Depositor Behaviour and Market Discipline in Turkey

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Abstract

Financial crisis in 2001 emphasises the importance of the governance of financial institutions in Turkey. In this note, the existence of market discipline reflected as the change in deposits and the implicit interest rate paid to the insured and uninsured depositors is empirically tested. Additionally, the interaction between the deposit insurance and market discipline is analysed. The results provide evidence on the presence of market discipline before the financial crisis in Turkey in 2001. Moreover, total asset size and the ownership structure are important in uninsured depositors’ decisions. Specifically uninsured depositors follow ‘Too Big To Fail’ strategy and require less interest from foreign banks. The estimation results provide some evidence that insured and uninsured depositors continue to monitor the banks during the early days of blanket guarantee in 2001. However during the recovery period in the aftermath of 2001 crisis, blanket guarantee for uninsured bank debts hinders monitoring motives of insured and uninsured depositors.