An investigation into the effectiveness of strategies that are being used to attract deposits in the financial sector in Zimbabwe from 2009 to 2012. A case of commercial banks.

By Vincent Machona (R035681X)

Dissertation submitted in partial fulfillment of the requirements for the degree of Master of Business Administration, Graduate School of Management, University of Zimbabwe

Supervisor: Dr. N. Kaseke

July 2012
Dedication

To my beloved wife and only son
DECLARATION

I, Vincent Machona declare that this document is my own work undertaken through research conducted by me, and that it has not been submitted to any college or university before.

Student’s Signature:_____________________________ Date:____________________

Supervisor’s Signature:___________________________ Date:____________________
Acknowledgements

I would like to offer my sincere gratitude to my project supervisor Dr N. Kaseke for his unwavering support and guidance.

I thank my wife Nyasha for all the encouragement, support and understanding through the long hours and days spent away from home in pursuit of this programme.

I am also indebted to my child Tinotenda Jayden Machona.

My acknowledgements also to all respondents without their cooperation this study would not have been a success.
ABSTRACT
The study sought to investigate into the effectiveness of strategies that are being used to attract deposits in the financial sector in Zimbabwe from 2009 to 2012 with a case study of commercial banks. The research combined both the qualitative and quantitative research approaches in order to take advantage of the strengths of the two approaches, to obviate the weaknesses of a single approach and to increase reliability and validity of findings. A survey was carried out using two systematic and structured questionnaires, one administered to staff and management and the other administered to commercial banks customers. A hundred questionnaires were distributed among the customers, management and staffs of the thirteen different commercial banks in Harare, eighty-five were responded to. The objectives of the study were to identify the challenges which are being faced by commercial banks, assess the factors influencing deposits uptake, determining the strategies being implemented by commercial banks to attract deposits, identify the banking models used by commercial banks, identifying the reasons why customers leave a bank and the factors considered when choosing a bank. The findings from the study showed that the factors influencing deposits at commercial banks were price methods, technology, competition, legal regulations and company objectives. The strategies implemented by commercial banks were customer relationship management strategies, promotional strategies, distribution strategies and pricing strategies. However the findings show that the strategies were ineffective because they were not being fully utilized whilst banks also had no confidence in them. Banks were also using traditional banking model and diversification banking models. The findings showed that banks had shifted from the traditional banking model to diversification models however they were not yet fully utilizing the diversification banking models. The study concludes that customers leave a bank mainly because of quality of service, fees charged, product unavailability and bad brand image. Customers consider customer service, convenience, security of funds and bank’s reputation when choosing a bank. The study recommended that commercial banks enter into strategic alliances, upgrade their technology, recapitalize the Central bank and conduct product targeting and strategic segmentation. An area of further study to investigate into the effectiveness of technology used to attract deposits in the financial sector in Zimbabwe from 2009 to 2012. A case of Commercial Banks.
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<tr>
<td>PESTEL</td>
<td>Political Economic Social Technological Ecological Legal</td>
</tr>
<tr>
<td>GNU</td>
<td>Government of National Unity</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>CRM</td>
<td>Customer Relationship Management</td>
</tr>
<tr>
<td>BCCI</td>
<td>Bank of Credit and Commerce International</td>
</tr>
<tr>
<td>BCCZ</td>
<td>Bank of Credit and Commerce Zimbabwe</td>
</tr>
<tr>
<td>CBZ</td>
<td>Commercial Bank of Zimbabwe</td>
</tr>
<tr>
<td>ESAP</td>
<td>Economic and Structural Adjustment Programme</td>
</tr>
<tr>
<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
</tr>
<tr>
<td>CIR</td>
<td>Cost to Income Ratio</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>SFA</td>
<td>Swiss Investment Fund Association</td>
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<tr>
<td>TER</td>
<td>Total Expenses Ratio</td>
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<tr>
<td>SCP</td>
<td>Structure Conduct Performance</td>
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<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
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<tr>
<td>DEA</td>
<td>Data Envelope Analysis</td>
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<tr>
<td>ROI</td>
<td>Rate of Investment</td>
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<tr>
<td>BAZ</td>
<td>Bankers Association of Zimbabwe</td>
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<td>CEI</td>
<td>Customer Experience Index</td>
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<td>MPS</td>
<td>Monetary Policy Statement</td>
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<td>BAZ</td>
<td>Bankers’ Association of Zimbabwe</td>
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<tr>
<td>IPC</td>
<td>Industrial Psychology Consultants</td>
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<td>TBTF</td>
<td>To Big To Fail</td>
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CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION
This study sought to evaluate the effectiveness of strategies that are being used by commercial banks to attract deposits by the financial sector in Zimbabwe from 2009 to 2012. Globally, commercial banks play a vital role in any economy. In most developing countries, commercial banks constitute at least 70% of the financial sector (Vinzant and Vinzant, 2009). Following the global financial crisis that took place between 2007 and 2009, most commercial banks in developing countries were affected. In Zimbabwe, due to contagion effect, most commercial banks were also affected. The global financial crisis coincided with the hyperinflation and the introduction of the multi-currency era. Hyperinflation wiped out depositor’s funds as well as the capital for the commercial banks. This compelled banks to go back to their drawing boards. The management problem for most of the commercial banks was therefore to devise effective strategies to attract depositors.

This chapter covers the following; introduction, background of the study, macro environmental analysis, overview of the banking sector, background of the banking sector, statement of the problem, research objectives, research questions, research hypothesis, scope of the research and structure of the dissertation.

1.1 BACKGROUND OF THE STUDY
Modern economic systems depend on a reliable flow of financing through the financial intermediaries (Collins, 2008). The financial system is like the pump of the economy (Collins, 2008). A breakdown in the system affects all economic units. During the global financial crisis between 2007 and 2009, this essential and complex system of finance experienced a sequence of critical failures (Hawkins, 2011).

The global financial crisis which originated in the USA and the resultant deterioration in the economic outlook compelled many banks, to think outside the box, and take
extraordinary policy actions and strategies to remain sustainable (International Monetary Fund Report, 2010). Although it started in USA, the Zimbabwean banking sector was not spared in the scorch. This was compounded by the introduction of the multi-currency system in February 2009. This ushered in a radically new environment, which created both opportunities and challenges for the banking sector. The introduction of the multi-currency meant that banks had to devise strategies to attract depositors since their deposits were buried after the death of the Zimbabwean dollar.

1.2 MACRO ENVIRONMENTAL ANALYSIS
In analyzing the macro environmental factors, PESTEL factors were used. According to Gubah (2008), PESTEL stands for Political, Economic, Social, Technological, Ecology and Legal.

1.2.1 Political
There is a discord among political authorities as to when the elections will be held and this is creating uncertainty and anxiety in the business world including the financial sector in Zimbabwe. The Government of National Unity (GNU) that was established in 2009 brought political stability in Zimbabwe. However, it has outlived its life span and is treading on a very shaky ground.

The Indigenization and Economic Empowerment Policy has left most foreign owned commercial banks having to adopt a wait and see attitude. Capital injection into the businesses has been stalled. Direct Foreign Investment (DFI) is virtually non-existent. This has had a negative bearing on the performance of the commercial banks and consequently loss of confidence to depositors.

1.2.2 Economic
The country is experiencing a liquidity crunch due to depressed exports as very little new money is trickling in. This is affecting commercial bank’s growth opportunities due to inadequate capital. Circulation of money is erratic due to few deposits being made.

Compared to the international markets, interest rates being levied on loans and advances in Zimbabwe are quite high. They range from 16-25%. Conservative
clients are actually borrowing offshore. Rate of default with local borrowers is high due to exorbitant finance charges.

Inflation has been stable since 2009 when the multi-currency regime was introduced. Due to depressed exports and agricultural yields, an upward trend was registered. According to Ministry of Finance’s 2012 Budget, inflation rate for the year 2011 was recorded at 4.5%. For the year 2012, inflation was projected to be 5%.

Speculation of bringing back the Zimbabwean dollar has instilled anxiety and uncertainty in the economy of the nation. This has resulted in commercial banks giving their customer lower tenure periods for loans.

1.2.3 Social
The HIV/AIDS pandemic has affected the nation at large and the commercial banks’ workforce has not been spared. According to Shonhiwa (2012), this has caused a rise in the worker/dependency ratio from 1:4 (2001) to 1:10 (2011). The banking sector was also not spared by the brain drain that started in 2000s (Nguwi, 2011). According to IPC (2011), statistics showed that systems analysts, treasury staff, and credit analysts topped the list of skilled personnel that left the country.

1.2.4 Technological
The banking industry has experienced an extensive revolution in information technology. Electronic banking is fast replacing the traditional method of banking. More and more customers are in pursuit of internet and mobile banking. This provides ease of transacting for depositors as they will not have to physically visit their bank. Other optional services brought about by technology are in the form of money transfers using cell phones, for example Eco-cash, One Wallet and other SMS banking services like deposit alerts.

1.2.5 Ecological
The effects of global warming are being felt as the weather patterns have drastically changed. This has reduced yields from the agricultural sector. Thus, commercial banks’ agribusiness customers’ operations have suffered immensely. This has also affected the growth of the manufacturing sector as it mostly feed from agricultural sector in terms of raw materials. This has a strong negative bearing on the deposits
that the commercial banks will ultimately get from the manufacturing sector. According to Chichoni (2009), agriculture used to contribute at least 50% of commercial banks’ deposits and loan book before 2000, but the percentage has dropped to below 10%.

1.2.6 Legal
The Reserve Bank of Zimbabwe has given a directive to foreign owned banks that are holding balances on Nostro Accounts in foreign banks to bring them on board for on lending to deserving local customers. Thus, this implies that the concerned banks have to revisit their credit policy in order to comply with this directive. This implies an increased amount to lend to depositors.

1.3 BACKGROUND OF THE BANKING SECTOR IN ZIMBABWE
At independence in 1980, Zimbabwe had a sophisticated banking and financial market, with commercial banks mostly foreign owned (Makoni, 2010). The country had a central bank inherited from the Central Bank of Rhodesia and Nyasaland at the winding up of the Federation. The first few years after independence saw the government of Zimbabwe not interfering with the banking industry. There was neither nationalization of foreign owned banks nor restrictive legislative interference on which sectors to fund or the interest rates to charge, despite the socialistic national ideology (Makoni, 2010). The government of Zimbabwe decided to purchase some shareholding in two banks. It acquired Nedbank’s 62% of Rhobank at a fair price when the bank withdrew from the country and the bank was branded Zimbank and the government did not interfere with its operations (Makoni, 2010). The state in 1981 partnered with Bank of Credit and Commerce International (BCCI) as a 49% shareholder in a new commercial bank, Bank of Credit and Commerce Zimbabwe (BCCZ). The government took over BCCZ and converted it to Commercial Bank of Zimbabwe (CBZ) when BCCI collapsed in 1991 over allegations of unethical business practices. The decision to take over BCCZ was in line with the state policy to prevent company closures. The shareholding in both Zimbank and CBZ were later diluted to below 25% each (Makoni, 2010).

However, after 1987 the government, at the behest of multilateral lenders, embarked on an Economic and Structural Adjustment Programme (ESAP). As part of this programme, the Reserve Bank of Zimbabwe (RBZ) started advocating financial
reforms through liberalization and deregulation (Makoni, 2010). It contended that the oligopoly in banking and lack of competition deprived the sector of choice and quality in service, innovation and efficiency. Consequently, as early as 1994, the Reserve Bank of Zimbabwe (RBZ) Annual Report indicates the desire for greater competition and efficiency in the banking sector, leading to banking reforms and new legislation that would:

a. Allow for the conduct of prudential supervision of banks along international best practice.
b. Allow for both off and on site bank inspections to increase RBZ’s banking supervision function.
c. Enhance competition, innovation and improve service to the public from banks.

Subsequently, the Registrar of Banks in the Ministry of Finance, in liaison with the RBZ, started issuing licenses to new players as the financial sector opened up. From the mid 1990s up to December 2003, there was a flurry of entrepreneurial activity in the financial sector as indigenous owned banks were set up. This saw the birth of many indigenous commercial banks (Makoni, 2010).

Zimbabwe’s financial sector is relatively sophisticated, consisting of the Reserve Bank, discount houses, commercial banks, merchant banks, finance houses, building societies, the Post Office Savings Bank, numerous insurance companies and a stock exchange. The Reserve Bank of Zimbabwe (RBZ) is at the apex of the banking sector. Due to the liberalization of the financial sector in 1991, the number of indigenous has grown considerably.

1.3.1 Deposits
According to the RBZ Monetary Policy Statement (January 2012), the total deposits for the banking sector were $3.3 billion as at 31 December 2011, thus representing a 27% growth from $2.6 billion as at 31 December 2010. From the table below, it is evident that 57% of the total bank deposits were concentrated in the top five banks. CBZ bank had the largest deposit market share of 23% as at 31 December 2011 maintaining the same levels of market share that it had as of December 2010. Commercial banks, merchant banks and building societies deposit market share
were 94%, 1% and 4% respectively with the remainder 1% being held by POSB. The table below shows the individual bank deposits market share as at 31 December 2011:

Table 1.1: Individual Bank Deposit Market Share as at 31 December 2011

<table>
<thead>
<tr>
<th>Bank</th>
<th>Deposits (US$)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBZ</td>
<td>762,241,255</td>
<td>23.10%</td>
</tr>
<tr>
<td>ABC</td>
<td>319,005,000</td>
<td>9.67%</td>
</tr>
<tr>
<td>Stanbic</td>
<td>312,790,000</td>
<td>9.48%</td>
</tr>
<tr>
<td>Stan chart</td>
<td>253,931,836</td>
<td>7.69%</td>
</tr>
<tr>
<td>CABS</td>
<td>233,470,047</td>
<td>7.07%</td>
</tr>
<tr>
<td>Barclays</td>
<td>213,714,389</td>
<td>6.48%</td>
</tr>
<tr>
<td>ZB</td>
<td>157,257,458</td>
<td>4.77%</td>
</tr>
<tr>
<td>FBC</td>
<td>150,689,337</td>
<td>4.57%</td>
</tr>
<tr>
<td>MBCA</td>
<td>149,878,108</td>
<td>4.54%</td>
</tr>
<tr>
<td>NMBZ</td>
<td>102,720,193</td>
<td>3.11%</td>
</tr>
<tr>
<td>Kingdom</td>
<td>92,039,998</td>
<td>2.79%</td>
</tr>
<tr>
<td>TN</td>
<td>89,220,437</td>
<td>2.70%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>78,542,565</td>
<td>2.38%</td>
</tr>
<tr>
<td>POSB</td>
<td>51,993,063</td>
<td>1.58%</td>
</tr>
<tr>
<td>Ecobank</td>
<td>45,640,000</td>
<td>1.38%</td>
</tr>
<tr>
<td>Trust</td>
<td>23,697,552</td>
<td>0.72%</td>
</tr>
<tr>
<td>ZB BS</td>
<td>15,111,946</td>
<td>0.46%</td>
</tr>
<tr>
<td>FBC BS</td>
<td>11,308,991</td>
<td>0.34%</td>
</tr>
<tr>
<td>Others</td>
<td>236,747,825</td>
<td>7.17%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,300,000,000</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Reporting Banks’ FY 2011 Financials

1.3.1.1 Deposits by banking sector
As shown in Figure 1.1, commercial banks continue to dominate the banking deposit market with 94% market share (89% in 2010) whilst merchant banks with a 1% market share (3% in 2010) have been eclipsed by building societies whose market share have grown to 4% (6% in 2010). This is shown diagrammatically below:
1.3.2 Loans and advances
According to the RBZ Monetary Policy Statement (January 2012), the total loans and advance for the banking industry grew by 70% from $1.7 billion as at 31 December 2010 to $2.9 billion as at 31 December 2011. The top five banks namely CBZ, Stanbic, BancABC, CABS and Standard Chartered had 53% of the total bank loans and advances which represented an increase of 49% as at 31 December 2011. CBZ remained the largest lender in 2011 with a loan and advances market share of 25%, maintaining its 2010 level of market share.
### Table 1.2: Bank Loans, Advances and Mortgages Market Share as at 31 Dec 2011

<table>
<thead>
<tr>
<th>Bank</th>
<th>Loans and Advances</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBZ</td>
<td>729,508,116</td>
<td>24.78%</td>
</tr>
<tr>
<td>Stanbic</td>
<td>281,870,000</td>
<td>9.57%</td>
</tr>
<tr>
<td>ABC</td>
<td>251,808,000</td>
<td>8.55%</td>
</tr>
<tr>
<td>CABS</td>
<td>194,476,930</td>
<td>6.60%</td>
</tr>
<tr>
<td>Stan chart</td>
<td>116,932,025</td>
<td>3.97%</td>
</tr>
<tr>
<td>Kingdom</td>
<td>116,258,665</td>
<td>3.95%</td>
</tr>
<tr>
<td>FBC</td>
<td>109,640,382</td>
<td>3.72%</td>
</tr>
<tr>
<td>ZB</td>
<td>105,263,753</td>
<td>3.58%</td>
</tr>
<tr>
<td>NMBZ</td>
<td>98,115,726</td>
<td>3.33%</td>
</tr>
<tr>
<td>TN</td>
<td>83,248,616</td>
<td>2.83%</td>
</tr>
<tr>
<td>MBCA</td>
<td>81,149,514</td>
<td>2.76%</td>
</tr>
<tr>
<td>Barclays</td>
<td>58,527,047</td>
<td>1.99%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>55,882,519</td>
<td>1.90%</td>
</tr>
<tr>
<td>POSB</td>
<td>39,772,716</td>
<td>1.35%</td>
</tr>
<tr>
<td>Ecobank</td>
<td>36,974,000</td>
<td>1.26%</td>
</tr>
<tr>
<td>Trust</td>
<td>22,482,604</td>
<td>0.76%</td>
</tr>
<tr>
<td>FBC BS</td>
<td>15,084,997</td>
<td>0.51%</td>
</tr>
<tr>
<td>ZB BS</td>
<td>12,379,541</td>
<td>0.42%</td>
</tr>
<tr>
<td>Others</td>
<td>535,024,849</td>
<td>18.17%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,944,400,000</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

**Source:** Reporting Banks’ FY 2011 Financials

### Table 1.3: Loans and Advances Market Share Trend Analysis

<table>
<thead>
<tr>
<th>BANK</th>
<th>FY 2011 Market Share</th>
<th>FY 2010 Market Share</th>
<th>Movement in Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stanbic</td>
<td>9.57%</td>
<td>5.80%</td>
<td>3.77%</td>
</tr>
<tr>
<td>ABC</td>
<td>8.55%</td>
<td>5.10%</td>
<td>3.45%</td>
</tr>
<tr>
<td>CABS</td>
<td>6.60%</td>
<td>3.50%</td>
<td>3.10%</td>
</tr>
<tr>
<td>TN</td>
<td>2.83%</td>
<td>1.80%</td>
<td>1.03%</td>
</tr>
<tr>
<td>ZB BS</td>
<td>0.42%</td>
<td>0.30%</td>
<td>0.12%</td>
</tr>
<tr>
<td>FBC BS</td>
<td>0.51%</td>
<td>0.40%</td>
<td>0.11%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>1.90%</td>
<td>1.90%</td>
<td>0.00%</td>
</tr>
<tr>
<td>POSB</td>
<td>1.35%</td>
<td>1.40%</td>
<td>-0.05%</td>
</tr>
<tr>
<td>NMBZ</td>
<td>3.33%</td>
<td>3.60%</td>
<td>-0.27%</td>
</tr>
<tr>
<td>Ecobank</td>
<td>1.26%</td>
<td>1.60%</td>
<td>-0.34%</td>
</tr>
<tr>
<td>Barclays</td>
<td>1.99%</td>
<td>2.60%</td>
<td>-0.61%</td>
</tr>
<tr>
<td>ZB</td>
<td>3.58%</td>
<td>4.20%</td>
<td>-0.62%</td>
</tr>
<tr>
<td>CBZ</td>
<td>24.78%</td>
<td>25.50%</td>
<td>-0.72%</td>
</tr>
<tr>
<td>Kingdom</td>
<td>3.95%</td>
<td>4.70%</td>
<td>-0.75%</td>
</tr>
<tr>
<td>FBC</td>
<td>3.72%</td>
<td>4.50%</td>
<td>-0.78%</td>
</tr>
<tr>
<td>MBCA</td>
<td>2.76%</td>
<td>4.90%</td>
<td>-2.14%</td>
</tr>
<tr>
<td>Stan chart</td>
<td>3.97%</td>
<td>6.50%</td>
<td>-2.53%</td>
</tr>
<tr>
<td>Trust</td>
<td>0.76%</td>
<td>Not trading</td>
<td>**</td>
</tr>
</tbody>
</table>

**Source:** Reporting Banks’ FY 2010 and 2011 Financials
According to MMC Capital Research report (2012), ABC translated its successful deposit mobilization into lending and thereby became the largest gainer in lending market share (climbing 3.45% from 2010) whilst CBZ lost 0.72% market share. CABS also added 3.10% to its 2010 market share and Stan Chart was the biggest loser (-2.53%).

Manufacturing, distribution, agriculture, individuals and services were the major beneficiaries from lending as of 2 December 2011.

![Credit Distribution Chart]

**Figure 1.2: Distribution of Loans and Advances – As at 2 December 2011**

**Source:** MPS January 2012
Figure 1.3: Loans and Advances by Sector 2011

Source: Reporting Banks’ FY 2010 and 2011 Financials

Table 1.4: 2011 Individual Bank Loans to Deposit and Loans to Equity Ratios

<table>
<thead>
<tr>
<th>BANK</th>
<th>LDR 2011</th>
<th>LDR 2010</th>
<th>LER 2011</th>
<th>LER 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>FBC BS</td>
<td>133%</td>
<td>100%</td>
<td>105%</td>
<td>60%</td>
</tr>
<tr>
<td>Kingdom</td>
<td>126%</td>
<td>147%</td>
<td>774%</td>
<td>598%</td>
</tr>
<tr>
<td>CBZ</td>
<td>96%</td>
<td>74%</td>
<td>932%</td>
<td>768%</td>
</tr>
<tr>
<td>NMB</td>
<td>96%</td>
<td>91%</td>
<td>471%</td>
<td>364%</td>
</tr>
<tr>
<td>Trust</td>
<td>95%</td>
<td>**</td>
<td>164%</td>
<td>**</td>
</tr>
<tr>
<td>TN</td>
<td>93%</td>
<td>90%</td>
<td>554%</td>
<td>214%</td>
</tr>
<tr>
<td>Stanbic</td>
<td>90%</td>
<td>33%</td>
<td>816%</td>
<td>356%</td>
</tr>
<tr>
<td>CABS</td>
<td>83%</td>
<td>47%</td>
<td>312%</td>
<td>103%</td>
</tr>
<tr>
<td>ZB BS</td>
<td>82%</td>
<td>55%</td>
<td>74%</td>
<td>35%</td>
</tr>
<tr>
<td>Ecobank</td>
<td>81%</td>
<td>65%</td>
<td>852%</td>
<td>201%</td>
</tr>
<tr>
<td>ABCH</td>
<td>79%</td>
<td>56%</td>
<td>709%</td>
<td>309%</td>
</tr>
<tr>
<td>POSB</td>
<td>76%</td>
<td>63%</td>
<td>357%</td>
<td>324%</td>
</tr>
<tr>
<td>FBC</td>
<td>73%</td>
<td>56%</td>
<td>389%</td>
<td>325%</td>
</tr>
<tr>
<td>ZB</td>
<td>72%</td>
<td>69%</td>
<td>308%</td>
<td>273%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>71%</td>
<td>72%</td>
<td>262%</td>
<td>171%</td>
</tr>
<tr>
<td>MBCA</td>
<td>54%</td>
<td>61%</td>
<td>412%</td>
<td>505%</td>
</tr>
<tr>
<td>Stan chart</td>
<td>46%</td>
<td>49%</td>
<td>217%</td>
<td>340%</td>
</tr>
<tr>
<td>Barclays</td>
<td>27%</td>
<td>24%</td>
<td>175%</td>
<td>140%</td>
</tr>
</tbody>
</table>

Source: Reporting Banks’ FY 2010 and 2011 Financials

The aggregate Banking sector Loan to deposit ratio (LDR) for FY 2011 was 84% while the aggregate Banking sector Loan to equity ratio (LER) for the same period was 538%.
Maintaining their 2010 stance, FBC BS and Kingdom were the most aggressive lenders in 2011 again with LDRs exceeding 100%. CBZ, Ecobank and Stanbic had the largest LERs of 932%; 852% and 816% respectively reflecting that in relative terms these banks had the least safety buffers to support their assets.

1.3.3 Assets
According to the RBZ Monetary Policy Statement (January 2012), the total bank assets for the reporting banks grew by 42% from $3.3 billion in December 2010 to $4.7 billion in December 2011. Commercial banks accounted for 87% of the total assets whilst building societies and merchant banks accounted for 10% and 1% respectively. CBZ bank remained the largest bank by total assets as at 31 December 2011, with an industry market share of 21%, marginal improvement from 20% as of December 2010.

Table 1.5: Individual Bank Total Assets Market Share as at 31 December 2011

<table>
<thead>
<tr>
<th>Bank</th>
<th>Total Assets (US$)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBZ</td>
<td>981,767,058</td>
<td>24.74%</td>
</tr>
<tr>
<td>ABC</td>
<td>379,384,000</td>
<td>9.56%</td>
</tr>
<tr>
<td>Stanbic</td>
<td>361,404,000</td>
<td>9.11%</td>
</tr>
<tr>
<td>CABS</td>
<td>334,922,017</td>
<td>8.44%</td>
</tr>
<tr>
<td>Standard Chartered</td>
<td>325,106,209</td>
<td>8.19%</td>
</tr>
<tr>
<td>Barclays</td>
<td>260,035,404</td>
<td>6.55%</td>
</tr>
<tr>
<td>ZB</td>
<td>206,734,030</td>
<td>5.21%</td>
</tr>
<tr>
<td>FBC</td>
<td>187,820,475</td>
<td>4.73%</td>
</tr>
<tr>
<td>MBCA</td>
<td>180,650,471</td>
<td>4.55%</td>
</tr>
<tr>
<td>NMBZ</td>
<td>164,790,011</td>
<td>4.15%</td>
</tr>
<tr>
<td>Kingdom</td>
<td>133,731,896</td>
<td>3.37%</td>
</tr>
<tr>
<td>TN</td>
<td>116,404,800</td>
<td>2.93%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>105,392,380</td>
<td>2.66%</td>
</tr>
<tr>
<td>POSB</td>
<td>65,049,230</td>
<td>1.64%</td>
</tr>
<tr>
<td>Ecobank</td>
<td>58,338,000</td>
<td>1.47%</td>
</tr>
<tr>
<td>Trust</td>
<td>38,523,469</td>
<td>0.97%</td>
</tr>
<tr>
<td>ZB BS</td>
<td>35,754,081</td>
<td>0.90%</td>
</tr>
<tr>
<td>FBC BS</td>
<td>33,060,183</td>
<td>0.83%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3,968,867,714</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Reporting Banks’ FY 2011 Financials
Figure 1.4: 2011 Total Assets by Bank Sector 2011

Source: Reporting Banks’ FY 2010 and 2011 Financials

Commercial banks continue to dominate in the local banking sector. In 2011, the commercial banks commanded an asset market share of 87%, the same market share as compared to 2010.

1.3.4 Profitability
According to the MMC Capital report (2012), the total bank industry profit after tax improved from $50 million for the year ended 31 December 2010 to $107 million for the year ended 31 December 2011 representing a growth of 114%. CBZ had the largest absolute profits of $25 million, continuing its dominance from 2010 when it netted $21 million. In terms of profitability market share, CBZ garnered 23% (41% in 2010), Standard Chartered, 21% (17% in 2010), CABS, 18% (11% in 2010) and Stanbic, 10% (16% in 2010).
Table 1.6: Individual Bank Profit Market Share for the year ended 31 December 2011

<table>
<thead>
<tr>
<th>Bank</th>
<th>PAT-USD</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBZ</td>
<td>24,698,365</td>
<td>23.13%</td>
</tr>
<tr>
<td>Stan chart</td>
<td>21,989,768</td>
<td>20.60%</td>
</tr>
<tr>
<td>CABS</td>
<td>18,864,229</td>
<td>17.67%</td>
</tr>
<tr>
<td>Stanbic</td>
<td>11,146,000</td>
<td>10.44%</td>
</tr>
<tr>
<td>ABC</td>
<td>7,253,000</td>
<td>6.79%</td>
</tr>
<tr>
<td>ZB</td>
<td>6,996,215</td>
<td>6.55%</td>
</tr>
<tr>
<td>FBC</td>
<td>4,767,831</td>
<td>4.47%</td>
</tr>
<tr>
<td>NMB</td>
<td>4,279,977</td>
<td>4.01%</td>
</tr>
<tr>
<td>POSB</td>
<td>4,109,555</td>
<td>3.85%</td>
</tr>
<tr>
<td>MBCA</td>
<td>3,355,476</td>
<td>3.14%</td>
</tr>
<tr>
<td>FBC BS</td>
<td>2,945,341</td>
<td>2.76%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>2,728,087</td>
<td>2.56%</td>
</tr>
<tr>
<td>ZB BS</td>
<td>2,179,284</td>
<td>2.04%</td>
</tr>
<tr>
<td>Barclays</td>
<td>1,404,105</td>
<td>1.32%</td>
</tr>
<tr>
<td>TN</td>
<td>1,069,972</td>
<td>1.00%</td>
</tr>
<tr>
<td>Kingdom</td>
<td>(1,554,767)</td>
<td>-1.46%</td>
</tr>
<tr>
<td>Trust</td>
<td>(3,594,507)</td>
<td>-3.37%</td>
</tr>
<tr>
<td>Ecobank</td>
<td>(5,873,000)</td>
<td>-5.50%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>106,764,931</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Source: Reporting Banks’ FY 2011 Financials
Table 1.7: 2011 Earnings Quality

<table>
<thead>
<tr>
<th></th>
<th>Earnings</th>
<th>CFO</th>
<th>CFO/Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays</td>
<td>1,753,921</td>
<td>17,985,743</td>
<td>1025%</td>
</tr>
<tr>
<td>MBCA</td>
<td>3,431,935</td>
<td>20,954,344</td>
<td>611%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>2,728,087</td>
<td>16,566,016</td>
<td>607%</td>
</tr>
<tr>
<td>NMB</td>
<td>4,279,977</td>
<td>19,232,339</td>
<td>449%</td>
</tr>
<tr>
<td>TN</td>
<td>1,069,972</td>
<td>4,379,195</td>
<td>409%</td>
</tr>
<tr>
<td>ZB Bank</td>
<td>8,460,311</td>
<td>20,433,51</td>
<td>242%</td>
</tr>
<tr>
<td>Stan Chart</td>
<td>22,006,227</td>
<td>28,285,275</td>
<td>129%</td>
</tr>
<tr>
<td>CBZ</td>
<td>25,630,181</td>
<td>24,625,423</td>
<td>96%</td>
</tr>
<tr>
<td>POSB</td>
<td>3,773,023</td>
<td>3,501,687</td>
<td>93%</td>
</tr>
<tr>
<td>Stanbic</td>
<td>11,014,000</td>
<td>8,132,000</td>
<td>74%</td>
</tr>
<tr>
<td>ZB Building Society</td>
<td>2,412,121</td>
<td>1,052,255</td>
<td>44%</td>
</tr>
<tr>
<td>FBC BS</td>
<td>3,101,464</td>
<td>(833,535)</td>
<td>-27%</td>
</tr>
<tr>
<td>CABS</td>
<td>21,953,304</td>
<td>(12,374,163)</td>
<td>-56%</td>
</tr>
<tr>
<td>FBC Bank</td>
<td>5,383,022</td>
<td>(14,989,976)</td>
<td>-278%</td>
</tr>
<tr>
<td>ABCH</td>
<td>7,195,000</td>
<td>(21,876,000)</td>
<td>-304%</td>
</tr>
<tr>
<td>Trust</td>
<td>(3,661,506)</td>
<td>(3,355,335)</td>
<td>92%</td>
</tr>
<tr>
<td>Ecobank</td>
<td>(5,472,000)</td>
<td>(10,892,000)</td>
<td>199%</td>
</tr>
<tr>
<td>Kingdom</td>
<td>(820,625)</td>
<td>(40,362,397)</td>
<td>4918%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>114,238,414</strong></td>
<td><strong>60,464,222</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Reporting Banks’ FY 2011 Financials

Despite being in the tier 4 category in terms of profit after tax, Barclays had the best earnings quality. Kingdom bank with negative earnings and negative cash flow to operations had the worst earnings quality for the same period. BancABC, despite being in the top five in terms of profitability and size had a negative CFO. CBZ posted average results on quality.

1.3.4.1 Profits by Bank Sector 2011

Commercial banks, as expected, have had the biggest amount of profits whilst merchant banks were on the losing side in 2011 as was the case again in 2010.
Figure 1.5: 2011 Profits by Bank Sector

Source: Reporting Banks’ FY 2010 and 2011 Financials

1.3.4.2 Ratio Analysis

1.3.4.3 Net Interest Margin (NIM)
With efforts centered on coming out of the woods, Kingdom bank was one of the most profitable lenders in 2011 with an NIM of 16%. ZB Bank also occupied the top position (16%). In FY 2011 Commercial banks were overtaken by Building societies in terms of profitable lending. Commercial banks and Building societies posted net interest margin of 11% (9.8% in FY 2010) and 12% (6.8% in FY 2010) respectively.

1.3.4.4 Net Interest to Total Income
Core income for the banking sector continued to maintain a positive growth, having risen from 29% in FY 2009 to 34.2% in FY 2010 and then 46% of total income in FY 2011. CBZ bank, with net interest to total income of 67% had the largest component of core income whilst Barclays was at the bottom of the list after it posted a paltry 17%.

1.3.4.5 Cost to Income Ratio (CIR)
There was a huge relief to income statements within the banking sector with the aggregate cost to income ratio declining to 69% in 2011 from 80% in 2010 (94% in 2009). Two out of the eighteen banks had cost to income ratios above 100%.
(operating loss), Ecobank (168%) and Trust Bank (190%). CABS had the lowest CIR of 55%.

**Table 1.8: Banking Sector Ratios 2011**

<table>
<thead>
<tr>
<th>Building Societies</th>
<th>Net Interest</th>
<th>Net Interest</th>
<th>PAT to Total</th>
<th>ROE</th>
<th>ROA</th>
<th>Cost to Income</th>
<th>Loans to Deposits</th>
<th>Capital Adequ</th>
</tr>
</thead>
<tbody>
<tr>
<td>CABS</td>
<td>12%</td>
<td>51%</td>
<td>42%</td>
<td>30%</td>
<td>6%</td>
<td>57%</td>
<td>83%</td>
<td>13%</td>
</tr>
<tr>
<td>ZB BS</td>
<td>12%</td>
<td>19%</td>
<td>28%</td>
<td>13%</td>
<td>6%</td>
<td>68%</td>
<td>82%</td>
<td>46%</td>
</tr>
<tr>
<td>FBC BS</td>
<td>15%</td>
<td>30%</td>
<td>39%</td>
<td>20%</td>
<td>9%</td>
<td>58%</td>
<td>133%</td>
<td>49%</td>
</tr>
<tr>
<td>Sector</td>
<td>12%</td>
<td>45%</td>
<td>40%</td>
<td>26%</td>
<td>6%</td>
<td>58%</td>
<td>85%</td>
<td>36%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Merchant Banks</th>
<th>Net Interest</th>
<th>Net Interest</th>
<th>PAT to Total</th>
<th>ROE</th>
<th>ROA</th>
<th>Cost to Income</th>
<th>Loans to Deposits</th>
<th>Capital Adequ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecobank</td>
<td>7%</td>
<td>52%</td>
<td>-115%</td>
<td>-135%</td>
<td>-168%</td>
<td>81%</td>
<td>15%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commercial Banks</th>
<th>Net Interest</th>
<th>Net Interest</th>
<th>PAT to Total</th>
<th>ROE</th>
<th>ROA</th>
<th>Cost to Income</th>
<th>Loans to Deposits</th>
<th>Capital Adequ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stan</td>
<td>12%</td>
<td>24%</td>
<td>36%</td>
<td>41%</td>
<td>7%</td>
<td>59%</td>
<td>46%</td>
<td>24%</td>
</tr>
<tr>
<td>Stanbic</td>
<td>9%</td>
<td>45%</td>
<td>20%</td>
<td>32%</td>
<td>3%</td>
<td>62%</td>
<td>90%</td>
<td>17%</td>
</tr>
<tr>
<td>Barclays</td>
<td>11%</td>
<td>17%</td>
<td>3%</td>
<td>4%</td>
<td>1%</td>
<td>93%</td>
<td>27%</td>
<td>19%</td>
</tr>
<tr>
<td>CBZ</td>
<td>10%</td>
<td>67%</td>
<td>23%</td>
<td>32%</td>
<td>3%</td>
<td>55%</td>
<td>96%</td>
<td>11%</td>
</tr>
<tr>
<td>MBCA</td>
<td>10%</td>
<td>42%</td>
<td>18%</td>
<td>17%</td>
<td>2%</td>
<td>80%</td>
<td>54%</td>
<td>13%</td>
</tr>
<tr>
<td>Trust</td>
<td>12%</td>
<td>52%</td>
<td>-69%</td>
<td>-26%</td>
<td>-9%</td>
<td>190%</td>
<td>95%</td>
<td>32%</td>
</tr>
<tr>
<td>Kingdo</td>
<td>16%</td>
<td>53%</td>
<td>-4%</td>
<td>-10%</td>
<td>-1%</td>
<td>84%</td>
<td>126%</td>
<td>11%</td>
</tr>
<tr>
<td>ABC</td>
<td>8%</td>
<td>55%</td>
<td>20%</td>
<td>20%</td>
<td>2%</td>
<td>56%</td>
<td>79%</td>
<td>11%</td>
</tr>
<tr>
<td>FBC</td>
<td>12%</td>
<td>42%</td>
<td>15%</td>
<td>17%</td>
<td>3%</td>
<td>69%</td>
<td>73%</td>
<td>13%</td>
</tr>
<tr>
<td>TN</td>
<td>11%</td>
<td>65%</td>
<td>8%</td>
<td>7%</td>
<td>1%</td>
<td>75%</td>
<td>93%</td>
<td>13%</td>
</tr>
<tr>
<td>Metropol</td>
<td>15%</td>
<td>54%</td>
<td>18%</td>
<td>13%</td>
<td>3%</td>
<td>76%</td>
<td>71%</td>
<td>25%</td>
</tr>
<tr>
<td>ZB</td>
<td>16%</td>
<td>41%</td>
<td>17%</td>
<td>20%</td>
<td>3%</td>
<td>73%</td>
<td>72%</td>
<td>15%</td>
</tr>
<tr>
<td>NMB</td>
<td>12%</td>
<td>47%</td>
<td>17%</td>
<td>21%</td>
<td>3%</td>
<td>68%</td>
<td>96%</td>
<td>14%</td>
</tr>
<tr>
<td>Sector</td>
<td>11%</td>
<td>46%</td>
<td>16%</td>
<td>19%</td>
<td>2%</td>
<td>70%</td>
<td>78%</td>
<td>17%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Savings Bank</th>
<th>Net Interest</th>
<th>Net Interest</th>
<th>PAT to Total</th>
<th>ROE</th>
<th>ROA</th>
<th>Cost to Income</th>
<th>Loans to Deposits</th>
<th>Capital Adequ</th>
</tr>
</thead>
<tbody>
<tr>
<td>POSB</td>
<td>15%</td>
<td>27%</td>
<td>19%</td>
<td>37%</td>
<td>6%</td>
<td>78%</td>
<td>76%</td>
<td>15%</td>
</tr>
<tr>
<td>Grand</td>
<td>11%</td>
<td>46%</td>
<td>19%</td>
<td>21%</td>
<td>3%</td>
<td>69%</td>
<td>79%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Source:** Reporting Banks’ FY 2011 Financials

### 1.3.4.6 Capital Adequacy

Most banks continued to maintain capital adequacy ratios which are above the regulatory thresholds; however this ratio can be misleading as some banks report ratios above 10% but have absolute capital less than the prescribed minimum (MMC Capital Report, 2012).
As highlighted below, kingdom bank had a capital adequacy ratio of 11% but it declared core capital of about US$4.2 million as at 31st of December 2011 which is far less than the prescribed minimum capital of US$12.m million for commercial banks. The capitalization as at 31st of December 2011 is shown below.

Table 1.9: Bank Capitalization as at 31 December 2011

<table>
<thead>
<tr>
<th>Commercial BANKS</th>
<th>Declared capital: 31 Dec</th>
<th>Threshold Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBZ Bank</td>
<td>65,219,416.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>StanChart</td>
<td>53,204,639.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>33,374,247.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>BancABC</td>
<td>32,075,487.14</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Stanbic Bank</td>
<td>31,974,967.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>ZB Bank</td>
<td>20,695,741.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>NMB Bank</td>
<td>19,788,114.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>MBCA Bank</td>
<td>19,484,022.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Metropolitan Bank</td>
<td>17,955,298.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>FBC Bank</td>
<td>16,824,331.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Interfin Bank</td>
<td>16,275,804.88</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Agribank</td>
<td>14,144,691.57</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>TN Bank</td>
<td>13,380,596.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Trust Bank</td>
<td>12,764,043.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Kingdom Bank</td>
<td>4,203,203.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Royal Bank</td>
<td>3,422,410.00</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>ZABG Bank</td>
<td>(15,348,157.00)</td>
<td>12,500,000.00</td>
</tr>
<tr>
<td>Merchant Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tetrad Investment</td>
<td>12,726,213.00</td>
<td>10,000,000.00</td>
</tr>
<tr>
<td>Ecobank</td>
<td>10,883,265.00</td>
<td>10,000,000.00</td>
</tr>
<tr>
<td>Genesis Investment</td>
<td>(3,204,691.00)</td>
<td>10,000,000.00</td>
</tr>
<tr>
<td>Renaissance</td>
<td>(Under Curatorship)</td>
<td></td>
</tr>
<tr>
<td>Building Societies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CBZ Building</td>
<td>22,705,129.00</td>
<td>10,000,000.00</td>
</tr>
<tr>
<td>Cabs</td>
<td>14,351,109.00</td>
<td>10,000,000.00</td>
</tr>
<tr>
<td>FBC Building</td>
<td>13,545,567.00</td>
<td>10,000,000.00</td>
</tr>
<tr>
<td>ZB Building Society</td>
<td>13,401,494.58</td>
<td>10,000,000.00</td>
</tr>
<tr>
<td>SAVINGS BANK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>POSB</td>
<td>10,797,887.00</td>
<td></td>
</tr>
</tbody>
</table>

Source: RBZ Monetary Policy Statement (2012)

1.4 PORTERS FIVE FORCES MODEL

Porter (1979) identified five competitive forces as tools for industry analysis. These forces include threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and intensity of rivalry.
1.4.1 The industry jockeying for position among current competitors:
The banking sector is characterized by stiff competition. Major competitors are CBZ, Standard Chartered, Stanbic, Barclays, Banc ABC and FBC Bank. CBZ Bank is leading in terms of balance sheet and profitability. According to the MMC Capital Research report (2011), the market share is as follows:
1.4.2 Threat of new entrants
The industry is highly regulated and has enormous bottlenecks that hinder any new player from coming in. There are set legal and registration barriers to entry. The huge initial capital outlay required is a deterrent to new entrants. Barriers to entry are high because of the minimum capital base of $12.5 million required by the Reserve Bank of Zimbabwe (RBZ monetary statement, 2011).

1.4.3 Threat of substitutes
Threat of substitutes is very high given that substitutes such as stock market products and commercial papers are readily available. Depositors have access to international banks. In addition, Micro Finance Organizations also offer quick loans mainly to individuals demanding less rigorous requirements and quick turnaround. Econet is also offering a substitute through their Eco-cash which facilitates transfer of funds among individuals.

1.4.4 Bargaining power of suppliers
There is high bargaining power of suppliers given that commercial banks do not have flexibility to change from one supplier to another due to high switching costs. Stationery required by commercial banks is also of security in nature and hence can not be easily changed.
1.4.5 Bargaining power of buyers
There is high bargaining power of buyers given that customers can easily move from one bank to another. Switching costs are currently very low. Products are almost similar and this has caused banks to fight for the customers.

1.5 STATEMENT OF THE PROBLEM
The global financial crisis that started in America and Europe between 2007 and 2009 had contagion effect to all banks in the world. During the same period under review, the Zimbabwean economy was under hyperinflationary siege which wiped off depositors’ savings and banks’ capital base. Following the introduction of the multi-currency era, the management problem for most banks was to devise effective strategies to attract deposits. However, most commercial banks have lower deposits being registered. It is against this background that this research study sought to evaluate the effectiveness of strategies being used by commercial banks to attract deposits.

1.6 RESEARCH OBJECTIVES
1. To assess the factors that influences deposits uptake by commercial banks in Zimbabwe.
2. To determine strategies being implemented by commercial banks to attract deposits.
3. To identify the models being used by commercial banks to attract deposits.
4. To identify the challenges which are being faced by commercial banks in attracting deposits.
5. To identify the factors considered when choosing a bank.
6. To identify the reasons why customers leave a bank.

1.7 RESEARCH QUESTIONS
1. What are the factors that influence deposit uptake by commercial banks in Zimbabwe?
2. What are the strategies being implemented by commercial banks to attract deposits?
3. What are the models that are being used by commercial banks to attract deposits?

4. What are the challenges that are being faced by commercial banks in attracting deposits?

5. What are the factors considered when choosing a bank?

6. What are the reasons customers leave a bank?

1.8 RESEARCH PROPOSITION
The researcher makes proposition that the strategies that are being used by commercial banks to attract depositors are ineffective.

1.9 JUSTIFICATION OF THE RESEARCH
The researcher makes the following justifications:

This research will benefit the nation if the recommendation made thereof are adopted as they have valuable information that would assist policy makers to make sustainable policies for the financial sector. These policies will enable commercial banks to attract depositors and investors and this will improve money to lend to the productive sectors of the economy and this will improve GDP of the country.

The study will benefit management of commercial banks, as it is envisaged that results of the study will help management to adopt effective strategies for attracting depositors.

In view of the fact that no research has been undertaken on the commercial banks focusing on the effectiveness of strategies that they use to attract depositors, it is the researcher’s desire to contribute to the building of a new body of knowledge for the benefit of the research fraternity, practitioners and students via education in the field of banking.

Finally, the study will benefit the researcher as he will acquire an in depth knowledge in the field of banking. In pursuit of excellence in his duties at the workplace, the researcher will be able to take an opportunity to put the findings and
recommendations into practice which will result into better performance of the organization at large.

1.10 SCOPE OF THE RESEARCH
The researcher studies the performance of commercial banks operating in Harare and that have been operating from 2009 to 2012.

1.11 STRUCTURE OF THE STUDY
The dissertation has been structured as outlined in figure 1.1 which follows:

Figure 1. 8: Outline of the dissertation
CHAPTER 2

LITERATURE REVIEW

2.0 Introduction
The present chapter discusses literature that will lay the foundation for the research. The primary focus of this chapter is to review literature relating to the strategies that are being used to attract depositors in the financial sector. This literature will help in answering the main research questions. This chapter will form the crux on which the research findings will be discussed.

2.1 Definition of deposits
Deposits are money placed into a banking institution for safekeeping. Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts and money market accounts (Greenlaw et al., 2009). The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The "deposit" itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited. According to Daly and Moloney (2004) highlight that when someone opens a bank account and makes a deposit of cash, the account holder surrenders legal title to the cash. This cash becomes an asset of the bank; the account becomes a liability. In the United States, the Federal Deposit Insurance Corporation (FDIC) provides deposit insurance that guarantees the deposits of member banks. Member banks are required to place signs visible to the public stating that "deposits are backed by the full faith and credit of the United States Government." (White and Scott, 2009)

Accepting deposits is one of the major activities of the Banks. Banks are also called custodians of public money. Basically, Berger (2010) postulates that the money is accepted as deposit for safe keeping, but since the banks use this money to earn interest from people who need money, Banks share a part of this interest with the depositors (www.investpedia.com accessed on 23/06/12). The quantum of interest depends upon the tenor - length of time for which the depositor wishes to keep the
Individuals and corporations need money to pursue their daily business. They place the money on deposit to earn interest, using the money market. Types of deposits are:

- **Call deposits**, The depositor has the right to use the money at any time, sometimes short notice periods are agreed. As the depositor can show up any time to request the deposit back, it is also called sight deposit (Sironi, 2003).

- **Fixed deposits** They bear a fixed time and fixed interest rate, and are therefore also called term or time deposits (Kane, 2000).

- **Overnight lending** It occurs usually from noon to noon, using a special rate (www.investpedia.com accessed on 23/06/12).

### 2.2 Factors Influencing Deposits at Commercial Banks

Kucher (2010) states that pricing in the banking industry today is often focused on the company’s own costs or the competitor’s price. He went on to say that in contrast, the customer’s perception of value and their expectations are given little regard, money is given away due to inadequate value extraction in pricing banking services. Financial services value pricing focuses on determining the willingness to pay of different customer segments and setting the price accordingly. Price in the case of services has different terms used for different services like fees for legal service, fare for transport service, commission agency services, premium for insurance service, interest for the use of money. According to Seth (1997) there are two characteristics, which have great impact on determining the prices of services, are perishability and intangibility. In banking industry, price is the amount of money that will determine the exchange rate of bank products or services between the bank and customers (Boland, 2009). Price determination of the banking products or services is subject to regulation either by the Government or by the Central Bank. According to Gorton et al. (2006) it is a unique feature of the bank price that the
products are mostly designed by the banker while the price is determined by the Government or by the Central Bank. Due to this, there is uniformity in the prices of bank products within a country. Hence the chance of competition on the basis of price is almost nil. According to Winston (1986), pricing of financial products is highly complex involving internal and external factors. The factors that influence the calculation of bank services pricing are depicted below:

2.2.1 Company objectives
The banks’ strategy to be adopted depends upon the objectives of the company and this in turn influences the attraction of deposits by the bank (White et al., 2009). Pezzullo (1998) states that the pricing of bank products directly affects the bank’s profitability in two ways. Firstly the price paid by customers generates income and secondly price influences the volume of deposits and sales. Certina and Mohail (2007) state that the objectives that can be set by a company can be growth in sales, market share, competition, predetermined profit and corporate objectives to have a payback period in a specific period.

2.2.2 Legal restrictions and regulations
According to Wuebker et al. (2008), regulation is increasing its influence on the financial services. Since 2003 the Swiss Investment fund Association (SFA) has required its members to include a Total Expenses Ratio (TER) in any investment price quote. In the UK, the Office of Fair Trade has increased levels of intervention on the UK finance service market (Berger, 2010). Governments manage economies to achieve key economic objectives using monetary policy, fiscal policy and supply side policy. A review carried out by Calomiries (2008) shows substantial empirical evidence that when monetary policy is accommodative banks charge less for bearing risk, and this seems to be a pattern common to many countries, this also leads to an increase of deposits as well.

2.2.3 Competition
To face competition, prices can be lowered to maintain sales or in the absence of it, prices can be revised but stable prices help in maintaining image or brand name and quality. Schaeck and Cilak (2008) also highlighted that competition also leads to an increase in product variety and product quality on offer to customers as banks would be wrestling for depositors. Tirole (1998) observed that new entrants significantly
undercut prices of established banks and have already influenced pricing of banking products. Ennew and Waite (2007) stated that in some respect, competition has less influence in the pricing of financial services stating that the complexity and lack of transparency of financial services pricing acts as inhibitors to highly competitive pricing. Schaeck and Cilak (2008) argue that strong competition implies significantly lower spreads between bank and market interest rate for most market products in line with expectations. A number of studies by Berger and Hannan (1989), Neumark and Shapiro (1992) and Okeahalam (1998), support the Structure Conduct Performance (SCP) framework. The framework assumes that measurements of market structure and concentration can provide reliable deductions regarding the extent of competition.

The extent of how competition affects the price that consumers pay for banking services, determines the level of profits and performance. According to Daly and Moloney (2004) the SCP framework suggests that higher concentration leads to higher prices, which in turn lead to higher profits. Llewellyn and Frake (1993) relates charging in the UK where competitive pressures have forced banks to pay interest on a larger proportion of deposits (including current accounts) and the general policy is for a tiered structure of interest rates to be applied. Thus small balances carry low rates of interest while larger balances carry a higher rate of interest. Rose (2008) stressed that more competition faced by banks for a consumer will help to keep the price in line with interest rates on similar products available in the market place. Stiroh and Rumble (2006) highlights that consumers’ perception about the products and services and the level of request are found in the final price of a product or service.

2.2.4 Technology
White (2009) observed that commercial bank business has changed dramatically over the past 25 years due in large part to technological changes. Therefore banks that lagged behind in the technological advancement also lost out severely in their market shares. For example Brunner et al. (2006) highlighted that some banks gained a lot of business and valuable depositors’ monies with the emergence of internet banking, Bancasurance, cell phone banking and ATMs (Automated Teller Machines) whilst some banks lost out completely when they kept on holding on to
the traditional way of doing business. Llewellyn and Drake (1995) suggest that when considering the pricing of financial services, it might be helpful to distinguish between two forms which are explicit (overt) pricing and implicit (covert) pricing. Explicit pricing is when cost is mostly obvious and monetary. This allows an organization to signal costs of different services and uses price as a way of influencing consumer behaviour for example branch based transactions were priced relatively higher because of their high cost and ATM were priced relatively lower the reason being to move from branch based transaction in favour of ATM (White and Scott, 2009).

Ennew and Waite (2007) support that pricing is far more complex for financial services as the terminology associated with pricing is itself complex and a diverse issue. Implicit pricing on the other hand is where the actual price to customer is unclear and appears not to be paid by consumers, it may be non monetary for example a bank that offers free banking but pays no interest on credit balances (Perotti et al, 2011). Implicit pricing includes requirements on customers to maintain minimum balances and the nonpayment or low payment of interest on credit balances. According to Acharya et al. (2010) implicit pricing has the general effect of leading to an oversupply of services and for the customer to overuse some bank services. This in turn has the effect of increasing the overall costs of the bank.

2.2.5 Pricing methods

There are a number of pricing approaches which can be classified into three main groups namely market based pricing, cost based pricing and competition related pricing. These are grouped as indicated in table below:

<table>
<thead>
<tr>
<th>Market based pricing</th>
<th>Cost based pricing</th>
<th>Competition based pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived value pricing</td>
<td>Standard cost pricing</td>
<td>Market penetration pricing</td>
</tr>
<tr>
<td>Psychological pricing</td>
<td>Cost plus pricing</td>
<td>Rock-bottom pricing</td>
</tr>
<tr>
<td>Promotional pricing</td>
<td>Break even analysis</td>
<td>Low price leader pricing</td>
</tr>
<tr>
<td>Skimming</td>
<td>Managerial Pricing</td>
<td>High end pricing</td>
</tr>
</tbody>
</table>

**Table 2.1: Pricing methods**

**Source:** Vermuelen (2006)

Commercial banks follow a set benchmark to price their products. The need to make profit and stay abreast of competition turns out to be the major factors influencing the prices of bank services. According to White et al. (2009) the pricing strategies
followed by commercial banks are aimed at profit maximization and the need to survive the stiff competition by attracting more deposits. Regulations also play a significant role in influencing the prices that banks can charge. Bolt et al. (2010) the major pricing strategies that are being used are, cost based, competition based and the need to follow market trends. Banks in pricing their products need to be able to cover costs and realize a calculated profit. Whilst that was important, prices are also competition dictated as overpricing would result in loss of customers to competitors (Calomiris, 2008).

2.3 STRATEGIES FOR ATTRACTING DEPOSITS

Now, more than ever, financial institutions must adopt new ways to grow their core deposit base (Baker, 2007). In fact, according to Boland (2009) to successfully compete in today’s challenging business climate, every financial institution should have a comprehensive deposit growth strategic plan in place, and senior management must ensure the strategy is focused and measurable. Furthermore, Stein (2002) states that financial institutions need to work smarter to attract new customers through proactive deposit growth strategies.

Berger (2009) states that despite this industry-wide challenge, financial institutions often talk about the importance of core deposit growth, but generally do not take the steps necessary to address deposit gathering in a strategic and consistent fashion. At the same time, many bankers admit they are not confident that they have the right strategies in place to achieve their core deposit goals (Stiroh and Rumble, 2006). Unfortunately, experience shows that many institutions still employ a relatively outdated approach for managing their deposit growth efforts (Berger, 2009). According to Boland (2009) a strong deposit philosophy will help financial institutions more efficiently generate core deposits while also improving profitability.

De Young, Hunter and Udell (2004) evidenced that banking companies without discernable competitive strategies tend to perform poorly, as do banks that employ outdated banking strategies without embracing efficient new production methods.

2.3.1 Client Relationship Management strategies by Commercial Banks

Customer Relationship Management (CRM) is defined by Couldwell (1998) as a combination of business process and technology that seeks to understand a
company’s customers from the perspective of who they are, what they do, and what they are like. Technological definition of CRM was given as the market place of the future is undergoing a technology-driven metamorphosis (Peppers and Rogers, 1995). Consequently, IT and marketing departments must work closely to implement CRM efficiently. Meanwhile, implementation of CRM in the banking sector was considered by Mihelis et al. (2001). They focused on the evaluation of the critical satisfaction dimensions and the determination of customer groups with distinctive preferences and expectations in the private bank sector. The methodological approach is based on the principles of multi-criteria modeling and preference disaggregation modeling used for data analysis and interpretation. Yli-Renko et al. (2001) have focused on the management of the exchange relationships and the implications of such management for the performance and development of technology-based firms and their customers. Specifically the customer relationship of new technology-based firms has been studied. Cook and Hababou (2001) was interested in total sales activities, both volume-related and non-volume related. They also developed a modification of the standard data envelope analysis (DEA) structure using goal programming concepts that yields both a sales and service measures.

Beckett-Camarata et al. (1998) have noted that managing relationships with their customers (especially with employees, channel partners and strategic alliance partners) was critical to the firm’s long-term success. It was also emphasized that customer relationship management based on social exchange and equity significantly assists the firm in developing collaborative, cooperative and profitable long-term relationships. Yuan and Chang (2001) have presented a mixed-initiative synthesized learning approach for better understanding of customers and the provision of clues for improving customer relationships based on different sources of web customer data. Hunger et al. (2004) states that they have also hierarchically segmented data sources into clusters, automatically labeled the features of the clusters, discovered the characteristics of normal, defected and possibly defected clusters of customers, and provided clues for gaining customer retention.

Peppers (2000) has also presented a framework, which is based on incorporating e-business activities, channel management, relationship management and back-
office/front-office integration within a customer centric strategy. He has developed four concepts, namely Enterprise, Channel management, Relationships and Management of the total enterprise, in the context of a CRM initiative. Ryals and Knox (2001) have identified the three main issues that can enable the development of Customer Relationship Management in the service sector; the organizational issues of culture and communication, management metrics and cross-functional integration especially between marketing and information technology.

2.3.1.1 CRM Objectives in Banking Sector
The idea of CRM is that it helps banks use technology and human resources gain insight into the behavior of customers and the value of those customers (Peppard, 2000). If it works as hoped, Mihelis et al. (2001) states that a bank can provide better customer service, make call centers more efficient, cross sell products more effectively, help sales staff close deals faster, simplify marketing and sales processes, discover new customers, and increase deposits. It does not happen by simply buying software and installing it.

For CRM to be truly effective a bank must first decide what kind of customer information it is looking for and it must decide what it intends to do with that information (Russ, 2006). For example, many financial institutions keep track of customers’ life stages in order to market appropriate banking products like mortgages or account packages to them at the right time to fit their needs. Next, the bank looks into all of the different ways information about customers comes into a business, where and how this data is stored and how it is currently used.

One bank, for instance, may interact with customers in a myriad of different ways including mail campaigns, Web sites, brick-and-mortar stores, call centers, mobile sales force staff and marketing, toll-free numbers and advertising efforts. According to Ryals and Knox (2001) solid CRM systems link up each of these points. This collected data flows between operational systems (like sales and inventory systems) and analytical systems that can help sort through these records for patterns (Russ, 2006). Company analysts can then comb through the data to obtain a holistic view of each customer and pinpoint areas where better services are needed.
<table>
<thead>
<tr>
<th>Industry Trend</th>
<th>Challenges</th>
<th>Required Actions</th>
<th>Benefits</th>
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| Achieving greater organic growth | • Finding new revenue streams  
• Obtaining higher levels of products per customer  
• Saving “at risk” customers through business intelligence  
• Can no longer rely on M&As to grow by adding more branches | • Improving sales and service consistency  
• Building greater customer loyalty  
• Having actionable customer information across the entire enterprise | • Increase products-to-customer ratio  
• Improve up-sell and cross-sell close rates  
• Build greater customer loyalty  
• Improve profitability by reducing cost of sales |
| Serving emerging customer segments | • Providing consistent and culturally aligned service to diverse populations  
• Developing highly skilled customer service professionals capable of serving a specific customer segment | • Develop workforce skills aligned with customer needs  
• Implement workforce management to ensure the rights CSR handle the right call.  
• Develop IT and process frameworks to secure customer information | • Gain rapid access to emerging markets to grow revenues  
• Reduce the cost of new customer acquisition  
• Maximize customer loyalty through culturally aligned service |
| Revitalizing product offerings | • Losing market share to new, more agile competitors  
• Differentiating products and services in a “commoditized” marketplace | • Faster time-to-market with new products tailored to your customers  
• Greater flexibility and responsiveness to market changes  
• Differentiating your brand through superior and consistent service | • Reduce time-to-market for new products  
• Improve product targeting to the right segments  
• Improve brand consistency and loyalty  
• Respond faster to market changes with greater flexibility |
| Improving channel management | • Inconsistent customer treatments across the channels  
• Lack of enterprise integration on the customer service platform  
• Difficult to access a full view of the customer and assess value to the bank | • Deploy a consistent, customer-tailored treatment strategy  
• Deploy an IT platform that operates across all channels | • Improve customer loyalty through consistent service across the enterprise  
• Cut costs by using standardized processes across all channels  
• Enable the enterprise to use lower cost channels |
| Securing customer information | • Increasingly sophisticated identity “thieves”  
• Avoiding security breaches by banking staff  
• Balancing the need for security against the cost | • Adhere to all compliance regulations (Basel II)  
• Secure customer information, but allow access by the right agent to the right customers | • Avoid lost revenue due to customer attrition  
• Maintain brand reputation  
• Reduce capital reserve requirements  
• Achieve ROI on your security investments |

Source: Russ (2006)

2.3.1.2 CRM in retail banking: current trends and dynamics

The ability to maximize customer loyalty through close and durable relationships is critical to retail banks’ ability to grow their businesses (Boot and Thakor, 2009). As banks strive to create and manage customer relationships, several emerging trends affect the approach and tools banks employ to achieve sustainable growth. Focarelli
et al. (2011) point out that these trends reflect a fundamental change in the way banks interact with the customers they have and those they want to acquire.

2.3.1.2.1 Focusing on organic growth
Traditionally, banks have grown through an aggressive strategy of acquiring direct competitors and taking over their branch networks. Russ (2006) highlighted that today, that strategy is no longer sufficient, since it does not create organic growth for the financial institution. To build stronger customer loyalty, banks need improved customer knowledge to develop products and deliver services targeted at specific market segments; resulting in more directed marketing, sales and service tactics (Brunnermeier, 2009). This is not to say Mergers and Acquisitions will not continue to be an effective way to expand product offerings and service capabilities. However, retail banks will focus on acquiring businesses that have essential products or capabilities to complete the bank’s portfolio of offerings (Peppard, 2000). The goal is to gain greater wallet share of current customers and support their organic growth. A recent example of this is the acquisition of Beverly Building Society by Commercial Bank of Zimbabwe that expanded its offering for both commercial banking and mortgage customers.

2.3.1.2.2 Seeking out and better serving emerging customer segments
One of the ways banks can achieve improved organic growth is by focusing on new markets. Emerging demographic segments represent untapped revenue streams that can fuel a bank’s growth (Brunner et al., 2004). For example in the United States of America, the Hispanic market represents a major opportunity. Russ (2006) states that this fast-growing and underserved customer segment offers new potential revenue for retail banks. The need every bank has is how to respond quickly and at low cost and this need is increasing all the time.

2.3.1.2.3 Creating deep business insight into customer preferences
Customer loyalty that drives organic growth can only be built through a consistent customer experience. This means understanding each individual customer’s needs and preferences. Ryals and Knox (2001) highlighted that one of the largest challenges banks face is how to better understand their customers and provide personalized customer service. However, Russ (2006) points out that a “one-size-fits-all” customer strategy no longer works. Banks need to serve the rapidly diverging
needs of all markets: aging baby-boomers, time-stressed mid-lifers and a clientage technophiles (i.e., Gen-X and Gen-Y). Banks must move out of their “comfort zone” and develop services and products that address the specific needs of different market segments (Sironi, 2003).

It is clear that financial service providers can no longer sustain growth and profitability targets through mass direct mail campaigns that deliver less than 1 percent response rates (Bolt et al., 2010). Those that do will lose out to competitors implementing personalized communications that target the right customer, at the right time, with the right product or service. Hawkins (2011) illustrates that to optimize customer relationships and loyalty, banks need to integrate processes and technologies that enable them to build – and then act upon – a detailed view of what each customer wants. Russ (2006) further states that this will require highly skilled customer service professionals, with the right combination of linguistic, culturally aligned and financial services skills, as well as the ability to deploy customer service strategies quickly, efficiently and cost-effectively.

2.3.1.2.4 Responding to intensifying competition through revitalized offerings
The need to revitalize a company’s portfolio of offerings happens in every industry (Huang and Ratnovski, 2010). Examples in high-tech manufacturing, consumer industries and transportation show how important new offerings are in order to stay competitive as products and services become more “commoditized.” The same is true in the financial services industry.

According to Russ (2006) retail banks face a relentless stream of new competitors, eager to take a share of the market’s revenues. Russ (2006) states that the three major competitors offering differentiated products, services or distribution models have emerged over the past decade:

- Brokerage and insurance firms, expanding their offering portfolios into banking products beyond their traditional product sets.
- Non-traditional players such as PayPal (expanding through technology-led channels of services) or telecommunications companies (expanding by bundling of payments for “like” services) are growing by becoming payment aggregators.

Non-banking companies looking to enter the market by offering banking products and services. The entry of non-traditional players will not only affect bank growth
rates as they compete for consumers, but will also place downward pressure on operating margins and profitability created through their non-banking business models for example Econet’s EcoCash and Netone’s One Wallet.

Another example of a non-banking competitor is Wal-Mart; Wal-Mart was currently renewing its push into banking. If Wal-Mart does obtain this status and if they choose to provide expanded banking services in its 3,500 U.S. stores (Wal-Mart already offers money transfers, cheque cashing and credit services), Wal-Mart would immediately become one of the largest retail banks (by branch count) in the United States. Their international potential would be, subject to numerous political governance and cultural issues for expansion, an additional 1,500 stores throughout the world, including in China. (www.walmart.com accessed 03/07/12)

Renewing and reinvigorating product offerings and customer service strategies are essential ways to stay competitive in a changing marketplace. According to Peppard (2000) proactive banks will respond to market opportunities and competitive threats by launching new products, entering new markets and acquiring new customer segments. A proactive CRM solution is the foundation that can help support this without disrupting current services that would put existing clients at risk (Berger, 2010).

2.3.1.2.5 Improving distribution and channel management
To take themselves to the next level of improved sales and service, banks are focusing on developing, implementing and integrating their channels more rapidly and efficiently. Their goal is to meet three objectives according to Ryals and Knox (2001):

- Improved and more consistent service based on a full customer view
- Increased revenue through adoption of new products
- Improved profitability through lower product development and service costs

Forward-looking banks will simultaneously improve customer service quality and profitability by deploying an integrated CRM strategy. Ryals and Knox (2001) claim that the deepening relationships with their customers means that banks must offer their products and services through appropriate delivery channels that appeal to their customers.
Deploying multiple channels and integrating them at the enterprise level give banks a consistent and full view of the customer. According to Boland (2009) to be successful, this must include all service channels both physical and virtual including, call center, Web, branch, kiosk, ATM, phone and mobile devices.

Peppard (2000) states that to achieve this, banks need to develop technology, operational processes and customer strategies to make their channels more effective in reaching and serving their customers. By tailoring products or services to specific customers or market segments, banks will be able to increase their product adoption rate, revenues and return on investment (ROI) for new product development (Gorton et al., 2006).

2.3.1.2.6 Safeguarding customer information
Adding to this complexity, customer privacy and information security are under attack as never before. According to Russ (2006) the threats come from many quarters – including increasingly sophisticated identity thieves, constant phishing expeditions by criminals seeking to trap unwary customers, and even “inside jobs” where staff sell customer data to criminals. Expanding legislative and industry requirements for customer security are also increasing costs for financial services companies (DeYoung et al., 2004).

Against this ever-expanding background, it is vital that banks ensure their customer data is secure from both internal and external threats. The following according to Mihelis et al. (2001) are three key reasons why this is so important:

- If a bank loses a customer’s information, it invariably loses the customer as well.
- A security breach has an immense negative impact on the value of the bank’s brand and reputation, hindering the bank’s ability to acquire new customers.
- Under Basel II, banks without required client data security as a part of their risk management program must maintain higher levels of capital reserves – reducing the amount of funds available to invest in the marketplace and generate revenue.
By preventing security breaches and avoiding losses, banks can actually realize a Return On Investment from investing in security. This makes protecting customer data a prerequisite for competing effectively in the retail financial services market. However, according to Yli-Renko et al. (2001) banks must balance the cost of security against the need to share information and service the customer, while at the same time finding ways to secure vital customer and financial data for the purposes of risk management planning.

2.3.2 Distribution Strategy
The most important element in distribution strategy relate to this issue of location of the banks to render their service. Distribution means delivery of the products or service at the right time and at the right place (Boland, 2009). The place where the banking products or service are delivered is an important element in bank marketing. Thirdly, Hanssens and Lewis (2005) have that successful banks have been experimenting with a few strategies relating to their distribution network, that is, extending their reach through means other than branch expansion as well and this has ensure a steady growth of amount of deposits to them.

They state that the first such strategy is the concept of extension centre, satellite office. Secondly, the concept of special counters for certain customer segments for example, for pensioners, tourists, premium clients, “bulk buyers”. Thirdly mobile office is also a part of current banking practice. Through this, the banker came to the doorstep of the customers. Fourthly, technology has also been deployed by banks for implementing their place strategy for example internet banking, SMS banking and ATMs. Fifthly, a recent innovation is that of strategic alliances between banks and other financial institutions. De Young et al. (2004) suggest that this trend has been set up in motion mainly by the newly set-up private banks in order to overcome the drawback arising out of the limited branch network. According to Ivanov (2006) some of these banks entered into strategic alliance with already established banks having wide branch network. One such alliance is between Global Trust Bank and Vijaya bank of India. The distribution strategies discussed above are illustrated in Figure 2.3 given below:
2.3.3 Promotion Strategy

The promotion is to inform and remind individuals and persuade them to accept, recommend or use of a product service or ideas (Rajeev, 1997). Promotion is a demand stimulating aid through communication. Any marketing promotion campaign has two objectives. They are to inform the prospective customer and then to persuade him. Due to the inherent intangible nature of services, the customer of banking service relies more on subjective impression rather than concrete evidence (Greenlaw et al., 2008). When a bank comes out with a new product, it makes its target customer segment aware of it only through marketing promotion. It may be in various forms like press advertisement, sales campaign, word of mouth, personal interaction and directly mailing. Making one a customer may be enough if the product is unique or in great demand, but this may not always be the case. According to Raveendran (1998) the second fundamental objective of a promotion campaign is to persuade the customer to buy the product in preference to other similar products available in the market and this can only be accomplished effectively by the use of a variety of strategies rather than sticking to using only one or two.

Now this persuasion too could be in different ways like by working on an emotional plan by an objective of presentation of benefit of the product by identifying the product with some strong need of customers. According to Kane (2000) along with
the above fundamental objective, it also has some subsidiary objectives like image building of an organization, promoting the growth of a newly started industry. Brunner et al. (2004) state that the promotive effort for banking services consists of both personal and impersonal devices. Personal device is purely subjective in nature and it differs from person to person. Impersonal promotion can be through advertising, publicity and sales promotion. Personal selling is the responsibility of the bank staff. Impersonal selling should be done by the respective banks and their association (Kuruppuswami, 1986). The bank must try to understand the real needs and aspirations of the society and provide such product or services which will satisfy their assets. According to Haldane (2009) the marketing strategy should be designed to suit not only the present market but also the potential future market.

2.4 BANKING MODELS FOR ATTRACTING SAVINGS AND DEPOSITS

A bank can generate revenue in a variety of different ways including interest, transaction fees and financial advice. According to Berger (2010) the main method is via charging interest on the capital it lends out to customer. The bank profits from the difference between the level of interest it pays for deposits and other sources of funds, and the level of interest it charges in its lending activities.

This difference is referred to as the spread between the cost of funds and the loan interest rate. According to Berger (2010), historically, profitability from lending activities has been cyclical and dependent on the needs and strengths of loan customers and the stage of the economic cycle. White and Scott (2009) state that fees and financial advice constitute a more stable revenue stream and banks have therefore placed more emphasis on these revenue lines to smooth their financial performance.

Shin (2009) state that in the past 20 years American banks have taken many measures to ensure that they remain profitable while responding to increasingly changing market conditions. According to Berger (2010) there are three measures commercial banks took to remain profitable and they became the foundations of the construction and implementation of various banking models. These are as below:
First, this includes the Gramm-Leach-Bliley Act, which allows banks again to merge with investment and insurance houses. Merging banking, investment, and insurance functions allows traditional banks to respond to increasing consumer demands for "one-stop shopping" by enabling cross-selling of products (which, the banks hope, will also increase profitability).

Second, they have expanded the use of risk-based pricing from business lending to consumer lending, which means charging higher interest rates to those customers that are considered to be a higher credit risk and thus increased chance of default on loans. According to Adrian and Shin (2008) this helps to offset the losses from bad loans, lowers the price of loans to those who have better credit histories, and offers credit products to high risk customers who would otherwise be denied credit.

Third, they have sought to increase the methods of payment processing available to the general public and business clients. These products include debit cards, prepaid cards, smart cards, and credit cards. They make it easier for consumers to conveniently make transactions and smooth their consumption over time. According to Bolt et al. (2010) in some countries with underdeveloped financial systems, it is still common to deal strictly in cash, including carrying suitcases filled with cash to purchase a home.

However, with convenience of easy credit, there is also increased risk that consumers will mismanage their financial resources and accumulate excessive debt (Berger, 2010). Banks make money from card products through interest payments and fees charged to consumers and transaction fees to companies that accept the credit-debit cards. This helps in making profit and facilitates economic development as a whole (www.thestreet.com accessed 27/06/2012)

2.4.1 Diversification Model (Non-Traditional Banking Model)

There are several reasons why banks may choose to diversify their business models instead of specializing in a narrow range of activities. First, by providing a service, banks gain valuable information on their clients that might provide advantages in the provision of other services (Sharpe, 1990; Diamond, 1991; Rajan, 1992). Second, by engaging in a wide range of activities, banks may also reduce their risks through diversification and economies of scope (Diamond, 1984). Lastly, as regulatory
reforms diminish competitive inequalities, banks with different models compete with one another, providing incentives to offer a broader range of products to their customers. Many banks have also adjusted their business profiles to reflect changes in the demographic structure of their retail client base.

Bolt et al. (2010) noted that in the past 20 years American banks have taken many measures to ensure that they remain profitable while responding to increasingly changing market conditions. Firstly they merged with investment and insurance houses. According to Boot and Thackor (2009) merging banking, investment, and insurance functions allows traditional banks to respond to increasing consumer demands for “one-stop shopping” by enabling cross-selling of products (which, the banks hope, will also increase profitability).

Although diversification may prove beneficial to the bank, according to Bolt et al. (2010) it may also endanger social welfare. A typical bank-client relationship can harbour a variety of conflicts of interests, providing informational advantages to banks vis-à-vis the market. For example, first-hand information on borrowers may enable a bank to extract monopolistic rents to ‘lock-in’ the customer to its services in the future (Sharpe, 1990; Rajan, 1992). These incumbent advantages may hinder competition in the market by acting as barriers to entry (Dell’Ariccia et al., 1999; Marquez, 2002). Alternatively, confronted with exclusive information about the financial health of their clients, banks may underwrite a troubled firm’s securities despite known risks, in an attempt to secure the repayment of earlier loans (Kanatas and Qi, 1998). The potential for conflicts of interests underline the modern versions of the arguments raised against the ‘universal banks’ in the aftermath of the Great Depression.

Whilst diversification of individual banks might seem to reduce their overall risk and may be one of the central motives, there is also a systemic dimension to consider as this might make the system as a whole less diversified. Andy Haldane (2009) of the Bank of England suggests that as banks diversified into each others’ traditional areas, and most especially into the capital markets business, the system became less diverse and, therefore, potentially more vulnerable to common shocks. Furthermore, the diversification of banks into derivatives trading also has a systemic
dimension. Many commentators (and central bankers) argued before the crisis that credit-risk-shifting derivatives should make the system less risky because risks were spread more optimally. However, this seems not to have been the experience during the crisis. Rajan (1992) has suggested that these new instruments might have made the system less vulnerable in the face of small, uncorrelated shocks, but more vulnerable to large, correlated shocks.

2.4.1.1 Bank Insurance Model

Also sometimes known as 'Bankassurance', is the term used to describe the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products (Sullivan et al., 2003). The Bank Insurance Model allows the insurance company to maintain smaller direct sales teams as their products are sold through the bank to bank customers by bank staff (www.wikipedia.com accessed 29/06/12). According to Greenlaw et al. (2008) bank staff and tellers, rather than an insurance salesperson, become the point of sale/point of contact for the customer. Bank staff are advised and supported by the insurance company through product information, marketing campaigns and sales training. Both the bank and insurance company share the commission. Insurance policies are processed and administered by the insurance company.

2.4.1.2 Universal Banking Model

The recent deregulation drive was supported by arguments to allow banks to achieve more favourable economies of scope and better diversification of risks (Barth et al., 2000). The arguments were largely backed by evidence that failed to show substantial differences in the quality of securities underwritten by the universal banks and specialized investment houses (Kroszner and Rajan, 1994; Puri, 1994). A number of empirical studies have addressed this question. The common finding is that although diversification may expand the range of opportunities, these benefits may be more than offset by the costs from increased exposure to volatility (DeYoung and Roland, 2001; Stiroh, 2004 and 2006b; Stiroh and Rumble, 2006). Focarelli et al. (2011) show that securities underwritten by universal banks are riskier than those underwritten by specialized investment houses. The authors, however, argue that the increased risk taking is due to an attempt to expand market share, and not
conflicts of interest. Others have found that although diversification may enhance market valuations, expanding banks hold much less capital and engage in more risky activities (Demsetz and Strahan, 1997; Baele et al., 2007; Demirgüç-Kunt and Huizinga, 2010).

2.4.1.3 Securitisation Model
An important development in the banking sectors in most developing countries since the 1990s is the rapid growth of securitisation and structured products (Duffee and Zhou, 2001). In a nutshell, securitisation allows banks to pool their risky assets and sell them to outside investors, potentially transferring the associated credit risks to the markets (Neal, 1996). Traditionally, the growth in these transactions has been justified by the mutual benefits they offer to both investors and originators. From the point of view of the investors, buying the products has been attractive due to the diversification benefits – as long as the products are not correlated with other holdings. From the lender’s perspective, the transaction eliminates exposure to risks and, in the case of regulated entities, reduces required capital charges (Duffee and Zhou, 2001). The benign view of securitisation and structured products has been challenged during the 2007-09 financial crisis. To summarize, the rising popularity of these transactions have led to a “flood of cheap credit” and growth of an interconnected institutions that are not regulated, or ‘shadow banks’ (Brunnermeier, 2009; Pozsar et al., 2010).

A particularly critical argument has been the effect of securitisation on credit standards. Since most credit risks are borne by outside investors, banks had little incentive to properly screen (and monitor) loans (Gorton and Pennachi, 1995). There is mounting empirical evidence that credit standards were indeed incrementally lowered in the US prior to the crisis (Mian and Sufi, 2009; Keys et al., 2010). There are also questions concerning the extent to which the originators were able to offload their risks. Indeed, originating institutions have taken a substantial part of the losses during the crisis, achieving “securitization without risk transfer” (Greenlaw et al., 2008; Acharya et al., 2010b). According to these arguments, structured products are attractive because they allowed the originating institutions to expand their balance sheets while reducing their capital charges, potentially facilitating regulatory arbitrage (Jones, 2000).
2.4.1.4 Short-term Funding Model

A parallel development to the diversification of banking activities has been the diversification of funding strategies. According to Focarelli et al. (2011) over the past few years, many banks have reduced their reliance on traditional retail depositors and turned to short-term funding in the interbank and wholesale markets. In essence, short-term funds allow banks to manage their balance sheet sizes actively in a highly pro-cyclical manner (Adrian and Shin, 2008 and 2010). In this manner, the diversification of funding strategies is an offshoot of the increasing trading activities. For banks that engage heavily in trading, when the value of market-to-market securities increases, their equity also increases. Brunnermeier (2009) states that the institutions use this ‘surplus capacity’ to expand their balance sheets even further by borrowing and issuing new securities. Repurchase agreements (repos) and reverse repurchase agreements (reverse repos), in which a financial institution sells a security (or buys it, in the case a reverse repo) to buy (or sell) it back later, are extremely suitable for this purpose. Institutions may also expand their activities and borrowing through the use of off-balance sheet special purpose vehicles (Acharya et al., 2010b). The literature provides divergent views on the impact of the increased use of these short-term funding (and lending) alternatives.

The ‘bright-side’ argument suggests that relying more on market funding may enhance market discipline. Provided that they are credibly excluded from the safety net, holders of subordinated debt may perform monitoring roles that cannot be fulfilled by the small and dispersed depositor holders (Calomiris and Kahn, 1991; Calomiris, 1999). More pessimistically, however, the market’s monitoring incentives could be undermined by the expectation of government intervention in the ‘too-big-to-fail’ (TBTF) banks, that is moral hazard. When a bail-out is a credible likelihood, the market’s perception of risk may diverge substantially from the stand-alone risk represented by the bank’s operations. Apart from weakening the debtholders’ incentives to apply monitoring and market discipline, that is moral hazard, such imperfections may also motivate banks to become large enough to be considered too-big-to-fail (Jensen, 1986). There is some empirical evidence (also supported by this study) suggesting that banks that are judged to be TBTF receive a superior rating, other things being equal, which in turn lowers the cost of market funding.
Another argument against the heavy use of short-term funding is the potential drying-up of liquidity in the event of a crisis.

When banks become reliant on short-term financing, such as overnight repos, they need to rollover a substantial part of their funding on a daily basis, making them severely exposed to a sudden drying up of liquidity (Demirguc-Kunt and Huizingo, 2010). Short-term lending, such as reverse-repo transactions, also exposes institutions to liquidity risk, seriously undermining the value of any collateral backing the transaction (Calomiris, 1999). In short, the trend towards the increasing use of these short-term instruments was seen to be among the chief explanations for the cataclysmic setbacks faced by some banks in the early phases of the financial crisis (Brunnermeier, 2009; Adrian and Shin, 2010).

**2.4.1.5 Mergers and Acquisition Model**

Pozsar et al. (2011) and Benston et al. (1995) show that bank mergers and acquisitions in the same period were partly motivated by the aim of creating institutions that were large enough to raise central banks’ minimum requirements and also build strategic alliances which increase economies of scale. In addition to the gains for shareholders, Penas and Unal (2004) find that bond-holders also stand to benefit from state support that is granted to too-big-to-fail institutions. Implicit government insurance effectively serves to weaken (if not reverse) the correlation between individual bank risk and debenture yields (Flannery and Sorescu, 1996). Moreover, the sensitivity of the subordinated note spreads to measures of stand-alone risk is lower for state-owned banks and during periods of fiscal ease, that is when government support is more credible (Sironi, 2003).

Moreover, owing to their ability to pull back from the markets relatively quickly, short-term creditors may also have fewer incentives to conduct proper monitoring (Huang and Ratnovski, 2010). This would offset one of the key arguments for supporting the diversification of the funding strategies. As the recent financial crisis amply demonstrated, an excessive reliance on market funding may also invite other risks, such as a sudden drying-up of liquidity (Acharya et al., 2010). Even small changes in an institution’s underlying value can lead to a ‘catastrophic drop’ in rollover debt capacity and de-leveraging, much like the one that was observed in the early phases
of the crisis (Acharya et al., 2010a; Acharya and Viswanathan, 2011). Recent evidence supports these arguments, showing that non-deposit wholesale funding increases bank fragility (Demirgüç-Kunt and Huizinga, 2010b).

On the other hand Macesiah (2000) highlighted that, with convenience of easy credit, there is also increased risk that consumers will mismanage their financial resources and accumulate excessive debt.

2.4.2 Traditional Banking Model

According to Sullivan et al. (2003) in a traditional banking model the bank conducts only traditional retail business that is providing transactional, savings, and money market accounts, processing of payments by way of telegraphic transfer, Electronic Funds Transfer Point Of Sale, internet banking, or other means, issuing bank drafts and bank cheques, lending money by overdraft, installment loan, or other means and accepting time deposits.

Products of a bank stand for both goods and service combination offered to the public to satisfy their needs. According to Raveendran (1998) in the highly regulated banking industry all offered the same type of products. Actually the bank takes little time and no additional investment to develop a financial product or service. However, Sullivan and Sheffrin (2003) state that the drawback is that no brand can be marketed with unique selling proposition for long because it can be copied immediately. Thus it is better to focus on some selected ideas relating to products, which have immediate operational utility as well as feasibility on banks. According to Raveendran (1998) in the evolution of bank products, the products can be categorized into three groups. They are:

- Core products,
- Formal products, and
- Augmented product.

2.4.2.1 Core Product

Core products are those products, which define the business. For a bank, some of the core products are Savings Bank Account, Current Account, Term deposit, Recurring deposit, Cash credit, Term loan, overdraft and the like. Goldthwaite (1995) points out that they have two basic characteristics. Firstly, they define the business
of a commercial bank, that is, whatever banking service was extended these core products are there. Second is that, core products do not have strong marketing content, that is, the product must be specifically designed in view of the needs of customers in well defined homogeneous market segments. According to Khambata (1996) since core products, are used as basic tools of commercial banking and serve the full range of customer segments or at least a large number of them, their marketing content cannot be rated as very high. However, Mishler et al. (1995) airs out the point that these core products are on the other hand indispensable to any business. Furthermore, Ryals and Knox (2001) state that these products provide a basis for the development of more sophisticated and marketing oriented products.

2.4.2.2 Formal Product
Formal product is usually a combination of two or more core products and they have strong marketing content as they cater to some specific customer needs. According to White and Scott (2009) an ocean of formal products have hit the market due to rising customer expectation and anxiety to attract the attention of customers for example two-in-one of Standard Chartered banks, unfixed deposit of Citibank are some of the examples of Formal products. Haldane (2009) states that one of the basic features of this service is intangibility. Tangibilising the intangible service product is a major challenge to the marketer. In other words, to help the customer in order to form a metal image of the intangible product is the main function to achieve competitiveness in service marketing (Sarkar, 1987). On the other hand, if banks are applying core products alone, this will create stress upon customers to finalize how to apply core products as according to the requirements of the customer (Jones, 2000). That means it will restrict the application of bank services which results in limited banking business. Contrary to this, formal products will give right product with specific names as according to the requirements of customers to boost the banking business (Calomiris, 2008).

2.4.2.3 Augmented Product
Augmented products are a further modification of formal product. According to Collins (2008) everybody is sold to the idea of value added products and services. Now it is common in the market that some ancillary benefits are attached. The main advantage of an augmented product stems from its strong marketing content; because augmented product is made out of formal product which itself has a strong
marketing content it is further reinforced through value addition (Hunger et al., 2004). A very good example for augmented product is Smart Money Account with Hong Kong Bank. When one opens a Smart Money Account, an account holder will also get free Any Time Money Card or when one opens a fixed deposit account, and then the deposit holder will get the facility of safe custody free of cost. Figure 2.2 shows the evolution of bank product by Saxena (1988).

Figure 2.2: Evolution of Banking Product
Source: Saxena (1988)

Even though branches do not have the authority to design new products, they can operate by using matrix of Core-Formal-Augmented product in an effective manner. That is why banks are innovating more and more augmented products through proper value addition in their existing formal products (Raveendran, 1998). The concept of product packages is by considering customers' behaviour. Generally, a customer comes to the bank simply for a product but basically for solving the problems and to satisfy the needs (Ivanov, 2006). Customer needs are varied, complex and multidimensional needs. According to Huang and Ratnovski (2010) a bank should offer multidimensional product otherwise called product package. In the place of offering one or two or a large number of products to the customers, it is by understanding all bank related needs of a customer and then evolves a comprehensive product package which can take care of his entire spectrum of needs (Khambata, 1996). Hence once the bank gives a tailor-made product it will definitely cultivate a psychological ownership on the customer's mind. Another aspect required in a product policy is local touch that is, by considering local peculiarities; product must be local-oriented.

2.4.3 Non-Traditional banking models versus Traditional banking model
According to Perotti et al. (2011) many financial institutions are challenged with funding concerns, deposit growth issues, and new customer acquisition dilemmas. Kucher (2010) postulates that for decades, most institutions have been focused on growing their loan portfolio and leveraging their existing deposit base. Today,
however, many financial institutions are more concerned about retaining and growing core deposits, and they have good reason for this concern (Boland, 2009). The financial landscape has changed dramatically. An ever changing regulatory climate, rapid financial innovations, broad acceptance of the Internet, and a competitive environment open to all sorts of nonlocal financial service companies have led to widespread concerns over funding and liquidity (Boot and Thakor, 2009). To make matters worse, Shin (2009) acknowledges that many financial institutions are faced with an aging customer base and an inability to attract a new, younger generation of customers. To that end, the days when financial institutions could rely on growing their deposit base by having customers simply walk in the door to open accounts and deposit funds based on the convenience of the location is a thing of the past (Shin, 2009). Banking is much more competitive and complicated today.

Customer buying patterns continue to adapt and emerge as banking infrastructure changes. As a result, Focarelli et al. (2011) believe that financial institutions need to approach deposit growth and funding in a more strategic manner and experiment with a wider range of models hence moving from their traditional way of doing business which has since seized to attract deposits effectively.

2.5 CHALLENGES IN ATTRACTING DEPOSITS

2.5.1 Worldwide challenges
The entire banking sector is coping with multiple challenges: liquidity crisis, inflated interest rate, declining deposits, credit crush and danger of real estate collapse (Pozsar, 2011). From the look of things, according to Perotti et al. (2011) the liquidity problem that started in the second half of the fiscal year 2009-10 has not been resolved yet. Competition in today's banking market presents major challenges for banks.

2.5.1.1 Changing household portfolios
According to Miller (2011) another trend contributing to bank funding pressures is a significant shift in household financial portfolios away from bank deposits. Many individuals no longer hold a major portion of their financial assets in the form of bank deposits or deposits at other financial institutions (Hawkins, 2011). As a result, banks may now be missing a substantial part of their traditional funding base. Individuals
have become accustomed to putting their money into a broad array of financial products, and, as a consequence, banks may not be able to rely on households for funding to the same extent as in the past. A variety of factors have been suggested as underlying reasons for this decline in household deposit holdings. Mangla (2009) suggests that the most likely factors are new competition, higher returns on other financial assets, and changing demographics in commercial banking markets.

2.5.1.2 New competition for banks
Traditionally, banks have competed mostly with other banks for deposits and had little concern about competition from other sources (Miller, 2011). According to Miller (2011) over the last few decades, though, many new competitors have emerged and have been successful in offering alternatives to bank deposits. This new competition, in fact, has been a centerpiece in the revolutionary changes taking place within our financial system. According to Haldane (2009) technological change in the form of improved communications and data processing has driven many of these changes by making it possible for a variety of institutions to develop new financial products and to reach out more effectively to bank customers. One important example of the new competition for banks is money market mutual funds. Focarelli et al. (2011) states that other growing forms of funding competition for banks include credit unions, larger banks, securities firms, insurance companies, and several new entities. According to Gibson et al. (2006) credit union growth and expansion into many commercial banking markets have greatly intensified the competition for local customers.

Also, securities firms and insurance companies have not only expanded their offerings for small investors, but, in some cases, have directly acquired banks and thrifts, most recently as financial holding companies under the Gramm-Leach-Bliley Act of 1999. Merrill Lynch has gathered over $66 billion in deposits in the last few years through its two depository institutions. Miller (2011) highlighted that E*TRADE and Charles Schwab have recently acquired banks to expand their product lines, and State Farm and Allstate insurance companies are beginning to market banking products through their local agents and over the Internet. According to Greenlaw et al. (2008) other commercial bank competition is coming from Internet-only banks, electronic banking services offered by other banks, deposit brokers, and deposit
listing services. These new financial instruments and competitors thus provide a partial explanation for the shifts in household portfolios away from bank deposits. Furthermore, Gibson et al. (2006) the direct entry by some of these firms into banking may help explain the greater competition commercial banks are now facing for deposits. On the other hand, Rose (2008) stressed that more competition faced by banks for a consumer will help to keep the price in line with interest rates on similar products available in the market place.

2.5.1.3 Returns on different financial instrument
According to Harvey and Spong (2001) another factor that could play an important role in bank funding and the changes in household financial assets is the rates banks pay for deposits relative to the returns available on other financial assets. It is apparent that the stock markets produced far more attractive returns than bank deposits. These differences in returns, moreover, explain much of the growing attraction of equity investments during the 2000s and the corresponding shifts that individuals made in their financial portfolios (Ruckes, 2004). Comparing bank deposit rates to the yields on similar financial instruments provides a more detailed analysis of the rates commercial banks pay on deposits. Such a comparison helps to show the relative competitiveness of bank deposit rates, while also providing an adjustment for general movements in interest rates. According to Miller (2011) the rates that banks have paid on smaller time deposits have been a little more competitive, but such rates have done little to stem the relative decline in this funding source.

In fact, banks may be fighting an uphill battle in attracting smaller time deposits, especially given the strong incentives individuals have had to put longer-term funds into equity instruments (Miller, 2011). Ruckes (2004) acknowledges that these differences in yields thus suggest that other financial instruments have generally proven to be more attractive than bank deposits.

2.5.2 Local challenges facing Commercial Banks
A number of banking institutions with deep-rooted structural anomalies, inadequate risk management systems, poor corporate governance practices, liquidity and solvency challenges failed to adjust to the difficult macroeconomic environment (Mutengezanwa et al., 2011). The liquidity and solvency problems that were being
faced by some banks were underpinned by a number of problems as fully discussed hereunder. Challenges faced by banks were found to be competition, economic difficulties and lack of customer confidence. It was also noted by Rose (2008) that currency reforms had rendered the central bank unable to perform the role of lender of last resort. This was in concomitance with the findings of Ferrari (1992) as similar factors seemed to dominate. According to Hewitt (2012) attracting customers to banks in an era of instant national interest-rate comparisons is an extraordinary challenge, particularly as increasing rates of bank failures decrease customer confidence in the sector. It was also found out that there are two areas in which the bank can compete, that is price (interest rate) and credit quality. As the market becomes stronger, more lucrative all the participants will become more aggressive. This is in line with the findings of Ruckes (2004). According to Mutengezanwa et al. (2011) the Zimbabwean banks are currently failing to get enough finance to enable them to run their business operations at the full capacity. The banks are struggling to meet the minimum capital requirement set by the RBZ, even under a phased plan given by the central bank. Low level of capitalization has also been identified by Brownbridge (1998), as a common challenge that is always faced by banks in developing nation especially locally owned banks.

2.5.2.1 Liquidity challenges
To expand operations banks need adequate cash, and this can be found through many ways and it is these ways that are currently unavailable (Ruckes, 2004). Getting loans from other banks, foreign companies, the Central bank and deposits from individuals and institutions are possible ways to raise finance (RBZ 2010 report). According to Mutengezanwa et al. (2011) foreign currency is very scarce in the economy due to poor export performance and lack of international capital flows. Even solvent banks may not survive a run on deposits as they are also struggling to mobilize less liquid assets to meet liquidity needs. However, Muranda (2006) state that many bankers believe that liquidity will be a persistent, long-term problem. In fact, a major fear of these bankers is that liquidity challenges will eventually force them to curtail lending to small businesses, farmers, and other local customers many of whom may have few other places to turn to for their borrowing needs. In a number of cases, the Reserve Bank noted that some banking institutions did not have comprehensive liquidity and funds management strategies and policies. Poor board
oversight and lack of adequate liquidity risk management systems further aggravated the liquidity problems (DeYoung et al., 2004). Long-term non-performing assets were recklessly funded through short-term liabilities, in an environment of rising interest rates. Deposit flight to banks largely perceived as less risky exacerbated the liquidity crisis for smaller banks following the placement of a number of banks under curatorship (RBZ MPS, 2006).

2.5.2.2 Volatility of deposits

The deposits to banks are very volatile and hence low profits out of them. This is mainly caused by a very high marginal propensity to consume of various economic agents who are earning low salaries and hence unable to save, this causes people not having money staying in their bank accounts except minimum balances (RBZ MPS, 2006). This has left banks having no money to invest and earn a profit. Major deposits are done by companies as salaries and wages of their employees who will then withdraw almost all of their salaries. The majority of workers are earning far less than the Poverty Datum Line especially those in the Public Service, making it difficult for them to save (RBZ MPS, 2010).

2.5.2.3 High Overhead Costs

Due to the low-income generation ability of the banking institutions, their earnings cannot match the overhead costs they are facing, especially salaries and wages given that they are not operating at full capacity. The cost of paying workers salaries that are in line with the cost of living is too heavy for the banks as they are not operating at full capacity and level of profitability is low. Even if they opt for retrenchment, the packages to be given to the retrenched workforce will be a challenge. On the other hand, online banks are very different from multi-national banks for a reason. According to Sironi (2003) these banks drastically cut overhead costs by not having to build, lease, and staff brick-and-mortar locations. They pass some of this cost savings on to their customers in the form of higher interest rates on checking and saving accounts, and better customer service. (www.moneycrashers.com accessed on 18/06/12).
2.5.2.4 Cash-based Transactions Prevailing

Due to the foreign currency shortages in the economy, and the unavailability of alternative payments to business transactions, a lot of cash is in the hands of economic agents and they are not willing to have it banked. Every trade taking place is on cash basis and generally no credit transactions are preferable currently. Alternative methods for business transactions include credit transfers, cheques, direct debits and payment cards (debit, credit, prepaid, ATMs and POS networks). According to the Banker’s Association of Zimbabwe (BAZ) (2010), 80% of the money in the economy is unbanked and this has left commercial banks with lower balances to lend.

2.5.2.5 Lack of lines of Credit

As banks like any other companies are willing to borrow elsewhere so that they expand business, the lines of credit are not available. The few that are there are of short term nature and hence very costly (RBZ MPS, 2011). The supply then cannot meet the demand. Small banks are the most affected as they cannot meet the requirements for getting credit even in the foreign market (Ruckes, 2004).

2.5.2.6 Central Banker not performing all its roles- Lender of last resort

Due to the fact that Zimbabwe has no currency of its own, it has adopted the multicurrency use and mainly South African rands and the United States dollars are used for transactions, the Central bank can no longer perform all its roles especially being a lender of last resort. According to the Banker’s Association of Zimbabwe (2010) this gives banks a hard time to find sources of finance. RBZ’s problems also meant that banks would not be able to obtain a refund of their statutory reserves for which they are entitled in case of a possible decline in their deposits because these reserves are not backed by international reserves. In normal environment, if liquidity tightens banks approach the RBZ for accommodation, then RBZ reserves the right to grant assistance on its own terms (RBZ MPS, 2010).

2.5.2.7 No active Interbank Market

Currently there is no active interbank market, implying that those banks with no collateral to the required conditions find it difficult to borrow so that they cover
liquidity gaps. According to the Banker’s Association of Zimbabwe (2010) lack of finances remains a big challenge to the banking sector, as they are not able to expand their business in line with current economic conditions and public demand for their services to be appreciable and internationally competitive.

### 2.5.2.8 Insider lending

Insider lending also has contributed to bank failures and still remains a challenge to the Zimbabwean banking sector and this often lead to bad debts. As an example most of the larger local bank failures in Kenya, such as the Continental Bank, Trade Bank and Pan African Bank, involved extensive insider lending, often to politicians, Brownbridge (1998). This is the same scenario with Zimbabwean banks which have no choice but to perform insider lending. Nigeria and Uganda also experienced the same.

### 2.5.2.9 Lending to high-risk borrowers through adverse selection and Compliance to National Policies

Due to lack of investment opportunities, banks are now lending to high-risk borrowers through adverse selection and compliance to national policies (RBZ MPS, 2010). Various government bodies have negotiated with the banks to offer loans as part of Empowerment programmes to the youth and woman who have no collateral securities for example Stanbic Bank’s US$20 million wealth creation fund that is targeted at the youth (RBZ MPS, 2011). Many of such groups have failed to return the loans as prescribed and hence are having losses. As the economy is from the depression, it is now difficult to distinguish and identify credibility of clients for loan purposes.

### 2.5.2.10 Entrepreneurship Skills (Excessive Human Capital Flight)

Due to the crisis there have been excessive human capital flight and hence those with great expertise have migrated to greener pastures (BAZ, 2010). A lot of staff is lacking a lot of experience.

### 2.6 Factors Considered when Choosing a Bank

Listed below are a number of points a client considers when choosing a banking institution (http://paycheck-chronicles.military.com accessed 13/06/12):
• **Fees** – According to Gorton et al. (2006) a client should be able to find an account that does not charge a client any fees for basic account transactions. Examples of fees to avoid include monthly fees, per check fees, and fees for account assistance (talking to a representative, using in-branch services.)

• **Ease of deposit** - Even in this age of direct deposit, everyone has an occasional need to deposit checks or cash. According to Brunner (2004) even if the bank does not have a physical location nearby, they may offer mobile or home deposit services to make check deposits fast and simple. Consider how often one might want to deposit cash, and how that would happen.

• **ATM fees** - According to Brunnermeier (2009) customers consider the fees a bank may charge for ATM usage. Some banks offer to rebate ATM fees up to a certain amount each month. It is important for clients who travel frequently.

• **Interest rates** - Interest rates work both ways: the rates a client receives on their money on deposits with the bank, and the rates they pay when borrowing via credit card or loan. According to Brunner (2004) ideally, a client will find an account that pays higher-than-average interest on their deposits and charges lower-than-average interest on their debts.

• **Online banking features** - According to online banking is a term used for performing transactions, payments over the Internet. The availability of the online services, the speed and efficiency of the system and even its user friendly features come into the consideration of clients. (www.wikipedia.com accessed on 25/06/12).

• **Minimum balance requirements** - Some accounts require a client to maintain a minimum balance before they begin charging account fees. Matyszak (2007) states that a bank should make sure any minimum balance requirement are something that a client can comfortably afford.

• **Branch availability** - Some people cannot be comfortable with a bank that doesn’t have a physical location nearby.

• **Customer service** - Khambata (1996) highlights that when a client has a problem or question; the last thing a client wants is to sit on hold, or get a customer service representative who is unhelpful or not nice.
• **Availability of funds** - Some banks offer early release of active duty pay deposits. According to Calomiris (2008) this is a feature that is popular with many customers.

• **History and background of the bank** - This contains reputation and how a bank works on a depositor and how company can convey with their concern, by checking background the potential depositor can simply search in the internet and type their website, it will automatically pop in to the monitor and it will show the potential depositor many sites of different banks with their respective company profile or the potential depositor can simply ask for referrals from the potential depositor’s friends and relatives (Paul, 2011).

• **Convenience** - Khambata (1996) postulated that convenience of leaving near banks, one of the most significant factors that the potential depositor have to take into consideration; it is the quality of being suitable to one’s comfort, purposes, or needs: it will increase the potential depositor’s comfort or saves work. According to Paul (2011) it will not be hassle anymore on the potential depositor’s part to go too far from the potential depositor’s place just in case the potential depositor have important transaction that needs to be followed up right away, this would give benefit also particularly for senior citizens. Effort and time counts also for that because the potential depositor can do such things with the potential depositor’s remaining hours without spending much time for the potential depositor’s transaction that has something to do with money savings and other financial updates to bank (Paul, 2011).

• **Customer Service** - According to Perotti et al. (2011) banks should try to get customer's feedback about the good customer service they have; customer service involves making a commitment to learning what customers' needs and wants are, and developing action plans that implement customer friendly processes. This will help the potential depositor give the right answers for the potential depositor’s concerns and queries with a good assistance of bank's employees. According to Paul (2011) as far as customers are concern the good explanation and deals for every client presents a plus to them because it shows how bank are interested to help and make business with them. At least the potential depositor can have an idea if that bank is in capable of helping the potential depositor out and making things easy for the potential depositor and for
other customers like if the potential depositor wish to have housing loan or car loan, how bank grants for the potential depositor’s requests and how will they look for some ways to make things possible and easier (Paul, 2011).

- **Mobility and 24 hour service** - People are busy doing their business and even with their jobs at work. According to Ivanov (2006) it is a good thing to know that Online Banking exists; it is a system available through the Internet, provided at their own websites which is also a service that are accessible through passwords, typically include up-to-date account information, the purchase and tracking of Certificates of Deposit and transfers of funds between savings, checking, and credit card accounts. The potential depositor must see to it that bank have these services and always be available 24 hours everyday because unexpected situations happen (Shin, 2009). It helps the potential depositor to save the potential depositor’s money, time and effort. Paul (2011) states that the potential depositor don’t need to go outside to check any updates regarding with the potential depositor’s savings, the potential depositor can simply check it out if the potential depositor have internet connection and just one click then details automatically show.

- **Reputation of the bank** - The potential depositor have to check the stability of a bank whether it has a good reputation and how bank is stable to help and make business with the potential depositor in the long run without declaring any insolvent situation. Paul (2011) suggests that would really matters when it comes to placing the potential depositor’s life-size savings or even small amount of money savings to the right bank with no worries and that would also give the potential depositor confidence and assurance that the potential depositors are in good hands (Calomiris, 2008)

- **Security of funds** - Against this ever-expanding background, it is vital that banks ensure their customer data and funds are secure from both internal and external threats. The following according to Mihelis et al. (2001) are three key reasons why this is so important:
  
  - If a bank loses a customer’s information, it invariably loses the customer as well.
- A security breach has an immense negative impact on the value of the bank's brand and reputation, hindering the bank’s ability to acquire new customers.
- Under Basel II, banks without required client data security as a part of their risk management program must maintain higher levels of capital reserves – reducing the amount of funds available to invest in the marketplace and generate revenue.

By preventing security breaches and avoiding losses, banks can actually realize a Return On Investment from investing in security. This makes protecting customer data a prerequisite for competing effectively in the retail financial services market. However, according to Yli-Renko et al. (2001) banks must balance the cost of security against the need to share information and service the customer, while at the same time finding ways to secure vital customer and financial data for the purposes of risk management planning.

2.7 REASONS WHY CUSTOMERS LEAVE A BANK

The 2011 Voice of the Customer survey by Capgemini was developed based on surveys of nearly 14,000 bank customers across 25 countries, as well as 50 in-depth interviews with senior banking executives. According to the study, banks generally deliver positive customer experiences, with an average score on the Capgemini Retail Banking Customer Experience Index (CEI) of 72.2 out of 100.

However, banks are less successful delivering positive experiences on the products, channels and banking interactions that are most important to customers. Only 35.8% of customers had a positive experience on factors they claimed are most important to their banking experience.

Highlights from the report by Capgemini (2011) show that:

- Tools banks have used in the past to differentiate themselves – low prices and innovative products – are quickly losing their ability to provide an edge… Delivering a positive customer experience is one of the few levers banks can use to stand out in today’s market.
When it comes to banking, customers are most interested in receiving top-quality, personalized service from their banks.

Capgemini’s Voice of the Customer survey underscores that service is a top priority to customers. It found that service quality and ease of use are the most important factors for choosing a bank, for 63% and 64% of customers respectively (note: the research we have conducted at Prime Performance, as well as most research from other sources, indicates that branch location is by far the most important factor in selecting a bank, at least in the U.S.).

Quality of service is the most important factor customers select as the reason why they leave a bank, followed by ease of use, 55% and 51% respectively (see chart).

Banks are taking a closer look at the ways in which they incent and reward branch employees. Increasingly, they are using customer satisfaction as a key measure of employee performance. This process requires more frequent measurement of customer satisfaction and clear communication of the results to branch staffers.

Banks are delegating greater responsibility and authority to local branch managers, enabling them to more quickly resolve customer problems or respond to inquiries, enhancing the customer experience.

Customers still consider the branch a top channel for carrying out their banking business, despite the growing influence of direct channels. Customers like visiting branches for face-to-face interactions and quality of service.
What can be learnt from the survey is that, first, customers value the branch and it continues to play an important role in bank distribution networks. While branch visits have declined in, the study shows customers are expected to make more visits as year progress. According to Baker (2007) banks need to continue to invest in their branch networks especially satellite offices and mobile stations in peripheral areas and informal sector. Second, this study and others show that customer experience is the primary way banks can differentiate themselves and the best path to revenue and customer growth (Adrian and Shin, 2008). Finally, Buram (2008) suggests that banks need to focus on, and invest in, improving the customer experience. Front line employees need to understand the importance of customer service and the role they play in customer satisfaction have the authority to resolve customer problems, and
get timely feedback through frequent customer satisfaction measurement. As a conclusion White and Scott (2009) evidenced that effective core deposit growth strategies should outline not only how to attract new deposits but also how to retain existing deposits.

Banking today is not about how many customers and deposits are acquired but what is retained (Keys et al., 2010). Ennew and Waite (2007) highlighted that it is absolutely critical for financial institutions to fix their “leaky bucket” by developing improved customer service tactics, customer retention tools, and account closing procedures. Indeed, core deposits are critical. Not only are they stable, low cost funds, but they are also the basis of the banking relationship.

**2.8 CONCEPTUAL FRAMEWORK**
A conceptual framework is a written or visual presentation that explains either graphically, or in narrative form, the main things to be studied the key factors, concepts or variables and the presumed relationship among them (Miles & Huberman, 1994) It provides the structure/content for the whole study based on literature. It may be an adaptation of a model used in a previous study, with modifications to suit the inquiry. Figure 2.4 below shows the conceptual framework for the strategic options that can be adopted by commercial banks.
Figure 2.4 Conceptual framework (Khambata, 1996)
The conceptual framework is that commercial banks adopted strategic options would lead to benefits. However, the benefits may not be realized due to challenges that can be experienced.

2.8 CHAPTER CONCLUSION
This chapter has reviewed the literature related to strategies that are being used to attract depositors in the financial sector. The marketing mix used by banks, the challenges commercial banks are facing both locally and internationally, factors considered by clients on choosing a bank to do business, the Customer Relationship Management strategies employed by commercial banks, the factors that influence deposit uptake by commercial banks and traits of a successful commercial bank. This literature is a relevant foundation of the present study and will be used in discussing the study findings. The following chapter presents and discusses the methodology adopted in this study.
CHAPTER 3

METHODOLOGY

3.0 INTRODUCTION
The feasibility of any research project is directly dependant on the reliability and validity of the methodology used. Different kinds of research approaches produce different kinds of knowledge about a phenomenon under study. Thus it is the purpose of this section to define and justify different research methods that were used in carrying out the research.

3.1 RESEARCH DESIGN
The research adopted both positivist and interpretivist philosophies, implying that the research is going to be premised on both qualitative and quantitative studies. This was the basic plan, which guided the data collection and analysis phases of the research project. It was a broad framework, which specified the type of data to be collected, the sources of data and collection procedures.

3.1.1 Interpretivist Philosophy
Strauss and Corbin, (1999), defines qualitative research as any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification. This is carried out when we wish to understand meanings, look at, describe and understand experience, ideas, beliefs and values, and intangibles. It involves collection of narrative data in a natural setting in order to gain insights into phenomena of interest. To effectively articulate the attributes that show the effectiveness of strategies that are being used to attract deposits in the financial sector by commercial banks in Zimbabwe, it is necessary to obtain all the views of the stakeholders so as to gather their experiences with and their perceptions. Using this design allowed the researcher to obtain the objective facts from those who truly experienced the effectiveness of strategies that are being used to attract deposits in the financial sector by commercial banks in Zimbabwe. Furthermore, Van Manen (1990) and Crotty (1996) acknowledge that the research strategy has proved useful to researchers trying to understand the thinking of the ‘stakeholders’. The design
was adopted to understand what the Commercial Banks’ stakeholders, that is, customers, management and staff, was thinking of the effectiveness of strategies that are being used to attract deposits.

Qualitative research design in the form of exploratory research assisted in gathering data on the stakeholders’ experiences with the financial sector in Zimbabwe. The data from this design was not conclusive in terms of the actual full effectiveness of strategies that are being used to attract deposits in the financial sector by commercial banks in Zimbabwe, but assisted in interpreting and understanding the findings and implications from quantitative data.

Its main advantages are that of its generalisability, where theories and ideas generated in one setting can be applied to other settings and one can come up with similar findings even in different settings. The researcher also needs to gain full access to knowledge and subjective information to permit inductive inferences, which increases the validity of the method.

3.1.2 The Positivist Philosophy
Berg (2001) describes quantitative research as normally deductive reasoning where a hypothesis is set first and the data is collected to accept or reject the stated hypothesis. Financial sector stakeholders, with bias on commercial banks in Zimbabwe, may have different perceptions on the effectiveness of strategies that are being used to attract deposits. Therefore, quantitative research design in the form of descriptive survey was adopted as a positivist philosophy to clearly highlight how many respondents shared a particular perception. Quantitative data was used in profiling the target population by determining what proportion of the population has certain views on the effectiveness of strategies that are being used to attract deposits by commercial banks in Zimbabwe.

Commercial Banks are planted all over the major populous cities of Zimbabwe thus making the research population very large, as it encompassed the Banks management, staff and clients from these major cities. Qualitative research therefore, allowed the researcher to survey the large targeted population using a structured questionnaire. The quantitative data gathered from commercial banks’
stakeholders through questionnaires enabled results to be generalized to wider populations which could be confidently calculated. The research captured pertinent and salient issues defined by the stated objectives and guided by the preliminary information obtained through exploratory studies. Normally with quantitative data one is probably measuring variables and verifying existing theories or hypotheses or questioning them (Wegner, 1987). In this case data was used to come up with findings based on the results of data collected from different strata of the stakeholders. Anastas (1988) says that the main advantage of this method is that it places emphasis on numerical analyses and objectivity, reliability and replication of findings. In this case it enabled the data from the samples to be tabulated, quantified and numerically interpretive to portray the quantitative perceptions as percentages from the different strata. However, Berg (2001) argues that it may not always suit social sciences as it should measure what is supposed to measure only using appropriate measures whereas social phenomena cannot be statistically measured. In this research, from this notion therefore the interpretivist philosophy was also used to compliment the positivist philosophy.

3.2 TARGET POPULATION
In determining the target population the data was gathered from various stakeholders. The population comprised of the commercial banks’ management, general staff and their clients. The population size is estimated to be about 13 commercial banks and over a million customers spread countrywide. The commercial banks are Kingdom bank, T.N., Commercial Bank of Zimbabwe, Z.B., First Banking Corporation, National Merchant Bank of Zimbabwe, MBCA., BANC ABC, Barclays, Stanbic, Standard Chartered, Metropolitan and Ecobank.

3.3 SAMPLE SIZE
The population of the study is the totality of all elements under study (Popper, 1992). The researcher used the Krajcie and Morgan (1970) statistical proven model to determine the research sample size from the total population outlined in the target population.

A total of 100 questionnaires were sent to the bank employees, management and customers. There are thirteen commercial banks in Zimbabwe and hence each of the banking institutions received the questionnaires. Banks’ staff was allocated 75
questionnaires. Management were allocated 20% of the questionnaires whilst staff got the other 80%. Within management and staff strata, questionnaires were randomly distributed to them as they reported for work at the reception. Customers were randomly selected in the banking halls whilst much significance was given to corporate clients as they had a closer relationship with banks as compared to walk-in customers.

3.4 SAMPLING METHODS
A sample is a small part of the whole population, which is studied, and the results are inferred onto the population Wegner (1993). It is not feasible to conduct a study on the entire population given the limited time and resources. In addition, sometimes censuses have an effect of destructive testing on the targeted population. The two reasons stated above justify the use of a sampling method in this study.

There are two ways of coming up with a sample, probability and non-probability sampling. Random sampling ensures that the probability of each case being selected from the population is known and is usually equal for all cases (Saunders et al., 1997). On the other hand, non-random sampling is such that the probability of each case being selected from the total population is unknown and cannot answer questions that require statistical inferences about the population’s characteristics.

In non-random sampling, the assessment of reliability is not possible regardless of how careful the researcher is in selecting elements of the sample (Ginsberg, 1990). Popper (1992) contends that there is no guarantee that the samples represent the population being studied.

3.4.1 Non-Probability Sampling
Merriam (1998) defines non-probability sampling as any sampling method in which the observations are not selected randomly. In this case, criteria other than randomness are the basis for selecting observations from the population. Below are non-random sampling methods:
3.4.2 Quota Sampling
The population is divided into segments and a quota of observations is collected from each segment (Hesse, 1995). The population was segmented into strata namely commercial banks’ management, commercial banks’ staff and clients. The Krajcie and Morgan (1970) statistical proven model was used. It was used because sample population was too big to be covered during the time allocated. Its major disadvantage is the unrepresentative nature of the sample drawn with respect to the population from which it is drawn. However, non-probability samples can be useful in exploratory research to obtain initial impressions of the characteristics of a random variable under study.

3.4.3 Haphazard Sampling
This sampling method was used on the commercial banks’ customers. There was no proper way of selecting respondents, for example, by passers interviewed as they wished and accepted to be interviewed at the various Commercial banks banking halls across the city. This could not be planned hence it became haphazard as the people who accepted to be interviewed at the sites were different both in numbers and times.

3.4.4 Judgmental Sampling
The researcher attempts to draw a representative sample of the population by using personal judgment. This was led by the fact that the target population were in different strata. The views were variant as that of the commercial banks’ management, their staff and their customers were typically divergent. Bless and Higson Smith (1995) contend that the amount of error depends upon the degree of expertise of the person making the selection. In this method, judgment was used by the researcher to select the best sampling units to include in the sample. This enabled small samples to be representative, while the researcher had the final say on the selection.

3.4.5 Convenience Sampling
The sample is drawn for the convenience of the researcher and is not representative of the population Labovitz and Hagedom (1994). In this method, the researcher selected the two strata which were 75 banks’ staff and 25 customers. This was due to the fact that the target population was not well defined, sampling unit was not
clear, and a complete source list was not available due to staff confidentiality policies at most banks.

3.4.6 Probability Sampling
Probability sampling includes all selection methods where the observations to be included in a sample have been selected on a purely random (chance) basis from the population Dooley (1995). It is only through the random selection of sampling units from the population to be included in a sample that sampling errors can be measured and, be able to establish the representative nature of the sample drawn. Summarized below are the random selection methods:

3.4.7 Simple Random Sampling
This method ensured that each item in the entire population had an equal chance of being included in the sample, as each stratum represented all the different financial sector stakeholders in the commercial banks market. In this case, in utilizing this method, it was assumed that the population was relatively homogeneous within each of the stratum with respect to the views and perceptions on the effectiveness of strategies employed by commercial banks to attract deposits. For example the commercial bank management was represented, as well as the commercial bank non-management staff and also including the customers all had their views heard. This covered the whole spectrum of the commercial banking sector stakeholder population.

3.4.8 Stratified Sampling
The population segments were two that is the commercial bank customers and commercial bank staff. Furthermore the commercial bank staff segment was further divided into two segments that is commercial bank management and commercial bank non-management staff thus making three segments. Wegner (1993) states that stratified sampling divide the population into segments or strata. Each stratum had relatively homogenous elements. Specific number of elements were selected at random from each stratum that corresponded to the proportion of that stratum in the population. The number of elements was 75 commercial bank staff and 25 customers were interviewed. Stratification can be worthless unless the population can be classified into strata that are homogenous in the state being investigated.
3.4.9 Cluster Sampling
The population is divided into clusters, where each cluster is similar in profile to every other cluster. Clusters are then randomly selected for sampling. The sampling units within these randomly selected clusters may then be randomly selected to provide a representative sample from the population. According to Wolcott (1992), cluster sampling tends to be used when the population is large and spread out over a geographical area. In such cases, smaller regions or clusters can more easily be sampled.

This study was based on a sample population size of 100 individuals that is 75 commercial bank staff and 25 customers. Probability sampling selection method, specifically stratified sampling was applied to get the views of all the elements of the targeted population. The sample strata included commercial bank staff and customers. This sampling method ensures that all levels of respondents were represented in the study and makes the research results representative of the population under study. Within each stratum questionnaires were randomly distributed on a first come first serve basis. According to Dillion et al. (1990) and Saunders et al. (1997), a well-planned and administered sample provides a perfect alternative to collecting data from the entire population.

3.5 DATA COLLECTION PROCEDURES
Interviews and questionnaires were administered to respondents. Data for this study was therefore collected using both primary and secondary methods of collecting data. During data collection issues of practicality, technical adequacy and ethic were taken into consideration.

3.5.1 Primary Methods of Data Collection
The researcher used questionnaires to gather primary data from respondents. 100 questionnaires were distributed to individuals from the commercial bank management and non-management staff and also including the customers.

During the data collection exercise, every effort was made to ensure that bias was eliminated to the greatest extent possible. Costs of collecting data were kept to a minimum. This approach also ensured that privacy and confidentiality of collected data was maintained as completed copies were secured without interference from
management and individuals. This helped towards guaranteeing that the responses were a true reflection of the feeling of the respondents since there was no fear of victimization.

3.5.2 Secondary Methods of Data Collection
Secondary data was collected through desk research of available records from the following documents:
   I. The banks yearly financials.
   II. The Reserve Bank of Zimbabwe reports.

3.6 RESEARCH INSTRUMENTS
The main data collection instruments used in this research study were questionnaires.

3.6.1 Questionnaires
Kwesu et al. (2002) defines a questionnaire as a list of carefully structured questions chosen after considerable testing, with a view to elicit reliable responses from a chosen sample. According to Kotler and Keller (2006), a questionnaire represents the simplest, flexible and most common research instrument for collecting primary data and it consists of a set of questions presented to respondents.

Questionnaires were administered by hand to a sample of 75 commercial bank staff and 25 customers giving a total of 100 questionnaires distributed in this study. The questionnaire utilized both closed and open ended questions that covered all the research objectives so that the required information could be gathered. Open questions were used so as to get the actual views of the respondents whereas the closed questions were use so as to guide the respondents on the requirements of the study. They were also used so as to enable the respondents take less time with the questionnaire and hence enhancing the response rate. The questionnaires were pre-tested before dispatch. The pre-testing results led to the redesign of a simple questionnaire with short and close-ended questions, taking into account various demands and expectations of the study.

The questionnaire was considered to be the best instrument for the study due to its versatility, simplicity and provision for a list of possible answers from which the
respondents could choose. The study also recognized the fact that data obtained in structured non-disguised studies are easier to tabulate and interpret.

3.6.2 Pilot Study
Questionnaires do not emerge fully-fledged; they have to be created or adapted, fashioned and developed to maturity after many abortive test flights. In fact, every aspect of a study has to be tried out beforehand to make sure that it works as intended (Weru, 2005). Each survey research presents its own problems and difficulties and expert advice or spurious orthodox are not substitutes for well organized pilot work. Piloting helps in not only with the wording of the questions but also with procedural matters such as design of a letter of introduction, the ordering of question sequences and the reduction of non-response rates.

However for this study a pilot study was conducted involving fifteen (15) individuals. The questionnaires were administered by hand and were randomly distributed to the respondents. It took a week for the respondents to return the questionnaires. It is during collection that it was brought to the attention that the respondents took long with questionnaire because they were very long and cited that some of the questions were not clear. The response was very low mostly due to the stated reasons. The pilot study results led to the redesign of a simple questionnaire with short and close-ended questions, taking into account various demands and expectations of the study.

3.6.3 Administration of questionnaire
According to Babbie (1973) questionnaires can be distributed through face to face administration, drop and pick, postal, e-mail and telephonic. Questionnaires were distributed by hand to the respondents at their offices on a first come first served basis. Respondents were left to answer the questionnaire alone and responses were to be followed after an agreed time with the respondent. However, the data collection process was very challenging as the respondents were not always cooperative. People generally viewed questionnaires negatively and time consuming. The majority of the respondents were not willing to complete the questionnaire as they cited the length as too long. Others enquired if there were any incentives for completing the questionnaire, on being informed there was none were very hesitant.
3.6.2 Collection of questionnaires
In almost 50% of the cases arrived to collect the questionnaire only to find that absolutely nothing had been done. The researcher had to sit and wait whilst the respondent completed the questionnaire. In some instances the researcher also had to clarify some issues, which were misty to the respondent. Other respondents went as far as not even wanting to complete the question themselves. They preferred that the questionnaire be read out the questions and the possible solutions and they would respond then tick the relevant one. On questions, which needed them to explain, they would explain and request that the researcher capture the major points as they talk.

3.7 DATA ANALYSIS PRESENTATION AND DISCUSSION
Data were coded and entered into a master file using the Statistical Package for Social Sciences (SPSS). The data was cleaned by running frequencies to remove inconsistencies in the responses. The research findings were analyzed, compared and presented using tables, bar graphs and histograms. For qualitative data the validity, reliability and objectivity of the questionnaire were tested. The procedure was done as discussed below.

3.7.1 Validity, Reliability and Objectivity of the Questionnaire
In developing the research questionnaires, the validity, reliability and objectivity of the information to be obtained from the instrument was considered. Labovitz and Hagedorn (1976) define validity as the ability of the instrument to measure what it is supposed to measure. However, Fraenkel and Wallen (1996) dispute that and defined validity as the defensibility of the inferences the researchers make from the data collected through the use of a research instrument. Accordingly, they argue that validity of the instruments must always be considered within the context of inferences the researcher makes regarding particular areas or topics. In other words, the researcher needs instruments that would permit him to draw warranted, or valid, conclusions about the characteristics (i.e. perceptions, attitudes and so on) of the individuals under study. The other important consideration pertains to reliability defined as one that gives consistent results (Fraenkel and Wallen, 1996). Consistency gives the researcher confidence that the results actually represent what was intended in the study. Reliability of instruments is shown by similar responses
obtained when the same research instrument is administered to different respondents.

Fraenkel and Wallen (1996) qualify objectivity as the absence of subjective judgments. The rational for this is that it is important to eliminate subjectivity from the judgments made concerning the subjects under study. But, alas, objectivity is never probably attained completely. In addressing these key issues about research instruments, the questionnaire was pretested before the final survey. This was done with a view to reveal ambiguities, poor worded questions, unclear choices and also to indicate whether the instructions to the respondents were clear (Fowler, 1984; Fraenkel and Wallen, 1996).

3.7.2 Nature of the Questions
In designing the questionnaire consideration was given to the quality of a good questionnaire. Kwesu et al. (2002) states that a good questionnaire should have relevant questions that are aligned to the objectives given. Secondly, he notes that the questions in the questionnaire should have a systematic flow (question ordering). Furthermore, he stresses the need for question clarity with respect to the use of simple language and avoidance of double barreled questions, i.e. two questions in one question. Kwesu et al. (2002) also says that the questionnaire avoid sensitive/negative questions.

Attention was also given to the length and clarity of the questions (Fowler, 1984; Fraenkel and Wallen, 1996). The development of the questionnaires involved both the closed and open ended questions. The majority of the questions were closed ended questionnaires due to their ease of application, ability to reduce interview bias, ability to reduce bias based on differences in how articulate respondents are and the relatively simple coding and tabulation (Phiri, 2005). Closed ended questions are simple as respondents have to tick the appropriate answer they prefer. Furthermore, they save time as they are less time consuming for respondents to complete and this may allow the researcher to ask more questions. In addition, closed questions are an appropriate means of asking questions that have a finite set of answers of a clear cut nature. They also provide uniformity of questions and student responses, so they are potentially easier for evaluating the opinion of the
sample group as a whole and they can provide better information particularly where
the respondents are not highly motivated.

The development of the questionnaire depended on the use of the Likert Scaling
Structure, structured as follows; Strongly Agree, Agree, Neutral, Disagree and
Strongly Disagree, Yes or No Options, Low, Medium and High Options as well as the
Excellent, Above Average, Average, Below Average and Poor Scaling Structure.
These structures offered reasonably high validity and reliability.

3.8 CHAPTER SUMMARY
This chapter critically looked at the research methodology and the corresponding
justification of the methodology adopted. This study adopted both positivist and
interpretivist research approach with the questionnaires, structured interviews and
observations as the data collection tools. The next chapter will present the research
findings.
CHAPTER 4

RESEARCH FINDINGS AND DISCUSSION

4.1 INTRODUCTION
This chapter presents the research findings and discussion. These will be discussed in relation to the literature of the study.

4.2 RESPONSE RATE
According to Fowler (1984) response rate describes the extent to which the final data set includes all sample members and it is calculated as the number of people who complete the questionnaires or interviews and successfully returns them divided by the total number of people in the entire sample including those who refused to participate. There are several reasons why the response rate in most instances is not 100% and these includes that others cannot be contacted because of their or the researcher’s work commitments, or others refuse to answer the questionnaire or others do not return them on time. Table 4.1 below shows the response rate and the number of questionnaires received in this study.

<table>
<thead>
<tr>
<th>Number of questionnaires sent</th>
<th>Number of questionnaires received</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>85</td>
<td>85%</td>
</tr>
</tbody>
</table>

Table 4.1: Response rate
A total of 100 questionnaires were sent to management, staff and customers of all the 13 commercial banks in Harare so that there can be an equal response and a fair outcome of results. Out of these 85 were successfully completed and returned by the respondents. This represents a response rate of 85%. This response rate is high enough to use for data analysis. This is in line with Saunders et al. (1997) who cited a research by Dillman (1978) and gives a benchmark for response rate of questionnaire at between 50 percent and 92 percent. The response rate in this study was high because the researcher self administered the questionnaires and this proved to be more favorable than postal questionnaires or emailed ones since the researcher was present to respond to unclear questions to the respondents (Saunders, Lewis and Thornhill, 2004).
4.3 DEMOGRAPHIC INFORMATION

4.3.1 Position in organisation
Figure 4.1 shows the position of respondents in their organizations

![Pie chart showing position of respondents]

**Figure 4.1: Position of respondents in the organisation**
From the study findings the 30\% of the respondents were general staff, 25\% were customers, 20\% were middle management, 16\% were senior managers while 9\% were directors. This therefore implies that there was a fair representation of respondents and hence their contributions would add value to the study findings.

4.3.2 Length of employment at the organisation
This section sought to find out the length of service of the respondents in their respective commercial banks and the findings are illustrated below.
Figure 4.2: Length of employment at the organisation

The study reveals that 35% of the respondents had served in the financial sector for between 6 and 10 years, 25% had been in the financial sector for between 1 and 5 years, 23% had worked for over 10 years in the commercial banks while 17% had been there for less than 1 year. This is an indication that the information gathered is from experienced people who are aware of the customer relationship management practices within the sector and hence their contributions were valuable in this study.

4.3.3 Level of education

Figure 4.3 below is a reflection of the levels of education of the respondents.
The study findings reveal that majority of respondents (34%) were degree graduates, 30% were diploma graduates, 20% had certificates, 10% had secondary education, 5% had masters degrees and while only 1% had doctorates. This shows that the study had a wide mix of respondents and the respondents were educated enough to understand the needs and expectations of the study, thus their contributions were important to the study.

4.4 FACTORS INFLUENCING DEPOSITS AT COMMERCIAL BANKS

Figure 4.4 shows whether the respondents agreed strongly, agreed, disagreed strongly disagreed or were not sure with the factors influencing deposits at commercial banks.

![Graph showing factors influencing deposits at commercial banks](image)

Figure 4.4 Factors influencing deposits at commercial banks.

a. Price methods

According to the study findings, 52% of the respondents agreed that the banks’ price methods influenced deposits. A further 35% of the respondents strongly agreed with the above factor whilst on the other hand 10% disagreed with only 3% not sure. The results give a strong signal that commercial banks’ price methods is a contributing factor to the attracting of deposits by the bank as stated by the majority of the
respondents’ view. This view is in line with White et al. (2009) who state that the pricing strategies followed by commercial banks are aimed at profit maximization and the need to survive the stiff competition by attracting more deposits.

b. Technology

The results from the findings show that 50% of the respondents agreed that technology is a factor that influences deposits in commercial banks. An additional 40% strongly agreed with the same notion, 7% were not sure whilst only 3% disagreed. This shows that the majority of respondents were of the view that technology was a factor to commercial banks in attracting deposits hence having it or not was tantamount to attracting or repelling deposits to the bank. White (2009) observed that commercial bank business has changed dramatically over the past 25 years due in large part to technological changes. Therefore banks that lagged behind in the technological advancement also lost out severely in their market shares. For example Brunner et al. (2006) highlighted that some banks gained a lot of business and valuable depositors’ monies with the emergence of internet banking, Bancasurance, cellphone banking and ATMs whilst some banks lost out completely when they kept on holding on to the traditional way of doing business of the ‘brick and mortar’ premises.

c. Competition

According to the study results 56% of the respondents strongly agreed that competition with the financial sector was a factor that influenced the amount of deposits attracted by a bank. A further 30% agreed with the above view whilst only 8% disagreed with 6% not sure of the above notion. The results prove that competition within the financial sector is a contributor to amount of deposits a bank can attract a view supported by the majority of respondents from the study. This view is also in line with Schaeck and Cilak (2008) who highlighted that to face competition, prices can be lowered to maintain sales or in the absence of it, prices can be revised but stable prices help in maintaining image or brand name and quality. Competition also leads to an increase in product variety and product quality on offer to customers as banks would be wrestling for depositors.
d. Legal regulations

The study results show that 47% of the respondents agreed that legal regulations are a factor that influence deposits to commercial banks and a further 24% strongly agreed with the above statement. However 17% of the respondents disagreed whilst 12% of the respondents were not sure. This shows that the majority of respondents were of the view that legal regulations were a factor influencing the attraction of deposits by commercial banks. According to Wuebker et al. (2008), regulation is increasing its influence on the financial services. This is also the case with the political environment which was in Zimbabwe when the multicurrency was introduced deposits at banks were low because of lack of trust of the consumers to the banks. The consumers had lost their money when the Zimbabwe dollar was fazed away. A review carried out by Calomiries (2008) shows substantial empirical evidence that when monetary policy is accommodative banks charge less for bearing risk, and this seems to be a pattern common to many countries, this also leads to an increase of deposits as well.

e. Company objectives

The results from the findings show that 60% of the respondents agreed that the company’s objectives was a factor that influenced its attracting of deposits. An additional 30% strongly agreed whilst 5% were not sure and only 5% of the respondents disagreed with the above view. The majority through the results highlighted above believe that the company’s objectives have a bearing on the process and the exercise of attracting deposits. The bank’s strategy to be adopted depends upon the objectives of the company and this in turn influences the attraction of deposits by the bank (White et al., 2009). Pezzullo (1998) states that the pricing of bank products directly affects the bank’s profitability in two ways. Firstly the price paid by customers generates income and secondly price influences the volume of deposits and sales.

4.5 STRATEGIES FOR ATTRACTING DEPOSITS

4.5.1 Promotional Strategies

Figure 4.5 below shows how respondents rate the promotional strategies used by commercial banks to attract deposits.
Figure 4.5 Whether promotional strategies are being used effectively to attract deposits

According to the results from the study the majority of respondents believed that the most popular promotional strategies used by commercial banks were press adverts, with 55% respondents, and word of mouth, with 51% of the respondents having that view and these are the most traditional forms of promotional strategies. On the other hand 66% of the respondents had the view that internet was not being effectively used by banks as a strategy to attract deposit, 65% of the respondents also believed that banks were not conducting enough sales campaigns to attract deposits. These results from the study show that the promotional strategies employed by banks are not effective enough to attract more deposits as they are leaving out some other potential customers from their catchment which means lost depositors. According to Raveendran (1998) the fundamental objective of a promotion campaign is to persuade the customer to buy the product in preference to other similar products available in the market and this can only be accomplished effectively by the use of a variety of strategies rather than sticking to using only one or two.

4.5.2 Distribution Strategies

Figures 4.6 below shows how respondents rate the effective use of distribution strategies by commercial banks to attract deposits.
The majority of the respondents concurred that commercial banks were not exhaustively using the various distribution strategies to attract deposits as highlighted by the results from the study highlighted above. A massive 82% of the respondents stated that commercial banks were not using mobile offices as an option to attract deposits making their banks’ presence felt in remote areas, informal sector and also availing themselves at their customers doo rs. Another 72% of respondents also highlighted that satellite offices were not visible and underutilised, whilst 65% stressed the need for commercial banks to establish special counters at their different branches for for bulk depositors and corporate clients. The results also pointed out that 57% of the respondents believed that all commercial banks should embrace technology as a tool to use in attracting deposits for example in the form of internet banking, SMS banking and wider coverage of ATMs in all locations. These measures are in line with Hanssens and Lewis (2005) who postulated that successful banks have been experimenting with a few strategies relating to their distribution network, that is, extending their reach through means other than branch
expansion as well and this has ensure a steady growth of amount of deposits to them.

### 4.5.3 Customer Relationship Management Strategies

Table 4.2 below shows how respondents rate the effective use of customer relationship management strategies by commercial banks to attract deposits.

**Table 4.2 Use of customer relationship management strategies by banks to attract deposits**

<table>
<thead>
<tr>
<th></th>
<th>Websites</th>
<th>Call centers</th>
<th>Brick &amp; Mortar stores &amp; Toll free numbers</th>
<th>Mobile force staff</th>
<th>Advertising</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>67%</td>
<td>89%</td>
<td>14%</td>
<td>70%</td>
<td>77%</td>
</tr>
<tr>
<td>Yes</td>
<td>30%</td>
<td>8%</td>
<td>80%</td>
<td>28%</td>
<td>21%</td>
</tr>
<tr>
<td>Not Sure</td>
<td>3%</td>
<td>3%</td>
<td>6%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Results from the study show that the customer relationship management strategy mainly employed by banks was the brick and mortar stores which are the physical bank buildings or branch complex as 80% of the respondents had that view. A distant second place customer relationship management strategy used by banks was advertising with 55% of the respondents believing so. However the majority of respondents believe that there has been insufficient use of customer relationship management strategies by most, if not all, commercial banks to attract deposits. The findings show that 89% of the respondents believe that commercial banks are not using call centers as a strategy to attract deposits, whilst 70% had the view that toll free numbers were being underutilised by banks as a tool to attract deposits as they build a relationship with clients in the form of connectivity and communication link that could easily turn into business transactions and deposits.

A further 77% of respondents concurred that the employment of mobile sales force staff would be beneficial to commercial banks’ fortunes in attracting deposits. This could have immensely contributed to the depleting of the amount of deposits received by commercial banks. This is in line with Peppard (2000) who postulates that the idea of CRM is that it helps banks use technology and human resources gain insight into the behavior of customers and the value of those customers. If it works as hoped, Mihelis et al. (2001) states that a bank can provide better customer service, make call centers more efficient, cross sell products more effectively, help
sales staff close deals faster, simplify marketing and sales processes, discover new customers, and increase deposits.

4.5.4 Whether strategies employed by banks are effective in attracting deposits

Figure 4.7 shows whether the strategies employed by commercial banks in Zimbabwe have been effective in attracting deposits.

According to the study findings 57% of the respondents believed that commercial banks’ strategies were not effective in attracting deposits, 36% of the respondents believed otherwise that the strategies were effective in attracting deposits whilst only 7% of the respondents were not sure if the strategies employed by commercial banks were effective in attracting deposits. Therefore the results show that the majority of respondents did not believe that the strategies employed by commercial banks are not effective in attracting deposits for various reasons. This is in line with Berger (2009) who states that despite this industry-wide challenge, financial institutions often talk about the importance of core deposit growth, but generally do not take the steps necessary to address deposit gathering in a strategic and consistent fashion. At the same time, many bankers admit they are not confident they have the right strategies in place to achieve their core deposit goals (Stiroh and Rumble, 2006).
Unfortunately, experience shows that many institutions still employ a relatively outdated approach for managing their deposit growth efforts (Berger, 2009). De Young, Hunter and Udell (2004) evidenced that banking companies without discernable competitive strategies tend to perform poorly, as do banks that employ outdated banking strategies without embracing efficient new production methods.

4.6 IDENTIFYING MODELS BEING USED BY COMMERCIAL BANKS TO ATTRACT DEPOSITS

Figure 4.8 shows the banking models which the respondents identified to be used by their banks to attract deposits.

![Figure 4.8 The Banking Models being used by commercial banks to attract deposits](image)

The results from the study show that 74% of the respondents stated that their banks were using the short-term funding model in which banks seek short term funding in the interbank and wholesale market in addition to the tradition retail banking activities. According to Focarelli et al. (2011) over the past few years, many banks have reduced their reliance on traditional retail depositors and turned to short-term funding in the interbank and wholesale markets. In essence, short-term funds allow banks to manage their balance sheet sizes actively in a highly pro-cyclical manner (Adrian and Shin, 2008 and 2010). On the same hand 70% of the respondents concurred that their banks had adopted the Bank insurance model whereby banking services and insurance are merged to become a ‘one-stop shop’. According to Greenlaw et al. (2008) bank staff and tellers, rather than an insurance salesperson,
become the point of sale/point of contact for the customer. Bank staff are advised and supported by the insurance company through product information, marketing campaigns and sales training. Both the bank and insurance company share the commission. Another 61% of the respondents highlighted that their banks have adopted the mergers and acquisition model. The results are in agreement with the activities within the financial sector in which about 8 out of the 13 commercial banks have either acquired or merged with other banks in the past decade for example Commercial Bank of Zimbabwe and Beverley Building Society, First Bank and Zimbabwe Building Society, Kingdom Bank sort an international business partner. Pozsar et al. (2011) and Benston et al. (1995) show that bank mergers and acquisitions in the same period were partly motivated by the aim of creating institutions that were large enough to raise central banks’ minimum requirements and also build strategic alliances which increase economies of scale.

There were only 9% of respondents who confirmed that their banks still relied on the traditional banking model of waiting upon ‘walk-in depositors’. Comparing with for nontraditional models like bank insurance model with 70% respondents, short-term funding model with 74% concurring respondents, mergers and acquisitions model with 61% respondents agreeing, 55% of respondents vouching for securitisation model and 45% stating the use of universal banking model, clearly shows that there has been a shift by commercial banks in the financial sector in Zimbabwe from relying mostly on the traditional banking model to that of nontraditional models or diversification models so as to attract more deposits in a dynamic global business environment. The results are in line with Shin (2009) who revealed that banking is much more competitive and complicated and the days when financial institutions could rely on growing their deposit base by having customers simply walk in the door to open accounts and deposit funds based on the convenience of their location is a thing of the past.

The shift from relying on traditional banking model to nontraditional banking models could account for the 27% growth in deposit between 2010 to 2011 according to RBZ Monetary Policy Statement (January 2012). However, the RBZ Monetary Policy Statement (January 2012) also highlights that 57% of the total bank deposit growth was many concentrated in five banks and the other 43% shared amongst the
remaining eight banks. Analysing the results in figure they show that most of the commercial banks are not fully and effectively using the various available banking models to their advantage, to attract deposits. These results are acknowledged by Focarelli et al. (2011) who believe that financial institutions need to approach deposit growth and funding in a more strategic manner and experiment with a wider range of models hence moving from their traditional way of doing business which has since seized to attract deposits effectively.

4.7 CHALLENGES WHICH ARE BEING FACED BY COMMERCIAL BANKS IN ATTRACTING DEPOSITS

The table 4.3 below shows whether the respondents agreed or not with the challenges facing commercial banks in attracting deposits.

Table 4.3 Challenges Facing Commercial Banks

<table>
<thead>
<tr>
<th>Challenges Facing Commercial Banks</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition from new entrants</td>
<td>53%</td>
<td>38%</td>
<td>6%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Economic Difficulties</td>
<td>37%</td>
<td>58%</td>
<td>4%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Returns on Different financial instruments</td>
<td>59%</td>
<td>30%</td>
<td>8%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Lack of customer confidence</td>
<td>40%</td>
<td>56%</td>
<td>3%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Central bank unable to perform role of lender of last resort</td>
<td>53%</td>
<td>38%</td>
<td>7%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Liquidity Challenges</td>
<td>36%</td>
<td>55%</td>
<td>5%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Inadequate risk management systems</td>
<td>50%</td>
<td>42%</td>
<td>6%</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

a. Competition from new entrants

From the study findings 53% of the respondents strongly agreed with the challenge of competition from new entrants, 38% of the respondents agreed, 6% were not sure whilst only 3% disagreed. This result shows that the majority of respondents believed that commercial banks in the financial sector are facing the challenge of competition from new entrants in attracting deposits. The results are in line with Gibson et al. (2006) who state that credit union, money market mutual funds, securities firms, insurance companies, and several new entities growth and expansion into many commercial banking markets have greatly intensified the competition for local customers’ deposits. These new financial instruments and competitors thus provide a partial explanation for the shifts in household portfolios away from bank deposits.
Furthermore, Gibson et al. (2006) stated that the direct entry by some of these firms into banking may help explain the greater competition commercial banks are now facing for deposits. On the other hand, Rose (2008) stressed that more competition faced by banks for a consumer will help to keep the price in line with interest rates on similar products available in the market place.

b. Economic difficulties
According to the study findings 58% of the respondents agreed that economic difficulties were posing as a hindrance to commercial banks in attracting deposits. 37% of the respondents agreed strongly, 4% were not sure whilst only 1% disagreed strongly (see table 4.2). The above results show that the majority of the respondents concurred that economic difficulties are a challenge to commercial banks in attracting deposits. According to Mutengezanwa et al. (2011) the Zimbabwean banks are currently failing to get enough finance to enable them to run their business operations at the full capacity due to economic difficulties especially with the previous recession’s effect. The banks are struggling to meet the minimum capital requirement set by the RBZ, even under a phased plan given by the central bank. Low level of capitalization has also been identified by Brownbridge (1998), as a common challenge that is always faced by banks in developing nation especially locally owned banks and this also had a deterrent effect on the attraction of deposits by the banks.

c. Returns on Different financial instruments
The findings in table 4.2 highlight that 58% of the respondents strongly agreed that the favourable returns on different financial instruments is a challenge to commercial banks in attracting deposits. 30% only agreed, with 8% not sure whilst only 4% disagreed. These results show that the majority of the respondents believe that the favourable returns on the different financial instruments posed a challenge to the commercial banks’ efforts of attracting deposits. This view is in line with Harvey and Spong (2001) who stated that another factor that could play an important role in bank funding and the changes in household financial assets is the rates banks pay for deposits relative to the returns available on other financial assets. It is apparent that the stock markets produced far more attractive returns than bank deposits. In fact, banks may be fighting an uphill battle in attracting smaller time deposits, especially given the strong incentives individuals have had to put longer-term funds into equity
instruments (Miller, 2011). Ruckes (2004) acknowledges that these differences in yields thus suggest that other financial instruments have generally proven to be more attractive than bank deposits.

d. Lack of customer confidence
The study findings show that 56% of the respondents agreed that one of the commercial banks' challenges of attracting deposits was the lack of customer confidence in the financial sector. There are a further 40% of respondents, who strongly agreed with the above assertion, 3% were not sure whilst only 1% strongly disagreed (see table 4.2). These results clearly show that the majority of respondents believe that lack of customer confidence in the commercial banks has hindered banks in attracting more deposits. According to Hewitt (2012) attracting customers to banks in an era of instant national interest-rate comparisons is an extraordinary challenge, particularly as increasing rates of bank failures decrease customer confidence in the sector.

e. Central bank unable to perform role of lender of last resort
According to the study findings 53% of the respondents strongly agreed that commercial banks are having challenges in attracting deposits because the central bank is unable to perform the role of lender of last resort. Another 38% of the respondents agreed, 7% were not sure whilst only 2% strongly disagreed (see table 4.2). The study results show that the majority of the respondents believed the inability of the Central Bank to perform its role of lender of last resort was a challenge to banks in attracting deposits. According to the Banker’s Association of Zimbabwe (BAZ) this gives banks a hard time to find sources of finance because Zimbabwe does not have its own official currency. RBZ’s problems also meant that banks would not be able to obtain a refund of their statutory reserves for which they are entitled in case of a possible decline in their deposits because these reserves are not backed by international reserves.

f. Liquidity challenges
The findings from the study show that 55% of the respondents agreed that liquidity challenges within the financial sector were a hindrance to commercial banks’ process of attracting deposits. A further 36% strongly agreed and 5% of the respondents were not sure whilst only 4% disagreed (see table 4.2). The results
prove that the majority of respondents believed that the liquidity challenges made it difficult for commercial banks to attract deposits. According to Mutengezanwa et al. (2011) foreign currency is very scarce in the economy due to poor export performance and lack of international capital flows. Even solvent banks may not survive a run on deposits as they are also struggling to mobilize less liquid assets to meet liquidity needs. However, Muranda (2006) state that many bankers believe that liquidity will be a persistent, long-term problem and this is scaring away many current and perspective depositors from commercial banks.

4.8 FACTORS CONSIDERED WHEN CHOOSING A BANK

Figure 4.9 below shows how respondents rate the contribution of factors considered by a customer when choosing a bank.

![Figure 4.9 Factors considered when choosing a bank](image)

According to the study results 85% of the respondents believed that customer service was the major factor considered when choosing a bank and this is in line with Paul (2011) who states that as far as customers are concerned, the good explanation and deals for every client presents a plus to them because it shows how bank are interested to help and make business with them. Convenience is a factor
stated by 76% of the respondents and is supported by Khambata (1996) who postulated that convenience of leaving near banks, one of the most significant factors that the potential depositor have to take into consideration; it is the quality of being suitable to one's comfort, purposes, or needs: it will increase the potential depositor’s comfort or saves work. Furthermore 72% concurred that the security of funds whilst 65% stated that reputation of the bank were factors considered by customers when choosing a bank. Ease of deposit, minimum balance requirements and history and background of a bank were rated by respondents as the least considered factors by customers when choosing a bank with 45%, 38% and 37% of respondents respectively.

4.9 REASONS WHY CUSTOMERS LEAVE A BANK

Figure 4.10 shows how respondents rate the reasons why and the factors that affect customers leave a bank.

![Chart of reasons why customers leave a bank]

According to the study findings the 78% of the respondents rated quality of service by a bank as the major reason why customers leave a bank, 65% of the respondents believed that bank charges and fees were the ones which scared away customers, 58% thought that it was product availability whilst 51% believed that brand image was the issue. On the other hand only 24% had the view that peer recommendations were a reason why customers left a bank with only 32% believing that quality of
advice was a factor in customers leaving a bank. These results are in line with the 2011 Voice of the Customer survey by Capgemini that stated that service quality was the most important reason whilst ironically peer recommendation was the least reason why customers leave a bank. Capgemini (2011) further on state that banks are taking a closer look at the ways in which they incent and reward branch employees. Increasingly, they are using customer satisfaction as a key measure of employee performance. This process requires more frequent measurement of customer satisfaction and clear communication of the results to branch staffers. As a conclusion White and Scott (2009) evidenced that effective core deposit growth strategies should outline not only how to attract new deposits but also how to retain existing deposits. Banking today is not about how many customers and deposits are acquired but what is retained (Keys et al, 2010). Ennew and Waite (2007) highlighted that it is absolutely critical for financial institutions to fix their “leaky bucket” by developing improved customer service tactics, customer retention tools, and account closing procedures. Indeed, core deposits are critical. Not only are they stable, low cost funds, but they are also the basis of the banking relationship.

4.10 CHAPTER SUMMARY
The chapter has discussed findings on the challenges faced by commercial banks in attracting deposits, factors influencing deposit uptake and the effectiveness of strategies implemented by commercial banks to attract deposits. Findings on reasons why customers leave a bank and the factors considered by a customer when choosing a bank. These findings were also discussed linking with relevant literature from the literature review. This chapter forms the basis on which study conclusions and recommendations will be made. The next chapter will present the study summary, conclusions and recommendations. An area for further study will also be presented in the next chapter.
CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION
This chapter presents the study conclusions and recommendations. An area of further study will also be presented in this chapter. The study conclusions were derived from the previous chapter.

5.2 CONCLUSIONS
The study presents the following conclusions:

5.2.1 Factors influencing deposits uptake by commercial banks in Zimbabwe
- Commercial banks’ price methods are a contributing factor to the attracting of deposits by the bank as they are aimed at profit maximization and the need to survive the stiff competition. This is necessary in attracting more deposits.
- Furthermore technology was identified to be also a factor to commercial banks in attracting deposits hence having it or not was tantamount to attracting or repelling deposits to the bank and White (2009) observed that commercial bank business has changed dramatically over the past 25 years due in large part to technological changes. Therefore banks that lagged behind in the technological advancement also lost out severely in their market shares.
- The results also proved that competition within the financial sector is a contributor to the amount of deposits a bank can attract as it leads to an increase in product variety and product quality on offer to customers.
- Legal regulations were also discovered to be a factor influencing the attraction of deposits by commercial banks. According to Wuebker et al. (2008), regulation is increasing its influence on the financial services. A review carried out by Calomiries (2008) shows substantial empirical evidence that when monetary policy is accommodative banks charge less for bearing risk this also leads to an increase of deposits as well.
The results from the study also showed that the company’s objectives have a bearing on the process and the exercise of attracting deposits. The bank’s strategy to be adopted depends upon the objectives of the company and the strategy adopted influences the attraction of deposits by the bank therefore the company objective influences the attraction of deposits (White et al., 2009).

5.2.2 Strategies for attracting deposits

- The results show that the most popular promotional strategies used by banks to attract deposits are press adverts and word of mouth. They are the most traditional promotional strategies. On the other hand the findings show that personal selling, sales campaign and internet were the least popular promotional strategies respectively. These results from the study show that the promotional strategies employed by banks are not effective enough to attract more deposits as they are leaving out some other potential customers from their catchment which means lost depositors. According to Raveendran (1998) the fundamental objective of a promotion campaign is to persuade the customer to buy the product in preference to other similar products available in the market and this can only be accomplished effectively by the use of a variety of strategies rather than sticking to using only one or two.

- From the study findings it can be concluded that commercial banks in Zimbabwe were not exhaustively using the various distribution strategies at their disposal to attract deposits. The distribution options of mobile offices and satellite offices were the least used distribution strategies meaning that commercial banks’ presence could not be felt in remote areas, informal sector and hence also not availing themselves at their customers door steps. Commercial banks were also seen not to be embracing technology fully to efficiently use it as a link to tap deposits for example cell phone banking, internet banking and wider coverage of ATMs in all locations.

- The customer relationship management strategy mainly employed by banks was the brick and mortar stores which are the physical bank buildings or branch complex and a distant second place customer relationship management strategy used by banks was advertising. However most of the customer relationship strategies were not being efficiently utilised as seen
from the study findings as some of the banks do not use them at all. The strategies being underutilised are call centres, toll free numbers, mobile sales force staff and websites which would have built a stronger customer relationship bases for the banks with the clients through connectivity and communication link that could easily turn into business transactions and deposits.

- Therefore the results show that the strategies employed by commercial banks are not effective in attracting deposits for various reasons. Berger (2009) states that despite this industry-wide challenge, financial institutions often talk about the importance of core deposit growth, but generally do not take the steps necessary to address deposit gathering in a strategic and consistent fashion. At the same time, many bankers admit they are not confident they have the right strategies in place to achieve their core deposit goals (Stiroh and Rumble, 2006). Unfortunately, experience shows that many institutions still employ a relatively outdated approach for managing their deposit growth efforts (Berger, 2009). De Young, Hunter and Udell (2004) evidenced that banking companies without discernable competitive strategies tend to perform poorly, as do banks that employ outdated banking strategies without embracing efficient new production methods.

5.2.3 Identifying models used by commercial banks to attract deposits

- The findings showed that the most popular banking models adopted by banks to attract deposits were respectively from the most popular to the least popular short-term funding model, bank insurance model, mergers and acquisition model, securitisation model, universal banking model and the traditional banking model.

- The top five most popular banking models as shown above are the nontraditional banking models whilst the least popular banking model amongst the banks is the traditional banking model. This shows that there has been a shift by commercial banks in the financial sector in Zimbabwe from relying mostly on the traditional banking model to that of nontraditional models or diversification models so as to attract more deposits in a dynamic global business environment. Banking is much more competitive and complicated and the days when financial institutions could rely on growing their deposit
base by having customers simply walk in the door to open accounts and deposit funds based on the convenience of their location is a thing of the past.

- Although there has been a shift from the reliance on the traditional banking model to the nontraditional models most of the commercial banks are not fully and effectively using the various available banking models to their advantage, to attract deposits. The more than 50% concentration of the deposits growth within the financial sector was mainly amongst the top five performing banks out of thirteen meaning that most of the banks have not yet exhausted the full potential of the strategies available to them.

5.2.4 Challenges faced by commercial banks in attracting deposits
The challenges that are faced by commercial banks in attracting deposits were as per the findings are:

- Competition from new entrants,
- Economic difficulties,
- Returns on different financial investments or securities,
- Lack of customer confidence,
- Liquidity challenges and,
- The fact that the central bank is unable to perform role of lender of last resort.

5.2.5 Factors considered by customers when choosing a bank
The main factors considered by customers when choosing a bank are the customer service provided by the bank, convenience of the bank to the customer and the security of the customers’ funds. The least considered factors are ease of deposits, minimum balance requirements and the bank’s history and background. Below they are listed in descending order:

- Customer service,
- Convenience to the customer,
- Security of funds,
- Reputation of the bank,
- Mobility,
- Interest rates,
- Ease of deposits,
- Minimum balance requirements and,
5.2.6 Reasons why customers leave a bank
It was established that the main reasons why customers leave a bank are the quality of service, fees charged, product and service availability, the brand image whilst the least considered reasons why customers leave a bank are the banks’ branch locations, quality of the advice provided and peer recommendations. Below they are listed in descending order:

- Quality of service,
- Fees charged,
- Product availability,
- Brand image,
- Ease of use,
- Branch locations,
- Quality of advice and,
- Peer recommendations.

As a conclusion White and Scott (2009) evidenced that effective core deposit growth strategies should outline not only how to attract new deposits but also how to retain existing deposits. Banking today is not about how many customers and deposits are acquired but what is retained (Keys et al., 2010). Ennew and Waite (2007) highlighted that it is absolutely critical for financial institutions to fix their “leaky bucket” by developing improved customer service tactics, customer retention tools, and account closing procedures.

5.3 PROPOSITION
The researcher agrees with the proposition that the strategies being used by commercial banks to attract depositors are ineffective.

5.4 RECOMMENDATIONS
The study recommends that

- Promotion of good corporate governance

Commercial banks’ management should promote good corporate governance and ethical standards at their banks so as to win back customers’ confidence and spruce up their image. The Zimbabwean government should seek funds and recapitalise sufficiently the Central Bank so that it regains its lending at last resort status which
would also safeguard the commercial banks’ and customers’ funds in the case of any financial crisis befalling the industry again as was the case of 2006 to 2008.

- **Reduce interest rates, increase interest on deposits and provide loans**
  Commercial banks should reduce interest rates, increase interest on deposits and provide their clients with loans as a service and not act as if it is a favour. It would build a good customer relationship which would make the banks more competitive with new emerging entrants penetrating their current markets like stock market, credit unions, money lending companies and deposit house investors who are providing depositors options with higher rates of return (Rose, 2008).

- **Enter into strategic alliances**
  More commercial banks should enter into strategic alliances either with international players and strategic partners locally as to gain a competitive advantage and enhance economies of scale. Some banks have entered into partnerships with other companies like network providers with some establishing departments targeting new markets like insurance. Hence the term bancasurance which is still fairly new in Zimbabwe. Unfortunately the majority of the banks in the industry have not yet utilized these opportunities.

- **Making CRM programmes and strategies compulsory in the financial sector**
  It should be compulsory in the financial sector to have established CRM programmes and strategies according to Mihelis et al. (2001) this would help the banks provide better customer service, make call centers more efficient, cross sell products more effectively, help sales staff close deals faster, simplify marketing and sales processes, discover new customers, and increase deposits. It does not happen by simply buying software and installing it.

- **Technological development**
  Information technology and process frameworks should be developed to secure customer information, funds and also maximize fully and exhaustively all financial technological opportunities like internet banking, cellphone banking. Banks should
make sure that their information technology should be up to date with international standards in the financial sector through continuous training of staff and system upgrades.

- **Product targeting and strategic segmentation**
  Commercial banks should improve product targeting to the right segments so as to establish greater flexibility and responsiveness to market changes through opening mobile branches, special counters for bulk depositors and corporate clients, setting up more satellite offices in peripheral areas like resettlement areas, rural areas and border posts were a few banks are found and most of them are not commercial banks.

- **Adopting a variety of banking models instead of relying traditional banking model**
  Commercial banks in Zimbabwe should follow global trend by not relying only on the traditional banking model but to fully implement the different types of banking models that have been created to adapt to the new trends and challenges within the current financial sector environment for example bancasurance and short-term funding models. All the banks should adopt a variety of banking models rather than relying only on walk-in customers’ deposits. These banking models provide more options and opportunities for attracting deposits rather than waiting upon a single avenue for attracting deposits.

- **Recapitalise the Central Bank to become the lender at last resort**
  The government of Zimbabwe through the ministry of finance should seek funds to recapitalize the Central Bank so that it retains its lender at last resort status. These funds the central bank would use them to bail out banks facing liquidity problems and they would be a form of insurance to the depositors and investors on their money. This in tail builds confidence to the customers about the financial sector as they feel that their deposits are safe and hence motivated to deposit more with the banks rather than anywhere else.
5.5 AREA OF FURTHER STUDY
The study presents an area of further study to investigate into the effectiveness of technology used to attract deposits in the financial sector in Zimbabwe from 2009 to 2012. A case of Commercial Banks.
Appendices

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QUESTIONNAIRE FOR BANK STAFF AND MANAGEMENT

SECTION A: DEMOGRAPHICS

1. In which category do you belong? Please tick the appropriate.
   a. General staff [ ]
   b. Senior managerial staff [ ]
   c. Middle managerial staff [ ]
   d. Director [ ]
   e. Other (Specify) __________________________________________________

2. For how long have you been in the Financial Sector? Please tick the applicable.
   a. Less than 1 year [ ]
   b. 1-5 years [ ]
   c. 6-10 years [ ]
   d. Above 10 years [ ]

3. Your level of education. Please choose the appropriate.
   a. Secondary education [ ]
   b. Certificate [ ]
   c. Diploma [ ]
   d. Degree [ ]
   e. Masters Degree [ ]
   f. Doctorate [ ]
   g. Other (Specify) __________________________________________________

4. Please tick the banking models that are used by your bank to attract deposits.
   a. Bank insurance model (partnership between banking and insurance) [ ]
   b. Universal banking model (merging securities underwriting and retail banking) [ ]
   c. Short-term funding model (short-term funding in the interbank & Wholesale markets) [ ]
   d. Securitisation model (Banks pooling riskier assets and selling them to outside investors) [ ]
   e. Mergers and acquisition model (Banks merging and acquiring other Banks or other strategic businesses) [ ]
   f. Traditional banking model (Reliance on general retail deposits i.e. walk-in customers) [ ]
   g. Other __________________________________________________ [ ]
5. Rate the following factors influencing attraction of deposits by commercial banks as they rate to Zimbabwe using the 5 point Likert scale.

<table>
<thead>
<tr>
<th>Factors influencing commercial banks attracting deposits</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company objectives</td>
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<td>Legal restrictions / regulations</td>
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<td>Competition</td>
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<td>Technology</td>
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<tr>
<td>Pricing methods</td>
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</table>

6. In your view, are the services provided by Commercial Banks in Zimbabwe effective in attracting more deposits?
   a. Yes [ ]
   b. No [ ]
   c. Don’t know [ ]

7. Rate the following promotional strategies if they are being used effectively by commercial banks to attract deposits as they rate to Zimbabwe.

<table>
<thead>
<tr>
<th>Commercial Banks Promotional Strategies</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
</tr>
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<tbody>
<tr>
<td>Press adverts</td>
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<td>Sales campaigns</td>
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<td>Word of mouth</td>
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<td>Personal selling</td>
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<tr>
<td>Internet</td>
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</table>
8. Rate the following distribution strategies used by commercial banks to attract deposits as they rate to Zimbabwe using the 5 point Likert scale.

<table>
<thead>
<tr>
<th>Commercial Banks’ Distribution strategies</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satellite office</td>
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<tr>
<td>Special counters e.g. bulk depositors, corporate clients and V.I.P. clientele</td>
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<td>Mobile office</td>
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<tr>
<td>Technology e.g. internet banking, sms banking and ATMs</td>
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<tr>
<td>Strategic alliances</td>
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9. In your view, what challenges have Commercial Banks in Zimbabwe been facing? Tick the challenges below using the Likert-scale.

<table>
<thead>
<tr>
<th>Challenges facing Commercial Banks</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition from new entrants</td>
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<td>Economic difficulties</td>
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<td>Returns on different financial investments</td>
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<td>Lack of customer confidence</td>
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<td>Central bank unable to perform role of lender of last resort</td>
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<td>Chronic liquidity challenges</td>
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<tr>
<td>Inadequate risk management systems</td>
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10. Please tick the following Client Relationship Management strategies effectively used at your bank in attracting deposits.
11. Please tick the reasons below you feel would make you leave a bank.

   | Reason                                      | Yes | No | Not Sure |
---|---------------------------------------------|-----|----|---------|
   | Quality of service                          | [ ] | [ ]| [ ]     |
   | Ease of use                                 | [ ] | [ ]| [ ]     |
   | Fees                                       | [ ] | [ ]| [ ]     |
   | Quality of advice                           | [ ] | [ ]| [ ]     |
   | Product availability                        | [ ] | [ ]| [ ]     |
   | Branch / Bank locations                     | [ ] | [ ]| [ ]     |
   | Brand image                                 | [ ] | [ ]| [ ]     |
   | Peer recommendations                        | [ ] | [ ]| [ ]     |
   | Other______________________________________| [ ] | [ ]| [ ]     |

12. Have the strategies employed by Commercial Banks in Zimbabwe been effective in attracting deposits? Please choose the appropriate.

   a. Yes                                       [ ]
   b. No                                        [ ]
   c. Not sure                                  [ ]

13. What recommendations on strategies that could be used by commercial banks to increase their deposits?

END OF QUESTIONNAIRE
THANK YOU FOR YOUR EFFORT
1. For how long have you been in the using this bank? Please tick the applicable.
   a. Less than 1 year [    ]
   b. 1-5 years [    ]
   c. 6-10 years [    ]
   d. Above 10 years [    ]

2. Type of account you have. Please choose the appropriate.
   a. Personal Current a/c [    ]
   b. Personal Savings a/c [    ]
   c. Business Current a/c [    ]
   d. Investment a/c [    ]
   e. Other (Specify)______________________________________________________

3. Have you ever been granted a loan?
   a. Yes [    ]
   b. No [    ]

4. Have the strategies employed by Commercial Banks in Zimbabwe been effective in attracting deposits? Please choose the appropriate.
   a. Yes [    ]
   b. No [    ]
   c. Not sure [    ]

5. How do you rate the services provided by Commercial Banks in Zimbabwe?
   a. Satisfactory [    ]
   b. Poor [    ]
   c. Not sure [    ]
   d. Very Satisfactory [    ]
   e. Very poor [    ]

6. Please rate how strongly you agree or disagree with the effectiveness of the following Pricing Strategies by Commercial Banks. Use Likert’s 5-point scale as indicated below.

<table>
<thead>
<tr>
<th>Item</th>
<th>Scale</th>
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<tbody>
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</tbody>
</table>

117
7. In your view, are the services provided by Commercial Banks in Zimbabwe effective in attracting more deposits?
   d. Yes [    ]
   e. No [    ]
   f. Don’t know [    ]

8. Rate the following promotional strategies used by commercial banks to attract deposits as they operate in Zimbabwe using the 5 point Likert scale.

<table>
<thead>
<tr>
<th>Commercial Banks Promotional Strategies</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
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<tbody>
<tr>
<td>Press adverts</td>
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<tr>
<td>Personal selling</td>
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<td></td>
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</tr>
<tr>
<td>Internet</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. How do you rate the Commercial Banks’ client relationship? Please choose the applicable.
   a. Poor [    ]
   b. Average [    ]
   c. Good [    ]
   d. Excellent [    ]

10. In your view, what challenges have Commercial Banks in Zimbabwe been facing? Tick the challenges below using the Likert-scale.

<table>
<thead>
<tr>
<th>Challenges facing Commercial Banks</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
</table>
11. Have you ever heard of Client Relationship Management?
   a. Yes [□]
   b. No [□]
   c. Not sure [□]

12. Rate the following contributions of Commercial Banks’ Client Relationship Management strategies in attracting deposits 5 point Likert scale.

<table>
<thead>
<tr>
<th>Client Relationship Management Strategies</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Websites</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call centres</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brick and Mortar stores</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toll free numbers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile sales force staff and marketing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mail campaigns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising efforts</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

13. Please tick the reasons below you feel would make you leave a bank for another.
   j. Quality of service [□] [□] [□]
   k. Ease of use [□] [□] [□]
   l. Fees [□] [□] [□]
   m. Quality of advice [□] [□] [□]
14. Rate the following factors influencing attraction of deposits by commercial banks as they rate to Zimbabwe using the 5 point Likert scale.

<table>
<thead>
<tr>
<th>Factors influencing commercial banks attracting deposits</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal restrictions / regulations</td>
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<td></td>
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<tr>
<td>Competition</td>
<td></td>
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</tr>
<tr>
<td>Technology</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Pricing methods</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

15. Please tick the factors below you feel would make you choose a bank from others.

   Yes  No  Not Sure

a. Customer service                                     [ ]  [ ]  [ ]

b. Convenience                                           [ ]  [ ]  [ ]

c. Security of funds                                     [ ]  [ ]  [ ]

d. Reputation of the bank                                [ ]  [ ]  [ ]

e. Mobility (24 hour service)                            [ ]  [ ]  [ ]

f. Interest rates                                        [ ]  [ ]  [ ]

g. Ease of deposits                                      [ ]  [ ]  [ ]

h. Minimum balance requirements                          [ ]  [ ]  [ ]

i. Bank’s history and background                          [ ]  [ ]  [ ]

ej. Other_____________________________________________  [ ]  [ ]  [ ]

16. What recommendations on strategies that could be used by commercial banks to increase their deposits?

____________________________________________________________________
____________________________________________________________________
____________________________________________________________________

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END OF QUESTIONNAIRE
THANK YOU FOR YOUR EFFORT