced by G20 nations. These principles are: fair and equitable dealing, transparency, financial awareness, work ethics, protection against fraud, protection privacy of information, complaints handling, competition, and third party.

Though few related studies which have been conducted so far in Ethiopia attempted to address some of the problems pertaining to the framework of the law of customer protection. And in fact, there is no study conducted on practice of consumer protection in Ethiopia in relation to financial institutions. Therefore, this study is aimed at to have a explore practices of consumer protection in financial institution in case of private banks and it can serve as a stepping stone for further study.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter is presenting about the type of research approach adopted; source of data utilized, sample techniques applied, tools employed for data analysis and interpretation, and the last but not the least the duly considered ethical issues. The detail of each topic is stated as follows.

#### **3.1 Research Approach**

The researcher has adopted exploratory type of research design. Thus, for the purpose of comprehensive insight from the research the analysis has been done using both qualitative and quantitative methods. The researcher has chosen these methods since they have suitably address research questions of the study.

#### **3.2 Source of Data**

Both primary and secondary data are utilized in the study. The sources of primary data are customers and management body of the selected three private banks, supervisory organ of financial institutions that is NBE, officials of Ethiopian Bankers Association, and representatives

of Trade Competition and Customers Protection Authority. The sources of secondary data are acquired through surveying the necessary documents from the selected private banks, NBE, EBA and Proclamations of the county in area.

In order to collect the desired information, both open and close ended questionnaires (see appendix) have been used as primary source of information. The questionnaire utilized the five point Likert scales. Since it was easy and simple to understand for the respondents to rate each question. The questionnaires were distributed to some selected customers.

The study also gathers essential data through semi-structured type of interview with management body of the selected private banks and the concerned supervisory body of financial institution (NBE), TCCPA, and representatives of EBA.

Furthermore, the study incorporates the major data resources like research studies, books, documents, laws of the country and other related documents of the private banks in the area.

### **3.3 Sample Design**

The designed target population to the research for the source of data was total customers of private banks, and which is found very large. Here, the researcher framed the target population by applying stratified sampling methods to select the three private banks and then employed a convenience sampling techniques to select customers from these banks. The strata of the targeted population were done by amount of registered capital and number of branch net work from the existing private banks. Hence the researcher selected AIB from the highest, CBO from the middle and BIB from the lower; according to NBE annual report 2013/14.

Here also, the researcher has adopted convenience sampling techniques to selected branches of the three banks, since all branches of these banks have been providing same banking services to all their customers and working in the same policies and procedures of their own banks' styles.

Representatives the three banks found at head office and officers of NBE, TCCPA, and EBA were also contacted for source of data to gather information regarding the topic under study through semi-structured interview was another task of the researcher.

The types of questionnaires were distributed to the convenience selected customers of the three banks in the open and close ended form.

To obtain the sample size from the targeted population of the study the researcher applied formula of Cochran (1963:75). Accordingly, the aggregate numbers of the samples of the study were 390 customers out of the total customers' of the three banks having large population at 95% of confidence level. Thus, out of these representatives 130 customers were selected randomly from each selected private banks.

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where:  $n_0$  = sample size.

$Z$  = 95%

$P$  = maximum variability (.5), and  $q = 1 - p$

$e$  = level of precision, expressed as ( $\pm 5\%$  used for sample size needed).

### **3.4 Method of Data Analysis**

The data that were gathered from customers through questionnaires were analyzed by using a five-point Likert scale, that ranging from "5"= strongly agree, "4"= agree, "3"= Neutral, "2"= disagree, and "1"= strongly disagree. The respondents who reply agree and strongly agree implying that the practice of customer protection is acceptable in the bank, whereas the respondents who replied disagree and strongly disagree means the bank is not practicing customer protection. At the end data obtained from customer of the bank was summarized by percentage score. Moreover, the data obtained from representatives of the three bank and supervisory organs were consolidate with data gathered from customers.

### **3.5 Ethical Consideration**

In conducting the study, the following ethical considerations have been given due considerations, these are; all respondents of the study had been requested their free consent before their response

for the study, the informants had been informed that any confidential information acquired from them would be kept in secret unless they consented to, and not to be used for purposes other than the objective of the study, participants had been told in advance that their identity would not be disclosed unless they consented to do so, and proper acknowledgement have been made to their contribution to the study.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

This chapter presents the main findings and results of the study. Relevant issues and collected data were analyzed qualitatively and quantitatively. In particular this section examines the practices of customer protection in three private banks that are AIB, BIB and CBO. In order to collect the related data from the customers of the three private banks 390 questionnaires were distributed to respondents. Out of these questionnaires 384 were collected and the remaining 6 were not returned by the customers. Therefore, the respondents' rate becomes 98% from the sample population.

#### **4.1 Demographic Characteristics of the Respondents**

As depicted on figure 4.1 below mixed genders in customer type was applied in the study.

Figure 4.1. Gender information of the respondents

Source: Survey Results, 2014

Thus, out of the total 384 (100%) the majority of the participants 241 (63%) were men, and the remaining respondents 143(37%) were female.

Figure 4.2 Age information of the respondents

Source: Survey Results, 2014

As shown in the figure 4.2 above most of the respondents' age group falls in the range of 18-30 years were 174(45%), followed by the age group of 31-40 years 122(32%), and the lowest frequency age group registered were the age above 50years had frequency of 19(5%).

Figure 4.3 Educational backgrounds of the respondents

Source: Survey Results, 2014

As revealed above in the figure 4.3 the researcher has learned that the educational statuses of the respondents were categorized in to five groups. Out of the total participants majority of the respondents 173 (45%) had bachelor degree, followed by educational level of under 12 grade 76(20%), then diploma level of 72(19%), and 12 grade complete had frequency of 48(12%), and the remaining lowest registered participants had above degree educational level 15(4%).

Figure 4.4 Reason for visiting bank

Source: Survey Results, 2014



Figure 4.4 reveals that majority of the respondents were visiting the bank for the purpose of transactions related with deposit constitutes 221(58%), followed by remittance users 66 (17%), then others 43 (11%), loan 40 (10%), and the lowest user were foreign exchange users 14 (4%).

Figure 4.5 Frequency of average visiting bank

Source: Survey Results, 2014

Figure 4.5 shows the average number of times the customers transact their businesses with the bank. Thus, as it can see from the above figure, majority of the respondents were 144(37%) transacted their businesses once in a week with bank, followed by those respondents 126(33%) who visited their bank once in a month, then the next respondents were 107(28%) who frequently visit their bank daily, and the remaining respondents transacted their businesses with their bank in an average of half a year 7(2%). In the survey process there was no respondent found who visiting bank is once in a year and above.

## **4.2 Data Analysis Pertinent to the Study**

This section focuses on the results of the study in line with fifteen research questions, which is found enclosed to this paper. Furthermore, the result of the study has been analyzed on the basis of the information that has been gathered through questionnaires from customers of the three banks and interviews from representatives of the three banks, NBE, EBA and TCCPA.

For the purpose of analysis and interpretations, the questions pertinent to the study have been categorized into eight sub-topics or variables. These are:-

- A. Fair and equitable dealing
- B. Disclosure and Transparency
- C. Financial Education and Awareness
- D. Behavior and work Ethic
- E. Protection against fraud
- F. Protection of Privacy of information
- G. Complaints Handling

H. Existence of adequate competent

**4.2. A Fair and Equitable Dealing**

Table 4.1 fair and equitable dealing

Item	Statement		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
1	Customers of the bank receive impartial and honest treatment from the bank.	Freq.	234	91	35	3	21	384
		Wight.	61	24	9	1	5	100
2	The amount of prices that the bank fixes for different services are fair.	Freq.	117	157	65	32	13	384
		weigh	31	41	17	8	3	100

Source: Survey Results, 2014

As depicted in the Table 4.1 two questions were presented for respondents under variable of honest and equitable dealing. Thus, in the first statement about 61% and 24% respondents replied strongly agreed and agreed respectively for Customers of the bank receive impartial, honest treatment at all stages of relationship they do have with the bank, and the next respondent 9% reacted neutral, and the remaining 1% and 5% of the respondents answered disagree and strongly disagree respectively by the type of service they get from the bank.

In the second statement of fairness of the prices that the bank fixes for its different services the respondents agreed and strongly agreed by 31% and 41% respectively, the other 17% respondents reacted neutral, and the remaining 8% and 3% of the respondents disagreed and strongly disagreed with the fairness of price that the bank charges for the services.

This implies that in both statements, majority of the respondents which means 61% and 41% confirmed by strongly agree and agree respectively that there is fairness and equitable service dealing practice in the bank. Whereas 1% and 8% of the total respondent respectively replied by disagree with the statement. Therefore one can understand that banks have an acceptable practice of serving their customers impartially, honestly and with fair price.

Similarly, data gathered from the interview made with representatives of the three banks in this same variable revealed that these banks have positions of Customer Relationship Officer

(Customer Service Supervisor) at branch level and Customer Relationship Manager at head office level to handle and follow up of customer related services, yet their policy and procedure haven't given specific section to the concept of customers' protection, since this concept is majorly focusing on rights of customers rather than banks. In this regard the banks have not done any tangible tasks.

## 4.2. B Disclosure and Transparency

Table 4.2 Discloser and Transparency

Item	Statement		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
1	The bank provides advice and copy for the benefits, risks, terms and condition to customers.	Freq	94	140	60	42	48	384
		weig	24	37	16	11	12	100
2	Charges of different services of the bank are kept in a transparent way.	Freq	88	135	92	28	41	384
		weig	23	35	24	7	11	100
3	The bank has practice of notifying in advance for change made on interest rate and service charge to the customers.	Freq	115	90	112	33	34	384

		weig	30	23	29	9	9	100
4	The advertising and promotional materials that the bank is applying does not mislead to the customers.	Freq	206	124	31	6	17	384
		weig	54	32	8	2	4	100

Source: Survey Results, 2014

As shown in the above Table 4.2 there are four statements under the second variable which is showing the level of disclosure and transparency found in the bank, as a result of this in the first statement 37% and 24% out of the total respondents noted that they agree and strongly agree respectively that the bank provides proper consult and copy of terms and conditions of agreement, and the remaining respondents 16% answered neutral, and 11% disagree and 12% strongly disagree.

In the second statement 35% and 24% indicated that they agree and neutral respectively that the bank keeps its charges in a transparent way, and the remaining respondents 23% indicated that they strongly agree and 11% of them strongly disagree and the finally 7% disagree with the statement.

In the third statement of that the bank has practice of notifying its charges in advance to customers 30% and 29% of the total respondent reacted as they strongly agree and neutral respectively, the next of 23% of respondent replied agree, and the remaining same 9% respondents reacted as disagree and strongly disagree.

In the fourth statement 54% and 32% of the total respondent assured by responding strongly agreed and agreed respectively that the bank is applying not misleading advertising and promotional way, the other 8% respondents noted neutral, and the remaining 2% and 4% replied disagree and strongly disagree respectively.

As specified above in the four statements of the second variable, most of respondents 37%, 35%, 30%, and 54% from each statement that the respondents validated the statement by agree for the first two, and strongly agree the remaining two statements respectively that the bank has the practice of providing consult, giving copy of agreement that hold terms and condition, notifying

the exiting price and let to know in advance for customers any change in price made in the near future, and promoting its services in truthful approach to the customers.

Similarly, data gathered from the interview made with representatives of the three banks in the same variable disclose that banks providing copy for loan and international banking services that hold terms and conditions, yet copy of the other type of services do not hold terms and conditions. Here also prices of all the services of the banks are not disclosed on the board to all customers rather explained orally to those who request to aware of them. Regarding practices of disclosing precise information and utilize honest promotional material to inform the public (customers) about the status and services, they are applying it competently.

#### 4.2. C Financial Education and Awareness

Table 4.3 financial education and awareness

Items	Statement		St ro n g l y a g r e e	A g r e e	N e u t r a l	D i s a g r e e	Str o n g l y dis agr ee	to tal
1	The bank helps customers to develop their knowledge, skills and awareness to take informed choices and effective decision.	Freq.	147	140	53	26	18	384
		weigh t	38	36	14	7	5	100
2	Most customers have good understanding of the essence of customer protection.	Freq.	114	110	105	36	19	384
		weigh t	30	29	27	9	5	100

Source: Survey Results, 2014

Table 4.3 shows practice of the bank providing financial education and awareness of customer protection for customer. Accordingly 38% and 36% from the first statement that bank help customers to have knowledge and awareness of finance, and 30% and 29% from the second statement that most customers have the know-what of the concept of customer protection respondents replied strongly agree and agree respectively in both statements. The other 14% and 27% of the total respondents indicated neutral or indifference in the first and second statement. The remaining respondents 7% and 5% from the first statement and 9% and 5% from the second statement noted disagree and strongly disagree respectively.

As expressed above, most of the respondents 38% and 36% from the first statement confirmed that the bank is helping customers in creating of awareness for customers in the area of banking industry, and also majority of respondent 30% and 29% from the second question noted that most customers of the bank have the concept of customers' protection.

Likewise, data gathered from the interview made with representatives of the three banks in the same variable disclose that banks don't have the practices of designing programs which help customers to develop their awareness and skill in the banking area.

#### 4.2. D Behavior and Work Ethic

Table 4.4 Behavior and work ethics of employees

Statement		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
The bank provides its services with well trained, qualified, professional and ethical employees.	Freq.	207	100	50	17	10	384
	weight	54	26	13	4	3	100

Source: Survey Results, 2014

Table 4.4 depicts the bank serves its customers with a well trained, qualified, ethical employees. Accordingly, 54% and 26% of the total respondent replied strongly agree and agree respectively with the statement. The other respondent 13% noted neutral or indifference to the statement. The remaining 4% and 3% respondent disagreed and strongly disagreed with the statement respectively.

As indicated above, from the total respondents 54% and 26% assured by strongly agree and agree respectively that the bank has a practice of rendering its service with well trained, qualified, and ethical employees.

Likewise, data gathered from the interview made with representatives of the three banks in the same variable disclose that there is strong practice of establishing and complying code (ethical) of conduct on its employees, since banking business has high risk. Besides to this when new employees join the banks there is induction program which last for maximum of a week,

followed by the employees are given on job training in each branch before serving customers in order to have better knowledge about the services they deliver to the customers.

#### 4.2. E Protection against Fraud

Table 4.5 practice of the bank in protection of customers' deposit (asset) from fraud

Statement		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Controlling system employed by the bank to protect deposit of customers from different type of fraud or misuse.	Freq	203	108	50	8	15	348
	weight	53	28	13	2	4	100

Source: Survey Results, 2014

As depicted in the table 4.5 above 53% and 28% of the total respondents replied by strongly agree and agree respectively that the bank has the practice of protecting customers' deposit or asset from different types of fraud or misuse. The other 13% of the respondents noted indifference or neutral for the statement, and the remaining 2% and 4% of the total respondent indicated that they disagreed and strongly disagreed with the statement.

Hence, one can make out from the above statement that more than half of the respondents 53% and 28% confirmed by strongly agree and agree that the bank has the practice of protection of customers deposit or asset from any type of fraud.

Likewise, data gathered from the interview made with representatives of NBE in the same variable disclose that Since task of collecting public funds or resource is given to financial institutions, thus the NBE which is the supervisory organ of the financial institutions has responsibility of protecting resources of all customers who is running their business transactions with the bank from any kinds of abuse.

#### 4.2. F Practice of the Bank in Protection of Privacy of Customers' Information

Table 4.6 Protection of customers' privacy information

Statement		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
The bank has tough practice of keeping secrete customers' personal and financial information	Freq.	231	116	20	3	14	384
	Weight.	60	30	5	1	4	100

Source: Survey Results, 2014

Table 4.6 depicted that 60% and 30% of the total respondents expressed their reflections by strongly agree and agree respectively for being the bank has practice of protecting customers' personal and financial information from any kind of abuse or misuse. The other 5% respondents indicated neutral, and remaining 1% and 4% of the respondent replied disagree and strongly disagree respectively to the statement.

Therefore, from the above survey question one can understand that major share of the respondents around 60% and 30% assured by strongly agree and agree respectively that the bank has a practice of keeping secrete customers' personal and financial information from any kind of misuse.

Likewise, data gathered from the interview made with representatives of the three banks in the same variable disclose that when private information of customers are requested by unauthorized third party to the banks, they don't give any information related to their customers.

#### 4.2. G Complaints Handling System

Table 4.7 Practice of customers' complaints handling mechanisms

Items	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
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1	The bank has efficient and accessible ways handling customers' complain.	Freq.	133	182	36	13	20	384
		Weigh	35	48	9	3	2	100
2	There is strong and effective legal and supervisory organ that protect customers from sanction against financial frauds, abuses and errors	Freq.	150	123	59	20	32	384
		Weigh	39	32	16	5	8	100

Source: Survey Results, 2014

As depicted from the above table 4.7 two statements were raised under the variable practice of customers complaints handling mechanizes by the bank, and out of the total respondents 35% and 48% in the first statement replied as strongly agree and agree respectively that the bank has efficient and accessible ways of handling customers' complains. The other 9% respondents noted neutral for the statement, and remaining 3% and 2% of the respondents expressed the statement by disagree and strongly disagree respectively.

The same table 4.7 also shows that 39% and 32% of respondents for the second statement indicated that there are strong and effective legal and supervisory organ that protect customers from sanction against financial frauds, abuses and errors. The other 16% respondent noted indifference for the statement, and the left 5% and 8% respondents replied disagree and strongly disagree to the statement.

Hence, from both statements tabulated above majority of the respondents 35% and 48% from the first statement and 39% and 32% from the second statement confirmed that the bank has efficient and accessible ways of handling customers' complain, and also has a strong and effective legal and supervisory organ in the country that protect customers from sanction against financial frauds. Whereas, the remaining respondents (9% and 16%) replied as they are indifference, (3% and 5%) disagree and (5% and 8%) strongly disagree for the both the statements respectively.

Data gathered from representatives of the three banks and NBE through interview in the same variable discloses that there is no clear structure for customer complaint handling in the banks.

Similarly, NBE has not issued a circular or directives on the stated topic in a comprehensive way; rather it has issued some points of the concept in the directives No FIS/01/2012 of Regulation of Mobile and Agent Banking Service. According to the directives customer protection has focusing points of keeping secret and confidentiality of customers' information; disclosure of terms and conditions, risks and responsibility of customers and banks (service provider); transparency in pricing product and services; recording all customers complaints and how such complaints are redressed; customers complaints shall not be addressed more than 30 working days from date of report; presence of help desk with dedicated customer care telephone line. Generally, Banking Supervision Directorate of NBE is responsible for issues that are related with customer protection. The directorate has experience of sending team to those banks which has cases and investigate them and taking measure; instructing banks (Boards of the bank) to through customers' appeals and give solution; requesting banks to give explanations about any mismatch act with the directive; and periodically assign teams to inspect performances of banks.

Moreover, according to Trade Competition and Customer Protection Authority proclamation NO 813/2013 the scope of application of the law shall be to all type of commercial activity or transaction in goods or services conducted or having effect within the country. Thus, banking business is one of the commercial institutions which dispense financial related services to consumers (customers), the proclamation has application through the Authority that if it finds any unfair trade practices facing consumers (in broad term) or (customer in specific). However, due the existence of competition (which by far indirectly minimize customers misleading marketing conduct) in the banking sector, there is no solid practice or experience so far appear to the Authority in this regard.

#### **4.2. H Competition**

Table 4.8 competition

Items	Statement		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
1	The bank is currently found accessible in its service to its customers	frequency	196	137	10	29	12	384
		Weight	51	36	2	8	3	100
2	The current competition found in the banking sector help customer to get fair services	Frequency	189	148	12	18	17	384
		Weight	49	39	3	5	4	100

Source: Survey Results, 2014

Table 4.8 shows matters related with competition in the banking industry that benefits customer. Accordingly, 51% and 36% of the total respondents replied strongly agree and agree respectively for the first statement that bank is currently easily accessible to its customers. The other 2% of the total respondent expressed neutral for the statement, and the remaining 8% and 3% of the respondents noted disagree and strongly disagree respectively that the statement banking service is easily accessible for customers.

In the same table 4.8 of the second statement, the current competition found in the banking sector help customers to get better service, majority of the respondents 49% and 39% specified by strongly agree and agree with the statement respectively. The next 3% noted neutral for the matter, and the remaining 8% and 4% replied disagree and strongly disagree for the statement.

Therefore, as noted above from both statements majority of the respondents 51% and 36% from the first and 49% and 39% from the second one respectively, assured that the current banking service found in the market is easy and accessible, furthermore, they confirm that customers is getting fair benefit from banking sector due to the existence of competition found in the sector.

Likewise, data gathered from representatives of the three banks through interview in the same variable discloses that the level of competition currently found among commercial banks creating better choice of services to customer. Here also the banks are setting plan (strategy) to be more accessible to customers are expansion at the rural areas of the country in small size branch level with few man powers by utilizing contemporary tools for the business process. By so doing banks are achieving efficiency in service delivery and in the meantime address requests of customers.

Similarly, data gathered from representatives of EBA reveal that the association was established in December 2001 as non-profit institution and some of its core objectives are to further a co-operative spirit and ventures among member banks (i.e. avoid harmful competitions), undertake the settlement of disputes that may arise among member banks through mediation and arbitration, to develop and recommend a code of conduct for banking practices; and to represent the banking sector. However, the association's organizational structure hasn't been well organized by qualified and sufficient manpower, thus it couldn't achieve some of its objectives properly. For instance, the final draft (document) of Banking Code and Standard is not yet approved and issued for implementation by member banks. The document has the following major objectives: promote good and fair banking practice; increase transparency; promote ethical behavior; providing ease access to efficient banking service; and foster confidence in the banking business. Some of the major type of code and standards marked on the final draft are: Fairness, transparency and confidentiality in the banking service; give due care for advertising and marketing; consideration while opening and operation accounts; consideration given when loan is processed; protection made to customers account; manner of complaint handling and monitoring.

In general the association is established to protect and promote interest of the member banks, and lobbying policymakers to formulate policies that are conducive for banking practices, yet it hasn't been given mandate to follow cases of customer protection and take measure on member banks. Furthermore, the researcher found out that the following institutions NBE, EBA, and TCCPA haven't done any tangible work together to improving bank customer protection is the area of financial institutions.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

The first section of this particular chapter deals with the summary of key findings of the study under considerations. Then followed by, conclusions are drawn from the findings and recommendations are given to help improve practice of customer protection in commercial banks

#### **5.1 Summary of Major Findings**

This section is concerned with pointing out the summary of key findings of the research which are derived from the data of analysis and interpretation part. The research objective is to explore the practices of customer protection in the case of selected private commercial banks. Hence opinion of representatives of AIB, CBO, BIB, NBE, EBA, TCCPA; and outlook of customers are used as a basis for explore the practice of customer protection in the selected banks. Accordingly, the summary of the findings are stated as follows.

- The total numbers of the sample of were 390, and out of these customers of the banks covered in the study 384 questionnaires were collected and processed. The other sources of data utilized were conducted by semi-structured interview with official of The NBE, top management of the three selected private banks, Directorate of TCCPA, and Representative of EBA.
- The study has shown that 61% and 41% from 384 respondents replied strongly agreed and agreed, which implies that Customers of the bank receive impartial, honest treatment at all stages of relationship they do have with the bank; and the prices of services are fair respectively. However, the concept of customers' protection has no specific part in any of policies and procedures of the banks.
- The majority of the respondents replied agree with the issue of discloser and transparency, which entails that banks disclose basic information namely terms and

conditions of the transaction needed to customers on time or in advance. However, some copies provided to customers do not show terms and conditions of the transaction, and prices of all the services are explained orally rather than fixed on board.

- Most of the respondents confirmed banks have practice of helping customers to creating awareness of banking services, though not in planned method, and most customers of the bank know the concept of customers' protection. This entails that customers could make effective decision on banking transactions. Furthermore, banks have a strong practice of formulating and complying code (ethical) of conduct of employees. This implies that banks provide service to customers in professional manner.
- The majority of the respondents confident that their deposits are protected by the bank in an effective controlling ways. Moreover, majority of the respondents assured that banks have practices of keeping customers' personal financial information from any kind of misuse, subject to the exception of disclosure to authorized third party such as court.
- The respondents agreed that banks have efficient ways of handling customers' complaints and there are strong and effective legal and supervisory organs that protect customers from sanction against financial frauds. However, there is no clear body which is in charge of customer complaint in the banks, and there is no circular issued by NBE regarding customers' protection in a comprehensive manner. This implies that, there is gap in formulating structure and circular of customers' protection by banks and NBE.
- Majority of the respondents strongly agreed that the current banking service found in the market is easy and accessible to customers due to the existence of competition.
- The study revealed that NBE has a weak relationship with TCCPA and EBA in the issue of customer protection. Concerning EBA, its Banking Code and Standards (Draft) is not yet approved and practiced by member banks.

## **5.2 Conclusions**

This section of the chapter is concerned with inferences drawn from the findings of the study. It focuses to provide a summary of answer to research questions raised in the first chapter.

The research objective is to explore the practices of customer protection in the case of selected private commercial banks. Hence opinion of representatives of these banks, NBE, EBA, TCCPA, and outlook of customers are used as a basis for explore the practice of customer protection in

the selected bank; AIB, CBO and BIB. Accordingly, the detailed summary of the findings are discussed as follow.

From the study finding the purpose of customers' protection is indicated to protect financial institutions from anti-competitive and unfair practices, and also consumers from misleading conducts, and to establish a system that is conducive for the promotion of competitive free market.

From the study findings of majority of the respondents the practices of customer protection in private banks from perspectives of general principle and the customer protection law is inferred that; first, banks provide impartial or equal treatment and request fair charges to the customers, yet the topic of customers' protection have no specific part in any policies and procedures of private banks. Second, the practice of information provided by the banks to customers is performed without misleading, but some of their copies do not have terms and conditions. This implies that there is a room that customer could be deceived. Third, there are practices of helping customers by banks to have better understanding and awareness of financial transactions, but the practices of conducting programs which help customers to develop their skill customers are not available, this shows that banks utilize only media to inform their service. Fourth, banks have a practice of formulating and complying code (ethical) of conduct of employees by so doing served their customers with well trained, qualified, professional and ethical employees. Fifth, customers have confident that their deposits are protected by the bank in an effective and efficient controlling ways, given that some customers have practice of informing NBE for any difficulty related with their resource in private banks. Sixth, banks have practices of keep secret of their customers' personal and financial information unless authorized third parties like court request to do so. Seventh, banks hand complaint without having clear structure for customer complaint handling, this imply that customer complaints could be inefficient and abused. Eighth, the practices of competition among banks create better accessibility and fair banking services.

The researcher has learnt that National Bank of Ethiopia explained customer protection in a specific banking service area of Mobile and Agent Banking, not covering the general areas of banking services. This inferred to that central bank has a gap in this circumstance. Furthermore, NBE has a weak relationship with TCCPA and EBA in the same issue.

From the study finding regarding the role of EBA it has weak performance to approve its draft of Banking Code and Standards, which is going to be applicable by member banks.

### **5.3 Recommendations**

- a)** The concept of customer protection is defined in the country's Trade Competition and Customer Protection law. However, The National Bank of Ethiopia and the Ethiopia Bankers Association haven't clearly defined the comprehensive objectives of the concept in order to be implemented in the industry. Therefore, the supervisory organ and the Association should produce a comprehensive directive and or guideline in this respect and follow up its implementation.
- b)** Financial institutions, particularly the banking sector, run their business mainly in the motive of making profitable by providing better service for the customer. They have not explicitly set up internal guidelines relating to the issue of customers' protection. Therefore, banks should issuing procedure regarding consumer protection.
- c)** The Trade Competition and Customer Protection Authority which implements the law of customer protection has to develop a bilateral relationship with NBE and EBA in order to enhance protection of customer rights in the financial institutions.
- d)** In order to creating better skill to customer for financial services, banks should arrange different packages (programs) which give prizes to customers to develop their skills to make wise use of their financial resources.



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## **APPENDIX**

### **Appendix A: Questionnaire**

#### **QUESTIONNAIRE**

Dear Sir/Madam

My name is Mulugeta Bekele, a student of MBA at St. Mary's University. The aim of this questionnaire is to assess the practice of customer protection in commercial banking industry. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study of the practice of customer protection. The result of the study is anticipated to supply to the understanding of the basic practice of customer protection in delivering banking service to customers and at the end suggest the outcome to the concerned stakeholders, like National Bank of Ethiopia and Ethiopian Bankers Association. I would like to assure you that the information you provide will be used only for the purpose of achieving academic award. Hence your involvement in the study in this regard has a great input to the quality of research results. At the end, I believe that you will enlarge your assistance by participating by honest and thoughtful response to questionnaire.

Thank you for your participating

Best regards,

Mulugeta Bekele

#### **General Instruction**

This questionnaire contains two sections and two pages that will take approximately 10 minutes to complete. Please provide your response to the questionnaire based on the instruction of the sections. If you have comments or if you want to provide further explanation, please use the space provided at the end of the questionnaire.

**Section I: Demographic profile of respondent**

Please indicate the following by ticking (☐) on the space provided beside the question:

1. Gender:

Male ☐      Female ☐

2. Age:

18-30 ☐      31-40 ☐      41-50 ☐      above 50 ☐

3. Education:

Below grade 12 ☐      diploma ☐      1<sup>st</sup> degree ☐      above 1<sup>st</sup>degree ☐

4. The major purpose you go to the bank to get service for:

Deposit ☐      Loan ☐      Int'l Bank ☐      Transfers ☐      Other ☐

5. Number of days visiting the bank for service in a year:

Daily ☐      once a week ☐      once a month ☐      once half year ☐      Above a yr ☐

**Section II: Questionnaire related with practice of customer protection**

**Instruction:** below are lists of statements pertaining to practice of customer protection in connection with banking service. Please indicate whether you agree or disagree with each statement by ticking on the space that specify your choice from the options that ranging 1=strongly agree to 5 strongly disagree. Each choice is identified by number ranged from 1 to 5

Note: SA=Strongly Agree,    A= Agree,    N= Neutral,    DA= Disagree,    SD=Strongly Disagree

s/n	Variables	SA	A	N	DA	SD
		<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<b>I. <u>Fair and equitable dealing</u></b>					
1	Customers of the bank receive impartial, honest and fair treatment at all stages of relationship they do have with the bank.					
2	The amount of prices that the bank fixes for its different services like interest rate on loan and service charge and /or commission on other services are reasonable (fair).					
	<b>II. <u>Discloser and Transparency</u></b>					
3	When a person applies for the bank to be customer, then the bank provides him/ her appropriate advice and written copy of the benefits, risks, terms and condition of the service.					

4	Price for different services (like interest rate, service charge and commission) provided by the bank is kept in a transparent way.					
5	The bank has a practice of notifying in advance any change made on interest rate (both in loan and deposit) and service charge to the customers					
6	The advertising and promotional materials that the bank is applying does not mislead to the customers.					
	<b>III. <u>Financial Education and Awareness</u></b>					
7	It is a common practice that the bank helps customers to develop their knowledge, skills and awareness in order to understand basic risks, and take informed choices and effective decision.					
8	Most customers have a good understanding of the essence of customer protection from banking service context.					
	<b>IV. <u>Behavior and work Ethic</u></b>					
9	It is common practice that the bank is providing service to the customers with well trained, qualified, professional and ethical employees.					
	<b>V. <u>Protection against fraud</u></b>					
10	The bank is employing effective and efficient controlling system to protected deposit of customers from different type of fraud or misuse.					
	<b>VI. <u>Protection of Privacy of information</u></b>					
11	The bank has strong practice of keeping secrete customers' personal and financial information.					
	<b>Vii .<u>Complaints Handling</u></b>					
12	Practice of customers' complains handling mechanism applied by the bank is efficient and accessible.					
13	There is strong and effective legal and supervisory organ that protect customers from sanction against financial frauds, abuses and errors.					

14	<b>viii. Competition</b> The bank is currently found accessible in its service to its customers.					
15	The current competition found in the banking sector help customer to get fair services.					

Note: If you have any points regarding practices of customer protection in relation with service delivery at the bank. \_\_\_\_\_

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Thank you!!!

**Appendix B: Interviews**

**I. Interview Questions Designed for Representatives of the three Selected Private Commercial Banks**

1. What is meant by customer protection in the context of your banking policy or procedure?
2. Is there any procedure or guideline issued on customer protection that the bank is implementing?
3. (If there is procedure or guideline, then which position of the bank is responsible or in charge of the duty?)
4. What type of parameter the bank is applying to follow up that its customers are treated impartial, honesty and fairly at all stages of relationship they do have with the bank?

5. What is the practice of the bank to provide proper counsel and make available a written copy of general terms and conditions of the service to the customers, at the initial stage when the customers visiting the bank?
6. What is the practice of the bank on the subject of transparency and disclosure of information that it gives to the customers on:-
  - ✓ Utilizing accurate and honest promotional material?
  - ✓ Utilizing standard bank format which encompasses terms and conditions about the type of service that the bank render?
  - ✓ Providing copy for agreement?
7. What type of program and by what frequency the bank is implementing to develop the knowledge, skill and awareness of its customers to make proper financial decision?
8. What is the practice of the bank on establishing and complying code (ethical) of conduct on its employees?
9. To what extent employees of the bank are fully knowledgeable and explain about the services they deliver to the customer?
10. For how long one staff trains on how to handle customers before directly interact with (support) customers at counter? (That is like, after short training less than one week, less than two weeks, less than one month, above one month?)
11. What is the practice of informing customers when their private data is shared (communicated) to third party (that is, for those which has legal right to request individuals' private information)?
12. Is there any customer complaint handling mechanism applied by the bank? (yes, no)
  - ✓ If yes, type of mechanism and level of efficient?
13. What is the view of the bank regarding the level of competition found currently among commercial banks for creating great choice of services to customers?
14. What is the practice of the bank on disclosing (transparent) of its price for the different kinds of services rendered (both local and international banking) to the customer?
15. What are the major factors that force the bank to change its price for the service render to customer?
16. What is plan (strategy) of the bank to be more accessible to customers?

Thank you!!!

## **II. Interview Questions Designed for Representative of the NBE**

1. Many central banks found in the world have already adopted basic principles of customer protection to safeguard customer of commercial banks from financial fraud and abuse. Since, NBE is a supervisory organ of the industry, then how does it define and react for such important topic (fact)?
2. If there is any circular issued by the bank on customers protection, then what is the main objective or focusing point which is given due remark?
3. As NBE is the supervisory organ of the financial industry, which organizational structure level of the bank is responsible for following up the issues that are related with customer protection, and what are its main experiences (practice) in this regard?
4. How does the NBE confirm that customers of all banks are treated impartial, honesty and fairly at all stages of relationship they do have with the banks?



5. How do you evaluate the level of competition found among banks for creating great choice of service to customers?
6. Are there any linkage between NBE (National Bank of Ethiopia) and Trade Competition and Customer Protection Authority (TCCPA) in connection with handling of customer protection? If yes, what is it?

Thank you!!!

### **III. Interview Questions Designed for Officials of TCCPA**

1. Are there any link between NBE (National Bank of Ethiopia) and (TCCPA) Trade Competition and Customer Protection Authority in connection with customer protection? If so, what is it?
2. Does proclamation NO 813/2013 has applicability on banking sector?, if so, which will take measure TPCPA or NBE?
3. Does EBA have any common issue with Trade Competition and Consumer Protection Authority (TPCPA) in connection with how to handling customer protection?

Thank you!!!

#### **IV. Interview Questions Designed for Representative of EBA**

1. What is the purpose of establishing Ethiopian Bankers Association (EBA)?
2. How does the Authority evaluate the level of competition found among banks for creating great choice of service to customers?
3. Is there any common code (guideline) related with handling customer protection set up by the member banks? (If so, main points of them?)
4. Does EBA have any mandate to deal with issues raised on customer protection in the member banks? (If so, how it relates with the mandate of Trade Competition and Consumer Protection Authority which deals with consumer protection?)
5. Many bankers associations around the world adopt codes of conduct to inform the public about the expected services obtained from the industry, and then what are the major practices of EBA in this respect?

Thank you!!!

### **Declaration**

I the undersigned, declared that this thesis is my original work, prepared under the guidance of Elias Nour (Dr.). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Mulugeta Bekele

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Signature

St. Mary's University, Addis Ababa, July 2015

**EMENT**

This thesis has been submitted to St. Mary's University, school of Graduate Studies for examination with my approval as a university advisor.

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Advisor

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Signature and Date