

An Assessment of the Factors
Determining Public Confidence and
its impact on the Financial
Performance and Stability of banks in
Zimbabwe

Caleb Phiri (R851499U)

A Dissertation Submitted in Partial Fulfilment of the
Requirements for the Master Degree in Business
Administration

2015

**Graduate School of Management
University of Zimbabwe**

Supervisor: Dr G. Muponda

Declaration

I,, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

Student signature

Date

Acknowledgements

I would like to express my deep gratitude to my research supervisor, Dr. G. Muponda, for his patient guidance, enthusiastic encouragement and useful critiques of this research work. My grateful thanks are also extended to Mr. Ernest Chinyerere for his help in doing the quantitative analysis. I also take this opportunity to express my gratitude to everyone who supported me throughout this course including a friendly and cheerful group of fellow students and lecturers. I am thankful for their aspiring guidance, invaluable constructive criticism and friendly advice.

Finally, many thanks to my wife and children for their understanding, support and encouragement throughout my study. May the Lord God bless them all.

Abstract

The study sought to assess the factors determining public confidence and its impact on the performance and stability of banks in Zimbabwe. The objectives that guided this study were to determine the level of public confidence in Zimbabwe's banking sector; to identify the factors that contribute to public confidence in Zimbabwe's banking sector; to assess the strength and capability of measures used to enhance public confidence in Zimbabwe's banking sector as well as to recommend ways in which public confidence in Zimbabwe's banking sector can be enhanced. The study reviewed both theoretical and empirical literature underpinning public confidence and its impact on the performance and stability of banks. Empirical data were obtained through the administration of questionnaires distributed to 131 individuals who included 124 bank clients in 19 banks, four senior bank executives, and one senior executive each from the Deposit Protection Corporation (DPC), Reserve Bank of Zimbabwe (RBZ) and Bankers Association of Zimbabwe (BAZ). The data gathered was analysed through data display in the form of data tables and bar charts, whilst factor analysis, correlation tests and regression analysis were undertaken to establish whether there were relationships amongst the variables that assisted in testing the hypotheses that were proposed in this study.

The study findings were that public confidence in the banking sector was low and it was affected by a number of factors that included inadequate bank regulation and supervision, inadequate deposit protection, availability of financial services and products and poor corporate governance and management practices. Furthermore, the effectiveness of DPC's efforts in ensuring public confidence in the banking sector were average whilst RBZ was ineffective in improving public confidence in the banking sector. The current corporate governance and management practices in the banking sector were unsatisfactory in promoting public confidence as well as contributing to favourable performance in the Zimbabwean banking sector. However, mobile banking and other similar innovative financial products and services have had a positive impact on public confidence in the banking sector.

Therefore, the study concluded that the low public confidence significantly impacted the performance of banks in Zimbabwe. However, if the public confidence was enhanced the banking sector could achieve improved performance. The study recommended the restoration of the role of RBZ by capacitating its regulatory, supervisory and monitoring role in the financial sector, and strengthening of corporate governance in the banking sector through amending the relevant legislation, ethical conduct of directors and management and strict internal systems and controls. The Deposit Protection Corporation should review the compensation level upwards and undertake public awareness programmes. Banks should

promote the use of mobile financial services and technology in banking and promote financial inclusion and financial literacy.

Contents

Declaration.....	i
Acknowledgements.....	iii
Abstract.....	iv
List of Tables	x
Abbreviations.....	xi
CHAPTER ONE	1
BACKGROUND OF STUDY	1
1.1 Introduction	1
1.2 Background to the Study	1
1.2.3 Banking Sector in Zimbabwe	4
1.3 Statement of the Problem	12
1.4 Purpose of the Study.....	13
1.5 Research Objectives	13
1.6 Research Questions.....	13
1.7 Research hypothesis	14
1.8 Significance of the Study.....	14
1.9 Scope of Study.....	15
1.10 Dissertation Outline.....	15
1.11 Chapter Summary	15
CHAPTER TWO	16
LITERATURE REVIEW.....	16
2.1 Introduction	16
2.2 Causes of Loss of Public Confidence in the Banking Sector	16
2.3 Impact of Public Confidence on Fostering Financial Stability.....	26

2.4 Impact of Public Confidence on Bank Performance	29
2.5 Conceptual Framework.....	32
2.6 Chapter Summary	34
CHAPTER THREE	35
RESEARCH DESIGN AND METHODOLOGY	35
3.1 Introduction	35
3.3. Research methods.....	37
3.4 Research design.....	37
3.5 Study Population.....	38
3.6 Sample	38
3.7 Data Collection	39
3.8 Data Analysis.....	39
3.9 Research Limitations	40
3.10 Research Ethics and Data Credibility.....	40
3.11 Chapter Summary	41
CHAPTER 4	42
DATA ANALYSIS AND PRESENTATION	42
4.1 Introduction	42
4.2 Response Rate.....	42
4.3 Demographic Information	42
4.4 Reliability	44
4.5 Frequencies.....	44
4.6 Current measures contribution to public confidence in Zimbabwe’s banking sector	50
4.7 Tests of Normality	60
4.8 Factor Analysis.....	61

4.9 Non-parametric Correlations	64
4.10 Regression Results.....	66
4.11 Chapter Summary	68
CHAPTER 5	69
CONCLUSIONS AND RECOMMENDATIONS	69
5.1 Introduction	69
5.2 Conclusions	69
5.3 Hypothesis testing.....	71
5.4 Recommendations	71
5.5 Areas of Further study	72
References.....	73
Appendix A.....	83
QUESTIONNAIRE.....	83
Appendix B	91
Individual Banks Assets and Return on assets ratio at 31 st December, 2013.....	91
Individual Banks Deposits and Loans to Deposit Ratio at 31 st December, 2013.....	92
Individual Bank’s Shareholders Equity and the Capital Adequacy Ratio	93

List of Tables

Table 1.1 Domestic credit provided by the financial sector as a % of GDP

Table 1.2 Deposits as a Percentage of GDP

Table 1.3 Individual Banks Assets and Return on assets ratio at 31st December, 2013

Table 3.1 Sample

Table 4.1 Gender Profile of Respondents

Table 4.2 Age Distribution of Respondents

Table 4.3 Type of Industry

Table 4.4 Reliability Statistics

Table 4.5 General Level of Public Confidence in the Banking Sector

Table 4.6 Poor Customer Service and Experience

Table 4.7 High Fees and Bank Charges

Table 4.8 Fear of Loss of Deposits

Table 4.9 Unresolved Dollar Account Balances

Table 4.10 Poor Corporate Governance

Table 4.11 Inadequate Bank Regulation

Table 4.12 Inadequate Deposit Protection

Table 4.13 Inadequate Financial Services and Products

Table 4.14 Review of current insurance coverage to enhance public confidence

Table 4.15 Time taken by RBZ

Table 4.16 Confidence in the intergrity of the banking sector

Table 4.17 Confidence in the competence and intergrity of executive officers

Table 4.18 Impact of mobile banking

Table 4.19 Tests of Normality

Table 4.20 KMO and Bartlett's Test

Table 4.21 Total Variance Explained

Table 4.22 Rotated Component Matrix^a

Table 4.23 Nonparametric Correlations

Table 4.24 Model Summary

Table 4.25 ANOVA

Table 4.26 Coefficients

Abbreviations

BAZ - Bankers Association of Zimbabwe

BIS - Bank for International Settlements

DPC - Deposit Protection Corporation

EIB - European Investment Bank

FDI - Foreign Direct Investments

FSB - Financial Stability Board

GDP - Gross Domestic Product

IADI - International Association of Deposit Insurers

IMF - International Monetary Fund

NPL - Non-performing loans

OECD - Organisation for Economic Co-operation and Development

RBZ - Reserve Bank of Zimbabwe

UN - United Nations

WB - World Bank

ZABG - Zimbabwe Allied Banking Group

ZimStats - Zimbabwe National Statistics Agency

CHAPTER ONE

BACKGROUND OF STUDY

1.1 Introduction

Public confidence is the belief that the public can have faith in or rely on ‘something or someone.’ In this case that ‘something or someone’ is the banking sector as well as its stakeholders (Bikker, 2010). According to Donovan (2012) public confidence in the banking sector could be defined as a feeling of self-assurance arising from an appreciation of their bank's own abilities to deliver when required whilst Bateman (2010) believes that public confidence in the banking sector is the belief or trust the public have in their banks or the banking sector as well as in the ability of the institutions and systems in the sector to act in a proper, trustworthy, or reliable manner. On the other hand the term stability is viewed by Dailami and Masson (2009) as the state in which a bank is well-balanced and not likely to fail, liable to collapse, overturn, and deteriorate in performance. In summation they state that stability in the banking sector is a situation when banks are recording favourable performances and there are no controversial bank closures, collapses or scandals in the sector. Bankscope (2010) posits that the smooth operation of the financial sector is strengthened through building stability and public confidence in the financial system. According to Donovan (2012) instability and lack of confidence in the financial sector has resulted in the public failing or under-utilising the services of the banking sector. As an overview, the chapter spells out clearly the background of study, statement of the problem, objectives of the study, research questions, research hypothesis, justification of the study, scope of the study, limitations of the study and organisation of the study.

1.2 Background to the Study

1.2.1 The global banking industry

In 2014, the global banking industry was confronted with huge operating pressure as a result of the weak recovery of the world economy, and the operating results varied in different countries. The banking industry in USA, UK and China performed well, while that in the Euro Zone and Japan remained sluggish (Bank of China, 2015). According to McKinsey (2014), the global

banking industry in 2014 continued on the road back from the trauma of the financial crisis. The industry's return on equity improved to 9.5% in 2013 and 9.9% in 2014 which was close to the long-term average cost of equity of 11% to 12%. North American banks led the way with a return of earnings (ROE) of 9.9% in 2014. In China and many emerging markets, performance slowed but remained vigorous. Western European banks were mired in a weak economy and their ROE in 2013 was 2%.

Profitability of the banking sector witnessed a moderate growth of 4.6% during 2011–12 largely boosted by the emerging economies while the profitability of European banks continued to be negatively affected by the Eurozone crisis (World Bank., 2014). World Bank further note that the financial crisis severely affected the asset and profitability growth of the global banking sector, which started to rebound during 2009 and 2010. However, European Investment Bank (EIB) (2013) notes that during 2011-12 the growth tapered to 4.9% due to the Eurozone crisis, and this was to some degree offset by the growth of assets in the Asia-Pacific and Latin American regions. Bateman (2010) adds that in 2012, banks were affected by the strong economic headwinds, heightened regulatory pressure, persistently high cost structures, and low customer trust and confidence. He also highlights that market volatility and Eurozone debt concerns continued to impact the underperforming European banking sector. Furthermore, Caprio (2013) highlights that imposition of higher risk management standards, curtailment of proprietary trading activities, heightened scrutiny of business models, imposition of more stringent capital adequacy reforms, and increased reporting requirements adversely affected the profitability and growth prospects of the banking industry.

The domestic credit provided by the financial sector per region is shown in Table 1.1 with OECD countries providing the highest at 208% of GDP while Middle East and North Africa provided the lowest at 32%.

Table 1.1: Domestic credit provided by the financial sector as a % of GDP

REGION	Domestic credit as a % of GDP
Euro	148.1
East Asia and Pacific	149.7
Middle East and North Africa	31.6
OECD	207.8
Sub-Saharan Africa	66.4
World	171.4

Source: World Bank, 2013

According to the Global Findex Report (2013), more than 2.5 billion adults who constitute about half of the world's adult population do not have a bank account. Although some of these people show no demand for accounts, most are excluded because of barriers such as cost, travel distance, and amount of paperwork.

1.2.2 The Banking industry in Africa

Positive economic developments were occurring in Sub-Saharan Africa while financial and banking systems remain underdeveloped. According to Bankscope (2010) the banking systems in the region were characterized with high concentration and general inefficient financial intermediation. Bankscope also add that this was attributed to the small size and low intermediation that limits competition despite low barriers to entry and exit that have resulted in the dominant market share of foreign banks. Access to finance in sub-Saharan Africa presented one of the key obstacles to economic activity and growth of enterprises and was among the lowest globally (World Bank, 2014).

The African banking industry was booming boosted by the continent's economic growth with GDP of 4.9% in 2013 and high profitability levels ranging from 9.3% in Northern Africa to 28.3% in Central Africa (Bankscope, 2010). Bank penetration rates were 18% in Sub-Saharan Africa and this compared to 28% in Latin America, 44% in Europe and Central Asia, 27% in East Asia and Pacific and 24% in Middle East and Northern Africa (EIB, 2013). The average bank concentration was 71.9% in Africa, 66.5% in Latin America and the Caribbean, 60.5% in Asia, 59.5% in Europe, 68.7% in Oceania and 36.3% in North America (World Bank, 2010).

The on-going structural changes in the banking sector, such as the emergence of mobile and agency banking as well as Pan-African banking groups, have a great potential to transform the

existing business models, improve competition and efficiency, as well as access to finance and financial inclusion.

1.2.3 Banking Sector in Zimbabwe

Mambondiani (2013) observes that at independence in 1980, the Zimbabwean banking sector was dominated by foreign-owned banks until 1991 when the Economic Structural Adjustment Programme (ESAP) prescribed by IMF opened the financial sector in an attempt to promote financial development in particular and economic growth in general. Indigenous owned banks were licensed, and the first indigenous commercial bank was opened in 1997 (Mumvuma, 2003). This development led to the doubling of the number of banking institutions by 2002.

Political connections became the determinant in issuing banking licences and was viewed as an avenue for wealth accumulation for the well-heeled and elite blacks (Chikukwa, 2004). The newly-licensed indigenous banks were structured such that there was ownership concentration, with the founders and their families being the controlling shareholders and represented at the board of directors' level and top management (Mumvuma, 2003). Hyperinflation afflicted the Zimbabwean economy from the late 1990s to the 2000s, resulting in declining savings from depositors and pressured many banks to explore other means for survival. The downside was that the banks were not closely and adequately supervised with banks alleged to have used the funds to invest in speculative and non-core activities and even, in some cases, to support daily transactions (RBZ, 2003).

A temporary suspension of the lender of last resort function by the RBZ in December 2003 placed a number of banks into a liquidity crisis which led to the collapse of 13 banking institutions (all of which were indigenous and were beneficiaries of the financial liberalisation from 1991). The banking sector was placed under the Presidential powers Act and many bank owners and managers were accused of or arrested for frauds and abuse of depositors' money. Some of the bank owners fled to other countries in fear of arrest (Mambondiani, 2013). The financial instability and turmoil in the banking sector led to a review of the regulatory regime and significant amendments to the laws governing the financial sector were made (Makoni, 2010). The enactment of the Troubled Financial Institutions Resolution Act (2004) forced seven

of the 13 collapsed banks to be placed under curatorship, one under liquidation, one closed, and the other four under the Troubled Bank Fund. RBZ (2015) attributes the collapse of the distressed banks down to greed on the part of owner managers and other related corporate governance issues.

However, Mambondiani (2013) believes that the central bank played a major role in the collapse of the distressed banks. He believes that the Reserve Bank of Zimbabwe as well as the Ministry of Finance were slow in responding to issues of market conduct and protecting banking customers from the irrational behavior of bank executives that scared away many from the financial system and drove the Zimbabwean economy to a more basic one dependent on cash-based transactions. Furthermore, he also believes that the central bank also played a major hand in the failure to address and manage the issues brought about by the country's economic and financial environment which include hyperinflation, dollarization, high bank charges and policy reactions. World Investment Report (2014) highlights that hyperinflation in Zimbabwe culminated in the loss of hundred years of savings. The report also adds that after dollarization, Zimbabweans lost their life time savings and the murky conversion of pensions and life assurance investments into US dollars has remained unresolved. Additionally, Mambondiani (2013) adds that the high bank charges together with zero interest rates on positive balances in bank accounts and high punitive interest rates on loans and overdraft ranging from 12% to 30% further exacerbated confidence in the banking sector. He believes that all these issues could have been addressed if the RBZ together with Ministry of Finance and the government as a whole had been diligent enough and worked together instead of politicizing the situation.

1.2.3.1 Liquidity problems in Zimbabwe

According to RBZ (2014) liquidity challenges continue to persist, with low volumes of deposits which were \$5.6 billion in December, 2015 from \$5 billion in December, 2014 and their transient form militates against the intermediary role of the financial sector. The situation is compounded by the lack of the lender of last resort function by the central bank which is a necessary safety net for banks as they trade their positions (Bloch, 2014). The major sources of funds in Zimbabwe in the absence of printing money include export revenues, foreign direct investments, foreign aid and remittances from the Diaspora. Export revenues have been subdued

due to lack of competitiveness and export capacity whilst imports have exceeded export revenues by more than 50 percent, leaving the country with the barest of foreign exchange reserves, and this affected money supply (RBZ, 2014).

World Bank (2014) reports that Foreign Direct Investment inflows into Zimbabwe plummeted since the beginning of the new millennium due to the perceived country risk with a mere 1.1 percent of Gross Domestic Product recorded in 2012 declining from the 20 percent levels in the mid-1990s. The drought of FDIs exacerbated the liquidity challenges. RBZ (2014) reports that Zimbabwe last received foreign aid from multilateral institutions in the late 1990s and lately it has been humanitarian aid only. The external debt around US\$9 billion rendered Zimbabwe an unattractive destination for international finance (World Bank, 2014). All these deficiencies led to the chronic liquidity challenges facing the country and consequently the banking sector.

Zimbabwe attracted foreign investments worth \$400 million in 2013, compared to \$1.7 billion for Zambia and \$5.9 billion for Mozambique. Investment levels remained subdued with only few firms investing at very low levels (World Bank, 2014)). Due to almost 17 years of economic erosion and the demonetisation of the local currency very few Zimbabweans had resources for investment, and the indigenisation mantra meant that an investment-stimulated economic upturn did not materialize with consequent impact on the banking sector (Bloch, 2014).

1.2.3.2 Competitors in the Financial Services Industry

Banks face competition with the emergence of mobile money transfer services (MMTS) which pose a serious threat to their survival. According to RBZ (2014) the total value of card based transactions increased by 5.2% to US\$399 million in May 2014, from US\$379 million in April 2014. They further report that the value of mobile and internet based transactions also increased by 19%, from US\$360 million in April 2014 to US\$429 million in May 2014 as mobile networks push innovations to drive their products.

The launch of mobile money services by Econet, Telecel and NetOne increased the number of people with access to banking services significantly and banking was made reachable. The emergence of Mobile money transfer services (MMTS) now poses a threat to the survival of

already struggling banks in a tough and illiquid market. Mobile money transfer services have not yet replaced commercial banks' roles of lending money and international payment but they have displaced the money transmission role to some extent. Mobile money transfer services can displace current roles of banking in certain markets because of the existence of the unbanked community. Mambondiani (2013) believes that in terms of deposits, banks will be a preferred choice for bulk deposits since agents have a limit that one can put in a wallet. However, he adds that MMTS have done better to promote financial inclusion and their establishment is a response to a need.

Banks' costs include rentals, furniture, software and staffing. A small branch in the Harare central business district costs in excess of US\$5,000 per month in rentals alone (RBZ, 2014). It is manned by no less than seven employees. Compared to the costs incurred by an agent who needs space for a desk and a chair in a clothing shop then the challenge is on banks to get rid of unnecessary, expensive structures which make the cost of financial services expensive to customers.

According to RBZ (2014) the response to EcoCash has been phenomenal and subscribers grew to 3.5 million with over 10 000 agents countrywide by 2014. Steward Bank reached one million customers, as a direct result of customers signing up for EcoCash Save, one of the products on the EcoCash platform. Steward Bank, has become the largest bank in the country in terms of customer numbers within a very short space of time. This shows the impact of mobile money with many of these customers not having a bank account previously. There is also an increase in the number of companies using the EcoCash payroll as well.

1.2.3.3 Low Deposit Levels and Savings in Zimbabwean Banks

Table 1.2 shows that deposits increased from \$1.4 billion in 2009 to \$5.1 billion in 2014 while the deposit to GDP increased from 23% in 2009 to 36% in 2014 which indicated that deposits in Zimbabwe were low.

Table 1.2: Deposits as a Percentage of GDP

YEAR	2009	2010	2011	2012	2013	2014
GDP (billion)	6.1	7.4	11.0	12.4	13.5	14.2
DEPOSITS (billion)	1.4	2.6	3.4	4.4	4.7	5.1
DEPOSITS/ GDP RATIO	23%	35%	31%	35%	35%	36%

Source: RBZ and MMC, (2014)

According to World Bank (2014) GDP is the total value of goods and/or services produced in a country over a period of time calculated in three ways, that is, by summing the value of all the goods and services produced, by adding up the expenditure on goods and services at the time of sale, or by adding up producers' incomes from the sale of goods or services. However, GDP only show the value of the goods and services in the formal sector (Caprio, 2013).

A 2013 survey by the Zimbabwe National Statistics Agency (Zimstats) show that 40% of adults do not use any financial products and they turn to family and friends when they want to borrow and if they opt to save, they do so at home. Therefore a large percentage of the population has no access to financial services. Furthermore, RBZ (2015) estimates that the money outside the banking system ranges from \$2.5 billion to \$7 billion. In addition, Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) (2015) reports that the country's informal sector remains largely unbanked with only 23.8% of players in the sector under the economic bracket with bank accounts and only half of them using their banks regularly for transactions. According to Block (2014) the estimates of large volumes of money outside the banking sector is indicative of lack of public confidence in the banking sector and contributes to financial instability which is detrimental to their performance.

RBZ (2014) also cites that lack of confidence in the financial sector is one of the reasons why people were not saving. They further add that a culture of saving is necessary to give confidence to foreigners that want to provide help through FDI and savings play a crucial role in the accumulation of capital and help to determine future economic growth. Sanderson (2014) states that a low personal savings rate causes national savings to be insufficient to support the level of investment necessary to sustain a high level of long-run economic growth without excessive dependence on foreign capital.

According to Mambondiani (2013) the economic meltdown in Zimbabwe that led to dollarization in 2009 has proven to the public that keeping money under the mattress is more rational than entrusting their savings to the banks. RBZ (2014) also notes that this lack of confidence in the Zimbabwean banking sector has not been limited to the domestic market only but has also impacted international banks willing to do business in Zimbabwe as shown in the high risk premium demanded for short-term funds. They further add that the most dramatic dent in confidence occurred with the spectacular collapse of indigenous banks. This decline in confidence has not been dramatic and sudden but has gradually built up over a period of time. The World Economic Forum Competitive Survey, 2014-15 ranks Zimbabwean banks 136 of 144 banking sectors in the world in terms of soundness.

1.2.3.4 Current performance of the banking sector

The banking sector performance is highlighted by analysing the individual banks' total assets, profits in terms of market share and relevant ratios. Table 1.3 shows the individual banks' total assets and the return on assets ratio.

Table 1.3: Individual Banks Assets and Return on assets ratio at 31st December, 2013

Bank	Bank Assets (millions)	%age of Total Assets	Profit after Tax (millions)	Return on Assets (%)
CBZ	1,427.83	25.04	17.52	1
CABS	623.31	10.03	18.15	3
BancABC	527.15	9.24	14.20	3
Stanbic	475.03	8.33	18.30	4
Stanchart	424.80	7.45	9.63	2
FBC	322.96	5.66	5.54	2
Barclays	307.81	5.39	2.95	1
NMB	259.48	4.55	-3.32	-1
ZB	257.38	4.51	0.81	0.3
MBCA	179.69	3.15	4.04	2
Metbank	169.02	2.96	-1.79	-1
Ecobank	127.07	2.22	1.36	1
Steward	126.61	2.22	N/A	N/A
Agribank	123.89	2.17	-9.27	-7
AfrAsia	108.31	1.89	-16.20	N/A
POSB	89.99	1.57	-0.21	-0.2
FBC BS	78.93	1.38	7.07	10
ZB BS	36.78	0.64	1.95	5
Allied	34.82	0.61	-3.15	-8
Total	5,465.92	100	83.80	1

Source: Bank Financial Statements, RBZ and MMC (2013)

Table 1.3 shows that 6 banks made losses as well as recording negative percentage return on assets in 2013 which are signs of extreme poor performance. Furthermore, of the 13 banks that made a profit only 7 banks had a profit of more than \$5 million. However, one of those banks had a double digit percentage return on assets whilst the rest were all less than 5%. This implies that 32% of banks in the banking sector made losses and had negative returns on assets, whilst 32% of the banks in the banking sector made profits above \$5 million even though only one of them had a Return on Assets which was more than 5%. Therefore, this means that the remaining 36% of the banks in Zimbabwe's banking sector are struggling as they have recorded very low profits and Return on Assets.

1.2.3.5 Banking sector architecture

The Zimbabwean banking architecture in 2012, had twenty-five (25) operating banking institutions made up of eighteen (18) commercial banks, two (2) merchant banks, one (1) savings bank, four (4) building societies, sixteen (16) asset management companies and one hundred and

seventy two (172) microfinance institutions. Whilst in 2013 they now only comprised twenty (20) operating banking institutions made up of fifteen (15) commercial banks, one (1) merchant bank, one (1) savings bank and three (3) building societies and this mixes with one hundred and fifty-six (156) microfinance institutions. However, in 2014 the banking sector had further decreased to nineteen (19) which included fourteen (14) commercial banks, one (1) merchant bank, one (1) savings bank and three (3) building societies as well as one hundred and fifty-six (156) microfinance institutions. This shows that since 2012 to 2014 the Zimbabwean banking sector has lost four (4) commercial banks, one (1) merchant bank and one (1) building society which in total are six (6) banking institutions as well as thirty-two (32) asset management and microfinance institutions. Furthermore, RBZ (2014) highlights that there were six banks which they were assessing which were in danger of collapse as their performance was poor and they were also facing difficulties in raising the new minimum capital requirements.

1.2.3.6 Agency Theory

Agency problems in banks arise from the fact that depositors cannot accurately determine the financial position of banks due to the asymmetry of information that exists between banks and depositors (Lim and Pommerenke, 2012). Banks possess private data on their borrowers, which depositors cannot access and this exposes depositors to risk of loss of deposits in the event of bank failures that can emanate from inability to settle such loans. This asymmetry of information exposes banks to runs by depositors which can lead to bank failures with far-reaching consequences for the financial system and the entire economy. This is the reason why banks are regulated and supervised more than other institutions (Ngaujake, 2004).

1.2.3.7 Bank Failures in Zimbabwe

Five banks were placed under curatorship in 2006 with two of the institutions, Intermarket Holdings and CFX Holdings restructured and successfully resuscitated (RBZ, 2014). The RBZ report further states that Sagit Finance and Time Bank had their licences cancelled and were placed under liquidation in 2006. The curators of Trust Bank, Barbican Bank and Royal Bank sold their assets and liabilities to Zimbabwe Allied Banking Corporation (ZABG). These three banks were later given their licences back but Barbican failed to meet the 2012 deadline for recapitalization and resumption of banking business and the licence was cancelled (RBZ, 2014).

Royal Bank surrendered its licence in 2012 and was placed under liquidation while the licence of Trust was cancelled in 2013 and was also placed under liquidation. Genesis Bank surrendered its licence in 2012 after failing to meet the minimum capital requirements and was placed under liquidation. Renaissance Merchant Bank, later called Capital Bank was placed under liquidation in 2013. Trust Bank was placed under Liquidation in 2015. Interfin Bank was placed under liquidation in 2015 after the expiry of the curatorship period. Allied Bank voluntarily surrendered the banking licence in 2015 and was placed under liquidation. AfrAsia Bank also voluntarily surrendered the banking licence in 2015 and was placed under liquidation.

Bank failures in the Zimbabwean banking sector indicate that there are challenges in the industry that warrant further scrutiny. The overall performance of the Zimbabwean banking sector is poor and unsatisfactory and as a result this study seeks to assess whether the current level of public confidence has had an impact on the performance of banks in Zimbabwe.

1.3 Statement of the Problem

The banking sector has been blighted by poor corporate governance practices as well as delayed reactions by the central bank in addressing these challenges and this has contributed to Zimbabwe experiencing a chain of bank collapses since 2004 which has not gone away with the latest bank closures in 2013, 2014 and 2015 leading to the loss of deposits and savings of the banking public. Compounded with the high bank charges exhibited in the sector and the emergence of cheaper and more vibrant financial alternatives in the form of MMTS there has been underutilization of banking services as well as public skepticism of the banking sector. The majority of the public has preferred to keep their cash at home, creating the short-term transitory nature of bank deposits and low savings.

On the other hand, the performance of the banking sector has been unsatisfactory as a third of the banks have recorded losses and are facing a danger of collapsing, whilst an additional third have been barely making ends meet which only means that only a third of the banking sector are currently safe. Furthermore, the sector is hampered by acute illiquidity as there is a shortage of financial investments, either foreign or local direct investment, needed by banks to perform favourably.

If these issues are not addressed this could cause the closure of more banks endangering the stability of the sector and the country as a whole. Therefore, the problem which this study wants to address is whether public confidence in the banking sector has had an impact in the poor performance of the banking sector and if the factors determining public confidence in the banking sector were addressed would it also improve the performance of the banking sector so as to guard against the collapse of the banking industry.

1.4 Purpose of the Study

The purpose of the study was to assess the factors that affect public confidence in the stability and performance of banks in Zimbabwe's banking sector and covered the period from 2009 to 2015.

1.5 Research Objectives

The objectives of the study were:

- i. To determine the level of public confidence in Zimbabwe's banking sector.
- ii. To identify the factors that contribute to public confidence in Zimbabwe's banking sector.
- iii. To assess the strength and capability of measures used to enhance public confidence in Zimbabwe's banking sector.
- iv. To recommend ways in which public confidence in Zimbabwe's banking sector can be enhanced.

1.6 Research Questions

The study proceeded on the basis of the following research questions.

- i. What is the general level of confidence in Zimbabwe's banking sector?
- ii. What factors determine public confidence in Zimbabwe's banking sector?
- iii. To what extent do the current measures contribute effectively to public confidence in Zimbabwe's banking sector?

- iv. What measures can be implemented by the Zimbabwean banking sector to improve public confidence?

1.7 Research hypothesis

The researcher proposes the following hypotheses for this study which he believes shall address the objectives and the purpose of this study. The study will either accept or reject each of these hypotheses.

H₀ Public confidence has no significant impact on the performance of banks in Zimbabwe

H₁ Public confidence has got a significant impact on the performance of banks in Zimbabwe

1.8 Significance of the Study

Academic research in areas related to public confidence and performance is limited in Zimbabwe and this research and recommendations thereof are expected to increase focus from the academic world on practical issues that really affect the operations of the economy in general and specific sectors such as the Banking sector. As an MBA student, I am already a practising manager and contributing in research of this nature is likely to inculcate a research based approach to problem solving which is essential as one moves up the corporate ladder while others might extend the scope of the research by increasing the variables under consideration and make it more realistic in future researches.

Studies are needed to achieve better understanding of the financial sector environment in order to inform policy to ensure public confidence and financial stability in Zimbabwe. In addition to the significance from the academic perspective as outlined above, there are also significant practical benefits to be derived from this research and its findings. The research is going to demystify the myth concerning the effect of public confidence and financial stability on banks in the financial sector and provide solutions and effective measures to solve the problem of public confidence and financial stability. The research will also determine whether there is a causal link between public confidence and financial stability and the performance of banks in Zimbabwe. The recommendations shall open debate concerning the effect of public confidence and financial stability on banks in the financial sector.

In summary, the research is of both academic and practical significance to governments, researchers and technocrats as it will provide a new focus for researchers while providing practical solutions to the effect of public confidence and financial stability in the performance of banks.

1.9 Scope of Study

The period under consideration in this study was from 2009 to 2015. The study examined all the banks in Zimbabwe and only covered branches of banks located in Harare.

1.10 Dissertation Outline

This dissertation project contains five chapters with chapter one providing an introduction, background to the study, statement of the problem, purpose of the study, objectives, questions and hypotheses, significance of the study, and scope of study. Chapter two provides the literature review while chapter three which is the research design and methodology describes the research design, population and sample, data collection methods, research instruments, validity, reliability, ethical issues and timeframes. Chapter four develops the collection, analysis and presentation of data with chapter five concluding and making recommendations.

1.11 Chapter Summary

Chapter one provided the global, African and Zimbabwean banking sector and economic overview and background knowledge on the banking sector with focus on the past, present and future state of the Zimbabwean banking sector. This chapter also gave the purpose of the study as the need to determine the critical factors affecting public confidence and their relevance to financial sector stability and bank performance. The importance and necessity of this study was that the study will make significant contributions to academia, business and banking in particular, and to policy makers. The focus of the study was the Zimbabwean banking sector and questionnaires were used to gather data from the banking population.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents an understanding of past research to identify the variables that impact on public confidence and financial stability and to determine the measures that can be implemented to improve bank performance. Theoretical and empirical authoritative studies have been reviewed on public confidence, bank performance and financial stability by the Bank of International Settlements (BIS), International Association of Deposit Insurers (IADI), International Monetary Fund (IMF), Financial Stability Board (FSB), World Bank (WB), Central Banks, academicians and practitioners. This review focuses on three major themes which emerge prominently throughout the literature review. These themes are: public confidence; financial stability and bank performance and their importance to the banking sector are that they allow banks to survive and operate effectively. Although the literature presents these themes in a variety of contexts, this study will primarily focus on their application to the banking sector in Zimbabwe and the literature review will commence with a review of the causes of loss of public confidence in the banking sector.

2.2 Causes of Loss of Public Confidence in the Banking Sector

According to Springford (2011) the two components essential for confidence are trust and certainty. Trust creates an obligation on both the bank and the customer while certainty means that the nature of the beneficiaries must be clear. Three certainties must be satisfied to create a valid trust and these are certainties of intention, subject and objects of the matter. Springford (2011) further provides that the three types of trust that matter if financial markets are to operate smoothly are between consumers and their agents, between consumers and intermediaries, and between consumers and the market, regulated to protect their interests. First, the consumer needs agent trust: that is, trust that the provider will guard and increase the value of savings or provide the financial service when needed in the future, consistent with the terms the consumer agreed to when signing up. Second, consumers need trustworthy information to make choices, where product quality is not objectively verifiable. Third, they need market trust. They need to trust the

marketplace to offer them a choice of agents who will act in consumers' interests or else they will not seek out financial products. There is a range of reasons why consumers might distrust banks, but a necessary condition for trust more broadly is that consumers believe that banks will fulfill their primary role of looking after their money (Smith, 2011).

Tonkiss (2009) examines the role of trust and confidence in economic life, and their relevance to the banking financial crisis. The study outlines the relationship between social trust and economic prosperity and further differentiates the informal and social bases of trust from three significant formal mechanisms of economic confidence (information, contract, regulation), linking this distinction to Keynes' discussion of the "animal spirits" that animate economic behaviour. According to Ugwuanyi and Amanze (2014), loss of public confidence in the banking system occurs when a bank or some banks in the system experience illiquidity or insolvency resulting in a situation where depositors fear the loss of their deposits and a consequent break down of contractual obligations that results in runs on the bank. Ankrah (2012) adds that confidence is regained when banks are perceived to be well capitalized, customers can withdraw their funds without restrictions and bank charges are not too high. Duch and Kellstedt (2011) note that recent studies on consumer confidence in the US provided insight into the political and economic forces that led into its dynamics. The financial crisis, however, showed that the world economy is an increasingly interdependent environment. The results show that consumer confidence has varies in Canada, France, Germany and UK.

Brand (2012) asserts that consumer confidence is a psychological concept which is difficult to measure. It is an expression of the opinions and attitudes of consumers about the current and future strength of the economy. He adds that it is an economic indicator for forecasting household consumption expenditure, consumer behavior in general and the country's economic situation and that consumer confidence indices formed by using the consumer survey data can provide a fairly accurate prediction of consumers' economic behavior. Dailami and Masson (2009), argue that the financial crisis highlighted the danger that declines in confidence can have a self-fulfilling effect on economic activity. In their study, they consider ways of measuring investor and consumer confidence, and try to explain the evolution of confidence using measures of financial volatility, investment performance, macroeconomic outcomes, and policy actions.

The study determine a link between investor and consumer confidence and also suggest that liquidity provision and easing of interest rates has only a limited effect on financial market spreads during crisis, arguing for additional measures to address the loss of confidence. The study by Kabanda, Brown, Nyamakura and Keshav (2010), analyses whether South African banks that subscribe to the Electronic Communications and Transactions (ECT) Act comply with the principles relating to the protection of a consumer's personal information. The results show that some banks only complied with a few of the ECT Act principles, which, undermines the levels of trust between banks and their consumers. Sir Mervyn King, Governor of the Bank of England (2012) envisaged that the single most important commodity traded in the City of London is confidence. The public, bankers and the markets need to believe that the UK will continue to be a global financial centre. They must have trust in the quality, ethics and skills of its bankers and they must believe in the wisdom and careful regulation of its government. Without confidence, it will be impossible to achieve the “twin challenges of engineering a recovery and reforming the financial system”. According to Garner (2002), the effects of business confidence are hard to measure but regular surveys of households make it easier to assess the effects of consumer confidence.

Ernst and Young (2014) conducted a global consumer banking survey which asserts that trust and confidence in the banking sector is underpinned by customer experience, fees and rates, financial stability and the media. Changes in consumer confidence are driven by banking scandals. European Investment Bank (EIB) (2013) also adds that the public, bankers and markets need to believe in the regulation, monitoring and supervision of banks and the management and ethics of the same banks must improve. Ergungor and Thomson (2005) identify some common factors to all systemic crises that weaken banking systems as: herd behaviour by bankers; implicit government guarantees; and regulatory policies that do not encourage adequate risk management.

The literature reviewed indicates that the factors impacting public confidence in the banking sector and contributing to bank performance are in line with Ameer and Mhiri (2013) who listed them as:

- an effective deposit protection system;

- financial inclusion and customer expectations of financial services and products;
- effectiveness of bank monitoring, supervision and regulations; and
- good corporate governance and management.

2.2.1 Deposit Protection Effectiveness

Deposit insurance refers to an institutional arrangement implemented in order to protect bank depositors, in full or in part, from losses arising from bank failures, which results in banks' inability to pay debts or obligations when they fall due. The International Association of Deposit Insurers (IADI), (2011) states that deposit insurance provides a formal or informal mechanism for handling bank failures, with the main objective of protecting smaller, less sophisticated depositors from incurring financial losses in the event of bank failure. Deposit insurance systems (DIS), are one component of the banking and financial system's "safety net" which seeks to promote banking sector stability and build confidence (Safakali and Guryay, 2010). Deposit insurance seeks to avoid bank runs, and the contagion effect on surviving, viable banks, stopping disruptions to national banking and payments systems. Deposit insurance ascribes to the public interest theory, which states that outcomes of regulation are reflective of general or public interest, and serve these interests (Makina, 2012).

Moise and Illie (2012) highlight that in order to increase depositor confidence in the banking system, the level of coverage should be increased and waiting time to obtain compensation for held deposits reduced. During a financial crisis, the negative effects of adverse selection and moral hazard can be partially mitigated by measures to strengthen banking regulation and supervision. Cariboni, Joossens and Uboldi (2010) found that most of the European Deposit Protection Schemes are capable of facing the failure of a non-systemic bank, but in a critical period, such as the financial crisis of 2008, they could face problems in adequately fulfilling their consumer protection role.

Khundadze (2009) argues that, if carefully and properly designed, a deposit insurance scheme can facilitate additional economic stability. The study proposes that perfect implementation of the scheme needs careful design in terms of institutional, cultural, historical and legal issues,

coverage limit, insurance fund and premium to be technically set, banking supervision and regulation, prevention of excessive risk-taking by banks, higher capital requirements, supervisions and examinations of banks' public awareness. Momirovic, Simonović and Milisavljević (2010) identify the proposals on weaknesses of savings deposit protection systems as meant to minimise the impact of moral hazard, adverse selection and principal-agent. Micajkova (2013) observes the three main changes required for the design features of deposit insurance systems in light of the 2008/9 global crisis as raising of the maximum level of deposit insurance coverage, elimination of coinsurance and changes in the speed of depositor's payout. Ademola, Olusegun and Kehinde (2013) find the increase in deposit guarantee in Nigeria has had a profound increase in deposit mobilisation and that the Nigeria Deposit Insurance Corporation has moved from the flat rate premium assessment system to a differential premium assessment system. The recommendation is that from time to time, the deposit cover should be reviewed in conformity with the changes in the economy.

2.2.2 Effectiveness of Regulatory Structures, Monitoring and Bank Supervision

Although the terms bank supervision and bank regulation are often used inter-changeably, they actually refer to distinct, but complementary, activities (Caprio, 2013). According to EIB (2013) bank supervision involves the monitoring, inspecting, and examining of banking organisations to assess their condition and their compliance with relevant laws and regulations. In addition, Caprio (2013) states that when a banking organisation is found to be non-compliant or to have other problems, the regulatory authority may use its supervisory authority to take formal or informal action to have the organisation correct the problem. Bank regulation entails issuing specific regulations and guidelines governing the operations, activities and acquisitions of banking organisations (RBZ, 2014). According to Brand (2012) monitoring can be defined as a continuing function that aims primarily to provide the management and main stakeholders of an ongoing intervention with early indications of progress, or lack thereof, in the achievement of results. Furthermore, Donovan (2012) posits that monitoring helps the regulatory authority to track achievements by a regular collection of information to assist timely decision-making, ensure accountability, and provide the basis for evaluation and learning. He also adds that monitoring can be on-site or off-site.

The objectives of a regulatory system is protecting the safety and soundness of financial markets and making them attractive to local and international market participants. Regulations continue to evolve and create an ever-tightening regulatory environment for the banking industry (McKinsey, 2013). Alam (2012) suggests that regulations and strict monitoring of banking operation, and higher supervisory power of the authorities, increase the technical efficiency for Islamic banks but decreases conventional banks efficiency and that higher restrictions reduce risk taking of Islamic banks while increasing risk taking of conventional banks. Islamic banks are better prepared towards the implementation of Basel III guidelines compared to their conventional banks. Pan (2011) proposes the application of objectives-based regulation and consolidation of regulatory authority in the hands of the national government through: coordination and information sharing among regulatory agencies; active participation by the national regulator in multilateral and bilateral negotiations with foreign regulators; and additional resources for enforcement and supervision. Nowak (2011) argues that the current tier capital ratio appears to show an effective measure of bank failures in contrast to two newly modelled measures which are the common equity ratio and the net stable funding ratio.

Barth (2013) finds that a strengthening of official supervisory power is positively associated with bank efficiency only in countries with independent supervisory authorities. Moreover, independence coupled with a more experienced supervisory authority tends to enhance bank efficiency. Market-based monitoring of banks in terms of more financial transparency is positively associated with bank efficiency. Caprio (2013) proposes a re-start of the process that has been organised by the Basel Committee on Bank Supervision because the flaws of the Basel framework are fundamental, in its neglect of the endogeneity of risk to the regulatory structure, and of the dynamic nature of finance, and thus of its regulation as well. He made recommendations for the abandonment of risk weights and the adoption of a simple leverage rule. He adds that a different approach is urged that focuses on the oversight and accountability of regulators and greater transparency, both of banks and of the regulatory process.

Blundell-Wignall and Atkinson (2010) argue that the main hallmark of the financial crisis are too-big-to-fail institutions that took on too much risk, insolvency arising from contagion and counterparty risk, the lack of regulatory and supervisory integration, and the lack of efficient

resolution regimes. Owojori, Akintoye, Adidu (2011) provide steps in risk management practices to preserve the banking system and sustain its impact on the Nigerian fragile economy. The study provides a better understanding and appreciation of risks facing the institution, adequate legal and institutional framework that facilitate consolidation and risk management, need for a comprehensive insolvency/bankruptcy law that is effective, seamless credit information sharing amongst banks, increased monitoring of the banks, re-training for supervisors and bank examiners on the new requirements of risk management, and amendments to existing banking legislation, supervisory policies and guidelines. Chiwira, Tadu and Muyambiri (2013) assert that an effective financial regulatory framework plays a critical role in ensuring the stability of financial systems. The study observes that financial regulation overrides an intermediary role in mitigating some of the risks that financial inclusion may pose to the financial system. A regulatory mechanism that ensures that financial inclusion leads to financial stability includes regulation biased consumer protection, financial literacy and financial integrity.

2.2.3 Impact of Corporate Governance and Management on Confidence building in Banks

Bateman (2010) argues that public confidence is the cornerstone of a stable banking system and because of a bank's special position of trust in the national economy, corporate governance is a matter of paramount importance. The management of a banking institution must exhibit impeccable integrity and professionalism in their conduct so as to engender public confidence in the safety of their deposits (Chowdhury, 2009). Banks are highly leveraged institutions, with most of their funds coming from depositors and creditors. Akim (2012) adds that increasing globalisation of financial markets, emergence of conglomerate structures, technological advances and innovations in financial products have added to the complexity of risk management in the banking sector. For these reasons, the quality of corporate governance expected of banking institutions is high. Corporate governance refers to the processes and structures used to direct and manage the business and affairs of an institution with the objective of ensuring its safety and soundness and enhancing shareholder value (RBZ, 2004).

Berger, Imbierowicz and Rauch (2012) examine the roles of corporate governance in bank defaults during the financial crisis. The results show that defaults are strongly influenced by a bank's ownership structure, and high shareholdings of lower-level management, such as vice

presidents, significantly increase default risk while shareholdings of outside directors and chief officers do not have a direct effect on the probability of failure. Some accounting variables, such as capital, earnings, and non-performing loans, also help predict bank default. Berger (2012) also found that the other potential stability indicators, such as the management structure of the bank, indicators of market competition, subprime mortgage risks, state economic conditions, and regulatory influences, seem to be less decisive factors in predicting bank default. Omankhanlen, Taiwo and Okorie (2013) examine the role of corporate governance in the growth of Nigerian Banks. The results indicate that the problems of corporate governance in the Nigerian banking sector include instability of board tenures, board squabbles, ownership crises, high level of insider dealings. The weaknesses in corporate governance are attributed to ineffective board oversight functions, disagreement between boards and management resulting in board squabbles, lack of experience on the part of the Board members and weak internal controls.

Sigurjonsson (2010) investigates a case study of the Icelandic banking collapse in 2008 to determine the intensity of the Icelandic banking crisis in relation to critical governance issues at governmental, industry and civil society levels. The results opine that achieving the required balance requires stressing governance issues at the government, industry and civil society levels and the government should strive for realistic information and evaluation of societal risks and implement adequate regulatory frameworks, the finance industry should have effective self-regulatory procedures and mechanisms, and the public at large should have realistic expectations and be adequately alerted as to the potential risks of governance failure. Blundell-Wignall, Atkinson and Hoon-Lee (2008) look at the change in the business model of banking, mixing credit with equity culture. When this model was combined with complex interactions from incentives emanating from macro policies, changes in regulations, taxation, and corporate governance, the financial crisis became the inevitable result. The case study by Nair and Fissaha (2010) shows the history and business model of the rural and community bank (RCB) in Ghana including performance and key issues. The results show that service delivery performance has been very good but financial performance has been mixed. Financial performance declined for a number of reasons including drought, weak governing ability, conflicts within boards of directors and ineffective management. Reforms undertaken to curb the deteriorating situation were limiting exposure to risky sectors like agriculture, closing distressed banks, strengthening

supervision by the Central bank, and training managers and boards of directors. The article by Oghojafora (2010) on corporate governance in the Nigerian Banking sector reiterates that a poor corporate governance culture and supervisory laxities were mainly responsible for the banking crises in Nigeria.

Mwakajumilo (2014) assesses the impact of non-performing assets on the growth of the banking industry in Tanzania with specific focus on NMB Bank. The results show that the impact of non-performing assets is caused by non-recovery of loans, and this tends to have a great impact on the economy and structures, loss of trust, reduced customer buying, legal issues, aggressive credit collection policy, and poor credit assessment. The article recommends that bank management have to provide training on loan management to their clients as well as their workers, review credit management policy to improve quality of assets, creation of manageable lending, and carrying out regular checks of the value and legal status of assets. Admati, Conti-Brown and Pfleiderer (2012) argue that an international debate continues to unfold in banking, corporate governance, and finance on whether the capital structure of the world's largest financial institutions is too heavily reliant on debt and too little on equity. The authors argue that there is no socially beneficial objective for this overdependence on debt, and that such dependence raises the specter of taxpayer bailouts with their associated economic, financial, and social costs. The study introduces a new kind of financial institution which is a liability holding company (LHC) expected to appropriately balance the social costs of excessive private leverage with the purported benefits for corporate governance that such leverage might yield.

Spendzharova (2009) analyses the explanatory power of multi-level governance in the case of international banking regulation. The findings are first, a constellation of public, private, and supranational actors governs the banking sector. Second, networks of international experts, rather than national civil servants, are instrumental in formulating and developing banking regulations. Third, independent regulatory agencies, rather than government ministries, monitor implementation and ensure compliance with banking regulations. The study by Gakure (2012) examines the credit risk management techniques on performance of unsecured bank loans by commercial banks in Kenya. The results were that the whole process of credit risk management that is risk identification, measurement, risk analysis and assessment, and risk monitoring

affected the performance of unsecured bank loans. They also observed that credit approval guidelines and monitoring of borrowers and a clear established process for approving new credits and extending the existing credits affect the performance of unsecured bank loans to a great extent.

Ameur and Mhiri (2013) investigate whether one can make judgments concerning the success of their competitive strategies and other managerial styles by using different profitability indicators, for banks operating in similar macroeconomic and financial development environments. The findings show a high degree of persistence of bank performance. The results also suggest that bank capitalization and best managerial efficiency have a positive and significant effect on bank performance. Private owned banks seem to be more profitable than state owned ones. Macroeconomic variables do not have a significant effect on bank performance except for inflation that seems to affect bank's net interest margin negatively. Hugill and Siege (2013) argue that scholars of corporate governance have debated the relative importance of country and firm characteristics in understanding corporate governance variation across emerging economies. They find that firm characteristics are as important as and often meaningfully more important than country characteristics in explaining governance ratings variance. These results suggest that, over recent years, firms in emerging economies had more capability to rise above home-country peer firms in corporate governance ratings than has been previously suggested.

The research by Tandelilin (2007) analyses the relationships between corporate governance, risk management, and bank performance in Indonesian banking sector by testing whether the type of ownership has moderating effect on these relationships, and whether ownership structure is a key determinant of corporate governance. The results show that the relationships between corporate governance and risk management, and between corporate governance and bank performance are sensitive to the type of bank ownership although, ownership structure shows partial support as a key determinant of corporate governance. Foreign-owned banks have better corporate governance regimes than have joint-venture banks, state-owned banks, and private domestic-owned banks. Foreign-owned banks also incorporate significant relationships between corporate governance and risk management. The findings also show that state-owned banks underperform the other types of bank ownership in implementing good corporate governance and that there is a

link between risk management and bank performance. Risk management has profound impact on bank performance. Ongore and Kusa (2013) investigate the moderating effect of ownership structure on bank performance. The results indicate that bank specific factors significantly affect the performance of commercial banks in Kenya, except for the liquidity variable. The impact of the overall effect of macroeconomic variables was inconclusive while the moderating role of ownership identity on the financial performance of commercial banks was insignificant. The conclusion is that the financial performance of commercial banks in Kenya is driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution.

According to Shannak (2013) the factors affecting public confidence in the banking sector identified are excessive risk-taking by banks, higher capital requirements, insolvency arising from contagion and counterparty risk, supervision and examination of banks, the lack of regulatory and supervisory integration, quality, ethics and skills of bankers, herd behavior by bankers, implicit government guarantees, and regulatory policies that do not encourage adequate risk management and the lack of efficient resolution regimes. According to Ongore and Kusa (2013) innovation in financial services, products and mobile banking have the potential to improve the relationships between banks and consumers by reaching remote corners of the world where the majority of the under banked and the unbanked population reside. Banks are highly leveraged institutions, with most of their funds coming from depositors and creditors and the management of a banking institution must exhibit impeccable integrity and professionalism in their conduct so as to engender public confidence in the safety of their deposits. Challenges faced by Zimbabwe banks could be attributed to deficient or ineffective supervision by the central bank, weaknesses in legal compliancy, operational pressure, and opportunities to commit fraud arising from weak internal controls, regulatory forbearance and regulatory capture and these require effective regulations, monitoring and supervision.

2.3 Impact of Public Confidence on Fostering Financial Stability

The challenge is that the illiquid nature of bank assets (loans) which are financed by liquid liabilities (deposits) threatens the stability of banks by exposing them to runs by depositors who cannot definitely assess the financial health of banks, arising from the existence of asymmetric information between depositors and banks (Diamond, 1984). Financial system stability is the

resilience of a financial system to internal and external shocks. Financial stability is evidenced by and reflected through an effective regulatory infrastructure, effective and well developed financial markets, and sound financial institutions (Ngaujake, 2004). The research by Alawode and Al Sadek (2008) examines different definitions of financial stability proffered by two separate schools of thought which are 1) those who attempt to define financial instability (as the antithesis of financial stability); and those who prefer to define financial stability, instead of its absence. Caruana and Avdjiev (2011) argue that the global financial crisis highlighted the point that global financial stability relies on the two-way link between sovereigns and banks and conclude that the interconnectedness of the international financial system makes the prudential approach to policymaking more important than ever before because policies in one jurisdiction have spillover effects on the other. Governments have to earn back investors' confidence by providing a countercyclical policy instrument to provide support for the financial system and this requires that government remains creditworthy at times of stress through building buffers in good times.

According to Chitumba (2014) the sources of financial instability can be identified as microprudential and macroprudential risks. He further asserts that micro-prudential risks occur when problems in individual banks, caused by either excessive risk taking or weak regulatory supervision, can trigger market wide instability. The common reasons for Bank failure are: bad loans due to lowered or compromised credit standards; funding issues caused by general market conditions, but more often occur because depositors lose faith in a particular bank; asset/liability mismatch arising from repricing risk exposures, when a bank's assets are severely unmatched to the liabilities supporting them; regulatory issues that cause illegal activities like money laundering; proprietary trading like investments in unhedged derivatives; over-concentration in marketable securities, exotic instruments that bring huge risks which can outweigh profits; dabbling in non-bank activities; bad risk management decisions that can result in large losses; inappropriate loans to bank insiders; rogue employees who bypass internal controls; runs on banks where depositors lose confidence and demand their money all at once. Macro-prudential risks occur when a series of financial institutions are exposed to a similar risk. This systemic risk arises primarily through common exposures to macroeconomic risk factors across institutions. This type of distress carries more significant and longer-lasting real costs. Most of the major

crises experienced around the world are due to this type of distress and these developments are related to economic cycles (Chitumba, 2014).

Adrian, Covitz and Liang (2013) document a program for monitoring emerging sources of risk to financial stability monitoring and found macroprudential policies to promote financial stability and generally balance the increased cost of financial intermediation against the reduced potential for systemic risk. Živko and Kandža (2013), examine the impact of the financial crisis on the stability of the banking sector in Croatia using indicators such as the number of banks, banking intermediation, concentration, foreign ownership and liquidity and the conclusions are that despite the Croatian banking sector being exposed to the financial crisis, it remained safe and stable. All measures of financial stability declined with lending activities reduced and deterioration of liquidity positions.

Smets (2014) states that the financial crisis raised the question to what extent price-stability-oriented monetary policy frameworks should take into account financial stability objectives and concludes that while the new macroprudential policy framework should be the main tool for maintaining financial stability, monetary policy authorities should also keep an eye on financial stability to allow the central bank to lean against the wind if necessary, while maintaining its primary focus on price stability over the medium term. Pholphirul (2008) investigates the causal links of financial instability and different sources of volatility to macroeconomic instability and probability of economic downturn. The findings indicate that financial instability and probability of banking crisis are more determined from the volatility in trade openness, and less determined from the price related volatility. It also appears that variables related to financial system development are crucial factors in maintaining the stability of the financial sector. The results also show that better financial system development should also help stabilize growth volatility and decrease the probability of economic downturn. The conclusion is that price variability does not have strong effects on growth volatility and economic downturn.

Tombini (2006) argues that crises are costly occurrences in terms of economic dislocation as the financial distress that arise usually take longer to dissipate. He suggests formulation of a well-articulated strategy to deal with potential financial imbalances. The strategies include a

consistent macroeconomic policy framework, the use of monitoring tools, including macroprudential analysis, market infrastructure, safety buffers, high-quality standards and practices, the development of markets and financial instruments, quality and availability of cross-border information, risk evaluation and pricing of financial instruments, development of prudent and efficient internal risk management systems, market discipline through prudential regulation and supervision, market forces to exert discipline, international cooperation of supervisory authorities and multilateral institutions, and the deposit insurance institution. Cooperation and coordination are critical in dealing with systemic crises.

The discussions above show that financial stability is the state in which the financial system is resistant to economic shocks and is fit to smoothly fulfil its basic functions of the intermediation of financial funds, management of risks and the arrangement of payments. Financial stability is a sine qua non for economic growth and development. Many regulators have engaged over the past decade in the development of a set of Macro-Prudential Indicators (MPIs), for use to gauge conditions in the financial system and its resilience to stress situations. Financial instability arises from the failure of individual institutions and the failure then spreads through a variety of contagion mechanisms to the financial system more generally. The common reasons for bank failures are bad loans, funding issues, asset/liability mismatch, regulatory issues, proprietary trading, non-bank activities, risk management decisions, inappropriate loans to bank insiders, rogue employees and runs on banks.

2.4 Impact of Public Confidence on Bank Performance

Adequate performance of financial institutions is of crucial importance to their customers. Prices and quality of their products are determined by efficiency and competition. Since efficiency and competition cannot be observed directly, various indirect measures in the form of simple indicators or complex models have been devised and used both in theory and in practice to measure performance (Bikker, 2010). Bank performance is the reflection of the way in which the resources of a bank are used in a form which enables it to achieve its objectives. Furthermore, the term bank performance means the adoption of a set of indicators which are indicative of the bank's current status and the extent of its ability to achieve the desired objectives.

Bakare (2011) observes that one of the major macroeconomic variables that compliment bank performances is availability of capital. He further notes that economic theories show that inadequate capital contributes to bank failures and affects economic growth. The findings show that recapitalization has low but significant influence on the growth of the Nigerian economy compared to other variables in the model. The study strongly supports the need for the government to sustain the recapitalization policy. Bloch (2014) argues that until such time that capital starts flowing in to fund long-term infrastructural and utility projects, observable growth in Zimbabwe will be devoid of sustainability. Such long- term investment in utility rehabilitation and infrastructure development will only happen when indigenization legislation less threatening to foreign investment and a sustainable strategy is implemented to reduce the huge sovereign debt balance around US\$9 billion.

Ugwunta (2012) attempts to measure the market structure and competition in the consolidated Nigerian banking industry, as well as examine the impact of the banking sector structure on bank performance. Major findings from the study include that the Nigerian banking sector is oligopolistic in structure and that market concentration positively and significantly impacts on bank performance. The findings suggest that market concentration is a significant determinant of bank profitability in Nigeria. Exploitation of the synergistic effect of market-induced consolidation could improve the structure of the Nigerian banking sector and subsequently the performance of banks. Hoti, Alshiqi–Bekteshi and Livoreka (2014) examine performance indicators of banks with foreign capital operating in Kosovo. They argue that a better accurate measurement of bank performance is based on application of financial coefficients of banks such as Return on Assets (ROA), Return on Equity (ROE) and Cost/Income Ratio (C/I). The findings show that profitability improved from 2006 to 2008, while from 2008 it declined. They conclude that there was no significant change to performance of the three banks and that they remained stable. They see the measurement of the banks' performance assisting improvement of managerial performance, identifying the best and worst practices of low and high efficiency. They further conclude that the tested commercial banks are relatively less profitable compared to the previous years, and that the banks are more exposed to credit risk, which is considered the greatest risk of banking sector in Kosovo.

Kosmidou and Zopounidis (2008) examine the efficiency and performance of the commercial and cooperative banks in Greece for the period 2003-2004. Greek banks are rated based on their performance which ranking result is used to analyse the strengths and weaknesses of a bank compared to its competitors and serves as a basis for the construction of a rating system for Greek banks. The findings show that commercial banks are increasing their share of deposits and attracting more customers, thereby becoming more competitive and maximizing their profits. For the cooperative banks in Greece, the results differ from bank to bank with some enjoying considerably increased profits and market shares, and others whose financial indices are deteriorating. Leckson-Leckey, Osei and Harvey (2011) examine the extent to which investment in information technology (IT) by banks in Ghana can affect their profitability using the Balanced Scorecard (BSC) framework. The results are that banks which maintain high levels of investments in IT increased return on assets (ROA) and return on equity (ROE).

Muhammad, Gatawa and Kebbi (2011) explore the impact of Information and Communication Technology (ICT) on the Nigerian banking industry using eleven selected Commercial Banks in Nigeria and bank annual data from 2001 to 2011. The results show that the use of ICT in the banking industry in Nigeria increases return on equity and that there is an inverse relationship between additional sustained investment in ICT and efficiency. Raz (2014) suggest that the growing fragility of the financial system has led to the increasing importance of financial supervision's role since the financial supervision regime is expected to promote bank performance and maintain financial stability. The study focuses on the structure of supervisory frameworks, the independence of supervisory institutions, the scope of supervisory role, and the authority of central banks in the banking sector. The findings indicate that the existence of a single bank supervisor, instead of multiple, will enhance bank profitability. Regarding the role of central bank independence in improving bank profitability there are mixed results. On the authority of central banks in the banking sector and the scope of bank supervision there is no strong relationship with bank performance.

Kumbirai and Webb (2010) examine the performance of South Africa's commercial banking sector for the period 2005- 2009. Financial ratios are used to measure the profitability, liquidity and credit quality performance of five large South African based commercial banks. The results

show that overall bank performance rose significantly in the first two years of the review. A considerable change in trend is observed at the beginning of the global financial crisis in 2007, reaching its apex during 2008-2009 resulting in falling profitability, low liquidity and deteriorating credit quality in the South African banking sector. Abaenewe, Ogbulu and Ndugbu (2013) examine the profitability performance of Nigerian banks following the full adoption of electronic banking system. The investigation shows that the adoption of electronic banking has positively and significantly improved the returns on equity (ROE) of Nigerian banks. The study also revealed that e-banking has not significantly improved the returns on assets (ROA) of Nigerian banks. The study by Hays, De Lurgio, and Gilbert (2012) provides a multivariate discriminant model to differentiate low efficiency from high efficiency community banks (less than \$1 billion in total assets) based upon the efficiency ratio that relates non-interest expenses to total operating income. It includes proxies for the banking regulatory CAMELS rating variables of the equity capital to total asset ratio, net charge-offs to loans, salaries to average assets, return on average assets, the liquidity ratio and the GAP ratio. The results range from approximately 88% to 96% accuracy for both original and cross-validation datasets.

The discussion above shows that the financial linkages used to measure bank performance arising from the literature review are capital adequacy, asset quality, management soundness, earnings and profitability, liquidity and sensitivity to market risk. Macro-financial linkages are economic growth, balance of payments, inflation, interest and exchange rates, lending and asset price booms and contagion effects.

2.5 Conceptual Framework

Figure 2.1 below illustrates the linkages between the factors affecting public confidence and the impact on financial stability and bank performance.

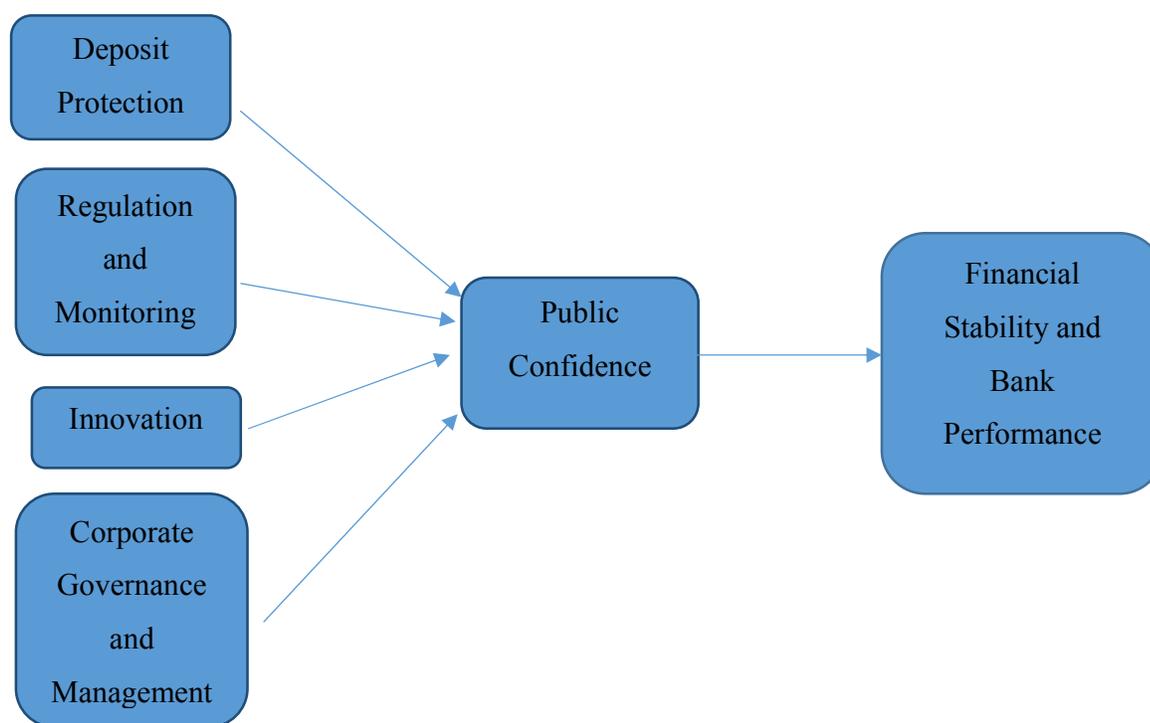


Figure 1: Relationship of factors impacting public confidence, financial stability and bank performance.

The public relies upon banks to fulfil the functions of safe keeping and safe handling of public savings. A failure of public confidence in banks leads to a hemorrhaging of deposits which can paralyse the bank and impact on bank performance and financial stability through bank runs. Therefore, bank failure affects financial stability and performance of the bank and this dents the performance of investments and deposits of the public and consequent loss of public confidence in banks. The government can influence public confidence in banks in a number of ways which include deposit protection systems and regulation and monitoring while banks can also influence public confidence through innovation and provision of financial products and improvement of corporate governance and management systems.

2.6 Chapter Summary

The literature attempted to demonstrate that the safety and soundness of banking institutions and conduct of banking business is critical in instilling public confidence in the banking sector. Adverse developments in the banking sector have devastating impacts on the health of a financial system which not only disrupts financial intermediation but also undermine monetary policy, exacerbate economic downturns, trigger capital flight and exchange rate pressure. The performance of banks have far reaching economic implications in terms of public confidence and financial stability.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter describes the research design and methodology used in the study on Zimbabwean banks to determine the level of public confidence, identify the factors affecting public confidence and assess the strength and capability of measures to enhance public confidence in the Zimbabwean banking sector. The chapter discusses the philosophical assumptions and the design strategies underpinning the research study. In addition, the chapter discusses the research methodologies and design used in the study including strategies, instruments, data collection and analysis methods.

3.2.1 Research philosophy

There are various approaches to research based on the researcher's values, assumptions and beliefs about the world (Smith and Dainty, 2011). They further add that research philosophy can be characterised into two major categories namely positivism and interpretivism or phenomenology. According to Berg (2011) the positivist philosophy is when data is collected and analysed to either accept or reject an established hypothesis for the study usually through measuring variables using the quantitative method. Saunders, Lewis and Thornhill (2013) also note that by this philosophy the researcher will be preferring to work with observable social reality and that the results of the project are law-like as well as objective in nature similar to those produced by natural and physics researchers. On the other hand, phenomenological philosophy argues that it is not easy to measure human behaviour as a phenomena (Neville, 2005) as some examples of it, like inner thought processes, are not always observable to an extent that they are difficult to generalise. Burrell and Morgan (1979) add that this research philosophy seeks to explain the stability of behaviour from the perspective of the individual through the use of qualitative and non-statistical methods to provide results and findings (Strauss and Corbin, 2009).

The researcher mainly adopted a positivist approach as the study on the Zimbabwean banking sector sought to explain causal relationships between variables in the study. The study progressed through hypotheses and deductions with the concepts having to be operationalised so that they could be measured. The units of analysis had to be reduced to simple terms so that they could be generalized using statistical probability. Large numbers of respondents had to be selected as samples in an effort to investigate the factors determining public confidence as well as its impact on the performance of banks in Zimbabwe.

3.2.2 Research approach

The extent to which a researcher is clear about their theory from the beginning of their research raises significant questions about the research design (Saunders, 2013). Therefore, there are basically two approaches that can be adopted, namely the inductive approach and the deductive approach (Strauss and Corbin, 2009). The inductive approach entails reasoning in which the premises seek to supply strong evidence for (not absolute proof of) the truth of the conclusion. Bernard (2011) adds that it involves the search for pattern from observation and the development of explanations and theories for those patterns through series of hypothesis. On the other hand, Wilson (2010) argues that deductive approach is concerned with developing a hypothesis based on existing theory and then designing a research strategy to test the hypothesis. According to Saunders (2013) the main difference between inductive and deductive approaches to research is that whilst a deductive approach is aimed at testing theory, an inductive approach is concerned with the generation of new theory emerging from the data. Therefore, in this study the researcher used the deductive approach of which a theory or hypotheses were put forward in chapter 1 to be tested in the next chapter which states:

H₀ Public confidence has no significant impact on the performance of banks in Zimbabwe.

H₁ Public confidence has got a significant impact on the performance of banks in Zimbabwe.

3.2.3 Research strategies

There are five major strategies in research and they are survey, experiment, case study, action research and grounded theory (Saunders, 2013). In this study the researcher used the survey research strategies. Survey research strategy is defined by Merriam (2008) as a systematic gathering of primary data through the use of structured questionnaires and communication in a

reasonably large number and representative sample of respondents. The survey research strategy was employed because of its support for structured research, in this case being the use of questionnaires; which minimised systematic errors as well as reduced subjectivity. In addition surveys also make data analysis easy through the use of quantitative methods of data analysis. This also means that detailed information were collected and analysed for the results of the study.

3.3. Research methods

There are two research methods which are quantitative and qualitative and this study applied the quantitative research approach. Qualitative data refers to all non-numeric data or data that have not been quantified. It can range from a short list of responses to open-ended questions in an online questionnaire to more complex data such as transcripts of in-depth interviews or entire policy documents (Saunders, 2013) This approach was however not used. On the other hand, quantitative data, which was used in this study, was obtained by administering questionnaires to bank clients and other banking sector executives to help answer the research questions and meet the research objectives. Quantitative analysis techniques such as graphs, charts and statistics were used to explore, present, describe and explain relationships and trends between public confidence and bank performance and financial stability. The quantitative part of the study consists of the statistical analysis of the data collected using the questionnaire.

3.4 Research design

According to Burns and Grove (2003), a research design is “a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings”. Saunders, Lewis and Thornhill (2009) describe research design as the general plan of how you will go about answering your research questions. A research design is a strategy for the study as well as the plan by which this research is to be carried out (Fraenkel and Wallen, 2006). They also add that the design will include the specific methods and procedures for data collection, measurement as well as its analysis. According to Zikmund (2003) it is also used to structure the research, by showing how all the major components of the research, that is, the sample, measures, programmes or treatments, work together in addressing the central research question/s.

3.5 Study Population

Zikmund, (2003) defines a population as any complete group of people, companies, hospitals, stores, college students that share some set of characteristics. Kitchenham and Pflieger (2002) define a target population as the group or the individuals to whom the survey applies. The study population for this research was the Zimbabwean banking sector which constitutes of commercial banks, building societies and a savings bank. The information was obtained from a list of registered banking institutions provided by the Reserve Bank of Zimbabwe. The study population was identified as nineteen banks (19) consisting of commercial banks, building societies and a savings bank only as this was the most significant part of the financial sector.

3.6 Sample

A sample is described as a subset which is representative of a population. The sample for this study was selected from the Zimbabwean banking sector population and was drawn from corporate banking clients (companies), retail banking clients (small individual clients), and senior executives in RBZ, DPC, banks, and BAZ. Stratified random sampling is a modification of random sampling in which the population is divided into two or more relevant and significant strata based on one or a number of attributes. In effect, the sampling frame is divided into a number of subsets. A random sample (simple or systematic) is then drawn from each of the strata (Saunders *et al.*, 2009).

The study adopted stratified (convenience) sampling for the corporate clients with the size of the bank determining the number of respondents to be selected. Two largest corporate clients (respondents) were selected from the top five banks and one largest corporate client was selected from each of the rest of the banks. Stratified (random) sampling was used for the retail clients. A sample of one hundred (100) respondents was selected based on the size of the bank (according to market share) with, for instance, CBZ having 25 respondents and Allied Bank one client. Stratified (convenience) sampling was used for distributing questionnaires to the four (4) senior executives selected from banks (two from the largest two banks, CBZ and CABS, and two from the smallest two (2) banks, POSB and Agribank), one senior executive each from RBZ, DPC and BAZ. A total of one hundred and thirty one (131) questionnaires were distributed and the distribution of the questionnaires is detailed in Table 3.1.

Table 3.1: Sample

Sampling Frame	Number of Questionnaires
Corporate bank clients	24
Retail bank clients	100
Banks (CBZ, CABS, POSB, Agribank)	4
Reserve Bank of Zimbabwe	1
Deposit Protection Corporation	1
Bankers Association of Zimbabwe	1
Total	131

3.7 Data Collection

Data were collected using questionnaires and twenty four questionnaires were distributed to a convenience sample of corporate clients consisting of two largest corporate clients from the top five banks and one largest corporate client from the rest of the banks. One hundred questionnaires were distributed to a random sample of retail bank clients based on the market size of the banks. The purpose of the questionnaires was to determine the level of confidence by the public in the current and future performance of banks and their contribution to bank stability. The respondents were identified by approaching the bank executives to identify their largest corporate clients and the questionnaires were self-administered to the corporate clients. For the retail clients, bank management was approached to distribute the questionnaires to small, individual clients and they were distributed both by the researcher and the bank management.

Data was also collected by way of questionnaires to senior executives of banks, DPC, RBZ and BAZ and the focus was on the determinants of public confidence that impact on bank performance in Zimbabwe.

3.8 Data Analysis

The data collected from the returned questionnaires were captured and analysed using the SPSS statistical package. The statistical tools used to analyse data were KOM and Bartlett's Test for Factor Analysis, Cronbach's Alpha for Reliability, Kolmogorov-Smirnov or Shapiro-Wilk for test of Normality, Spearman's Rank for Correlations, and Anova for Regression.

3.9 Research Limitations

The research had several limitations. The research was limited to bank branches in Harare and a more national approach could have given better results. The research used the survey technique with time constraints on responses which made it difficult for busy managers and bank customers to complete the questionnaires. More information could have been obtained by conducting focus groups of bank managerial employees, regulators and bank customers like having each topic on deposit protection; regulatory structures, supervision and bank monitoring; banking products and services; corporate governance and management; and financial inclusion for group discussion. A group interview would have brought out participants' opinions and attitudes to the fore and assisted in identifying the factors affecting public confidence and financial stability. Personal interviews could have elicited greater information on participants' knowledge and attitudes. This would have added important qualitative data and greater insight into the participants' thoughts and opinions.

3.10 Research Ethics and Data Credibility

3.10.1 Ethical Issues

Efforts were made to ensure that the research was conducted in accordance with acceptable ethical guidelines and best practices. Participation was voluntary and confidential. To ensure confidentiality, a confidentiality clause accompanied every questionnaire and respondents were not requested to provide their names. The respondents were free to participate and those that failed to return completed questionnaires were treated with utmost respect.

3.10.2 Validity and Reliability

The validity of an instrument is the degree to which an instrument measures what it is intended to measure. Content validity refers to the extent to which an instrument represents the factors under study. To achieve content validity, questionnaires include a variety of questions on the knowledge of respondents about the performance of their companies. The questionnaire was based on information gathered during the literature review.

Reliability is the degree of consistency with which an instrument measures the attribute it is designed to measure. To ensure reliability, the questionnaires were answered by the targeted

managerial employees and bank customers whilst data collector bias was minimized by the researcher and selected bank managers administering the questionnaires. Participants were requested not to write their names or that of their firms to ensure confidentiality and anonymity.

3.11 Chapter Summary

This chapter provided a research framework to carry out the study and explain the philosophical inclination of the researcher, strategies and approaches applied, determination of the population and sample and the techniques employed for data capture and analysis.

CHAPTER 4

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the analysis and findings of the data gathered from the research. The chapter covers the results on response rate, demographic data, reliability of data, frequencies, the extent and effectiveness of the current measures on public confidence in Zimbabwe's banking sector, tests of normality, factor analysis, correlations tests and regression tests. The methodology used was the quantitative method and the purpose of the quantitative study was to determine the factors that impact on public confidence and its impact on bank performance.

4.2 Response Rate

A total of 131 questionnaires were distributed and 94 were returned which was a 72% response rate. The high response rate was a result of the manner in which the questionnaires were distributed where the bank managers were the contact persons in banks and the returned questionnaires were collected personally. The key personnel identified from banks, DPC, RBZ and BAZ also completed the questionnaires.

4.3 Demographic Information

Demographic information collected from respondents were gender, age, occupation and type of industry. Analysis and findings of this data is presented in Tables 4.1 to 4.3.

4.3.1 Gender

Table 4.1 shows the distribution of the respondents' gender and the results indicated that 85% (n=80) were male, 12% (11) female with 3 not stated.

Table 4.1: Gender Profile of Respondents

Gender	Frequency	Percentage
Male	80	85.1
Female	11	11.7
Not Stated	3	3.2
Total	94	100.0

The findings for the gender demographic are a fair representation of the banking population in that more males are employed and have salary based accounts. About 3.2% of the respondents did not provide their gender for reasons that could not be identified.

4.3.2 Age Distribution of Respondents

Table 4.2 shows the age distribution of the respondents and the results showed that 5% (n=5) were between 21 to 30 years, 35% (n=33) were between 31 to 40 years, 42% (n=39) were between 41 to 50 years and 18% (n=17) were over 50 years.

Table 4.2: Age Distribution of Respondents

Age	Frequency	Percentage	Cumulative Percentage
21 to 30 Years	5	5.3	5.3
31 to 40 Years	33	35.1	40.4
41 to 50 Years	39	41.5	81.9
Above 50 years	17	18.1	100.0
Total	94	100.0	

The findings are a representation of the banking population in that 77% of the respondents are between 31 years and 50 years and constitutes the majority of the gainfully employed while those below 30 years who make up 5% includes the unemployed graduates while those over 50 years also includes the retired.

4.3.3 Type of Industry

Table 4.3 depicts the breakdown of the industry where the banking population were actively employed and the results showed that 10% (n=9) were government employees, 32% (n=30) state

owned enterprise, 40% (n=38) large private enterprise, 15% (n=14) small and medium enterprise, and 3% (n=3) informal sector.

Table 4.3: Type of Industry

Type of Industry	Frequency	Percent	Cumulative Percent
Government	9	9.6	9.6
State Owned Enterprise	30	31.9	41.5
Large Private Enterprise	38	40.4	81.9
Small and Medium Enterprise	14	14.9	96.8
Informal sector	3	3.2	100.0
Total	94	100.0	

The results show the frequency of visits to the banks from employees engaged in the different sectors which is an indication of the levels of remuneration in those sectors and their abilities to frequent the banks. The banking sector has been affected by transitory deposits with most depositors preferring to withdraw their money once their salaries hit their banks accounts.

4.4 Reliability

The data collected was tested for reliability to determine the underlying relationships between variables. Reliability was computed using Cronbach’s Alpha coefficient. The results of the reliability tests are shown in Table 4.4.

Table 4.4: Reliability Statistics

Cronbach's Alpha	Number of Items
.736	30

The results showed a value of 0.74 which is greater than the benchmark of 0.60 (Saunders, 2009) for all the 30 items that were being tested. The statistic showed that data was adequately reliable for correlation and regression analysis to be done.

4.5 Frequencies

Frequencies were used to measure the general level of public confidence and identify the pre-determined factors that had the most significant impact on public confidence and their influence

on bank performance. Eight factors that impact on public confidence were identified from literature review and packaged in the questionnaire and the results are shown below.

4.5.1 General Level of Public Confidence

Table 4.5 shows the general level of public confidence in the Zimbabwean banking sector.

Table 4.5: General Level of Public Confidence in the Banking Sector

LOC	Frequency	Percent	Cumulative Percent
Very High	7	7.4	7.4
High	20	21.3	28.7
Average	29	30.9	59.6
Low	25	26.6	86.2
Very Low	13	13.8	100.0
Total	94	100.0	

The findings indicate that 31% (n=29) of the respondents felt that the general level of public confidence is average, 27% (n=25) low, 21% (n=20) high, 14% (n=13) very low and 7% (n=7) very high. The implication was that the majority of the respondents did not view the level of public confidence as neither high nor low whilst the next highest group concurred that they had low confidence in the country's banking sector. This could mean that the majority of the public do not yet have full faith and confidence in the country's banking sector as there are still almost six banks vulnerable whilst the rest of the banking sector seems stable and profitable. This is highlighted in Appendix B which shows six banks, have recorded losses in millions as well as negative percentages on their Return on Assets.

4.5.2 Poor Customer Service and Experience

Table 4.6 shows the impact of poor customer service and experience on public confidence.

Table 4.6: Poor Customer Service and Experience

Poor Customer Service and Experience	Frequency	Percent	Cumulative Percent
Strongly Agree	42	44.7	44.7
Agree	35	37.2	81.9
Neutral	13	13.8	95.7
Disagree	4	4.3	100.0
Total	94	100.0	

The analysis indicate that 45% (n=42) strongly agreed that this factor had a significant impact on public confidence, 37% (n=35) agreed, 14% (n=13) were neutral, 4% (n=4) disagreed while no respondents strongly disagreed. The results show that the majority of the respondents strongly agreed that poor customer service and experience had a significant impact on public confidence in the banking sector in Zimbabwe. This is in line with Ongore and Kusa (2013) who argue that innovation in financial services, products and mobile banking have the potential to improve the relationships between banks and consumers by reaching remote corners of the world where the majority of the under banked and the unbanked population reside. Itah and Ene (2014) observe that high rates of bank charges on online deposits affected customers’ use of automated teller machines, point of sale and web based transactions.

4.5.3 High Fees and Bank Charges

Table 4.7 shows the impact of high fees and bank charges on public confidence.

Table 4.7: High Fees and Bank Charges

High Fees and Bank Charges	Frequency	Percent	Cumulative Percent
Strongly Agree	62	66.0	66.0
Agree	26	27.7	93.6
Neutral	6	6.4	100.0
Total	94	100.0	

The analysis shows that 66% (n=62) of the respondents strongly agreed that high fees and bank charges significantly affected public confidence, while 28% (n=26) agreed and 6% (n=6) were undecided. No respondents strongly disagreed or disagreed. Therefore, the results show that the majority of the respondents strongly agree that high fees and bank charges have had an impact on public confidence in the banking sector in Zimbabwe. This is in line with Ankrah (2012) who argues that public confidence is regained when banks are perceived to be well capitalized, customers can withdraw their funds without restrictions and bank charges are not too high.

4.5.4 Fear of Loss of Deposits

Table 4.8 shows the influence of fear of loss of deposits on public confidence.

Table 4.8: Fear of Loss of Deposits

Fear of Loss of Deposits	Frequency	Percent	Cumulative Percent
Strongly Agree	73	77.7	77.7
Agree	14	14.9	92.6
Neutral	4	4.3	96.8
Disagree	3	3.2	100.0
Total	94	100.0	

The findings indicate that 78% (n=73) of the respondents strongly agreed, 15% (n=15) agreed, 4% (n=4) were neutral and 3% (n=3) disagreed. There were no respondents that strongly disagreed. This shows that the majority of the respondents strongly agree that the public's fear of loss of their deposits has had an impact on their confidence in the banking sector in Zimbabwe. This is in line with Ugwuanyi and Amanze (2014) who postulate that loss of public confidence in the banking system occurs when a bank or some banks in the system experience illiquidity or insolvency resulting in a situation where depositors fear the loss of their deposits and a consequent break down of contractual obligations that results in runs on the bank.

4.5.5 Unresolved Zimbabwe Dollar Account Balances

Table 4.9 shows the impact of unresolved Zimbabwe dollar accounts on public confidence.

Table 4.9: Unresolved Dollar Account Balances

Unresolved Zimbabwe Dollar Accounts	Frequency	Percent	Cumulative Percent
Strongly Agree	52	55.3	55.3
Agree	22	23.4	78.7
Neutral	16	17.0	95.7
Disagree	1	1.1	96.8
Strongly Disagree	3	3.2	100.0
Total	94	100.0	

The results show that 55% (n=52) strongly disagreed, 23% (n=22) agreed, 17% (n=16) were neutral, 1% (n=1) disagreed and 3% (n=3) strongly disagreed. The results indicate that the issue of unresolved dollar account balances has affected the public's confidence in the banking sector in Zimbabwe. Demonetisation is the act or process of removing the legal status of unit of currency. In Zimbabwe, the process is to replace the Zimbabwe dollar with the multiple currency

system adopted in 2009 following the abandonment of the Zimbabwe dollar. Demonetisation is critical for enhancing consumer and business confidence (RBZ, 2015).

4.5.6 Poor Corporate Governance

Table 4.10 below shows the impact of poor corporate governance on public confidence.

Table 4.10: Poor Corporate Governance

Poor Corporate Governance	Frequency	Percent	Cumulative Percent
Strongly Agree	47	50.0	50.0
Agree	30	31.9	81.9
Neutral	17	18.1	100.0
Total	94	100.0	

The results indicate that 50% (n=47) strongly agreed, 32% (n=30) agreed, 18% (n=17) were neutral while no respondents strongly disagreed or disagreed. The results shown in table 4.10 show that the majority of the respondents strongly agree that poor corporate governance practices in the banking sector in Zimbabwe have affected public confidence in the sector. This is in line with Shannak (2013) who identified one of the major factors affecting public confidence in the banking sector as excessive risk-taking by banks, insolvency arising from contagion and counterparty risk, the lack of regulatory and supervisory integration, quality, ethics and skills of bankers all related to poor corporate governance practices. On the other hand these results are contrary to RBZ (2014) which argues that corporate governance should be the processes and structures used to direct and manage the business and affairs of an institution with the objective of ensuring its safety and soundness and enhancing shareholder value. However, in this case the respondents state that the poor corporate governance practices in the banking sector in Zimbabwe have affected public confidence in the sector instead of ensuring safety and soundness and enhancing shareholder value.

4.5.7 Inadequate Bank Regulation

Table 4.11 shows the influence of inadequate bank regulation on public confidence.

Table 4.11: Inadequate Bank Regulation

Inadequate Bank Regulation	Frequency	Percent	Cumulative Percent
Strongly Agree	35	37.2	37.2
Agree	25	26.6	63.8
Neutral	34	36.2	100.0
Total	94	100.0	

The results are that 37% (n=35) strongly agreed, 27% (n=25) agreed, 36% (n=34) were neutral while no respondents disagreed or strongly disagreed. Table 4.11 shows that the majority of the respondents strongly agree that inadequate bank regulations have had an impact on public confidence in the banking sector in Zimbabwe. This is in line with Sir Mervyn King, Governor of the Bank of England (2012) who envisaged that the single most important commodity in banking is confidence hence the public need to believe that they must have trust in the quality, ethics and skills of their bankers and they must believe in the wisdom and careful regulation of its government.

4.5.8 Inadequate Deposit Protection

Table 4.12 shows the impact of inadequate deposit protection on public confidence.

Table 4.12: Inadequate Deposit Protection

Inadequate Deposit Protection	Frequency	Percent	Cumulative Percent
Strongly Agree	31	33.0	33.0
Agree	28	29.8	62.8
Neutral	25	26.6	89.4
Disagree	10	10.6	100.0
Total	94	100.0	

The results are that 33% (n=31) strongly agreed, 30% (28) agreed, 27% (n=25) were neutral and 11% (10) disagreed while none strongly disagreed. The results in Table 4.12 show that the majority of the respondents strongly agree that inadequate deposit protection has had an impact on public confidence in the banking sector in Zimbabwe. This is contrary to Safakali and Guryay (2010) who argue that the deposit insurance systems are one of the major components of a

financial system's "safety net" which seeks to promote banking sector stability whilst building the public's confidence in the sector.

4.5.9 Inadequate Financial Services and Products

Table 4.13 shows the influence of inadequate financial services and products on public confidence.

Table 4.13: Inadequate Financial Services and Products

Inadequate Financial Services and Products	Frequency	Percent	Cumulative Percent
Strongly Agree	25	26.6	26.6
Agree	16	17.0	43.6
Neutral	34	36.2	79.8
Disagree	14	14.9	94.7
Strongly Disagree	5	5.3	100.0
Total	94	100.0	

The findings indicate that 27% (n=25) strongly agreed, 17% (n=16) agreed, 36% (n=34) were neutral, 15% (n=14) disagreed and 5% (n=5) strongly disagreed. Table 4.13 shows that the majority of the respondents were neutral on the influence of inadequate financial services and products on public confidence in the banking sector. This implies that the respondents are impartial on the influence of inadequate financial services and products on public confidence in the banking sector therefore inadequate financial services and products might not have any impact on public confidence in the banking sector. This is contrary to Ongore and Kusa (2013) who argue that innovation in financial services, products and mobile banking have the potential to improve the relationships between banks and consumers by reaching remote corners of the world where the majority of the under banked and the unbanked population reside.

4.6 Current measures contribution to public confidence in Zimbabwe’s banking sector

This section discusses to what extent and effectiveness of the current measures have contributed to public confidence in Zimbabwe’s banking sector and the results are shown below.

4.6.1 Deposit insurance and protection system

4.6.1.1 Effectiveness of DPC

Figure 4.1 shows how the respondents rate the effectiveness of DPC in enhancing public confidence in Zimbabwe’s banking sector.

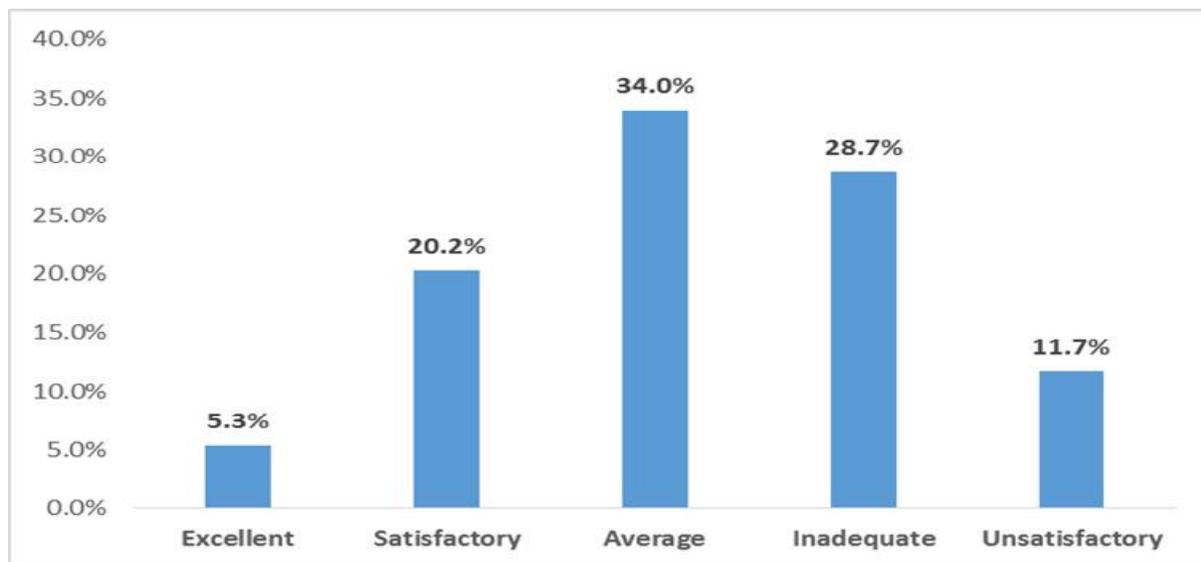


Figure 4.1 Effectiveness of DPC

Figure 4.1 shows that 34% of the respondents state that the effectiveness of DPC is average, 28.7% state that it is inadequate, 11.7% state it is unsatisfactory whilst 20.2% say it is satisfactory and 5.3% say that it is excellent. The results imply that the majority of the respondents are impartial with the effectiveness of the DPC in maintaining public confidence in the Zimbabwean banking sector. This is contrary to Makina (2012) who argue that deposit insurance ascribes to the public interest theory, which states that outcomes of regulation are reflective of general or public interest, and serve these interests.

4.6.1.2 Insurance Coverage

Figure 4.2 shows responses to the impact of the current insurance coverage of \$500.00 on confidence in the banking sector.

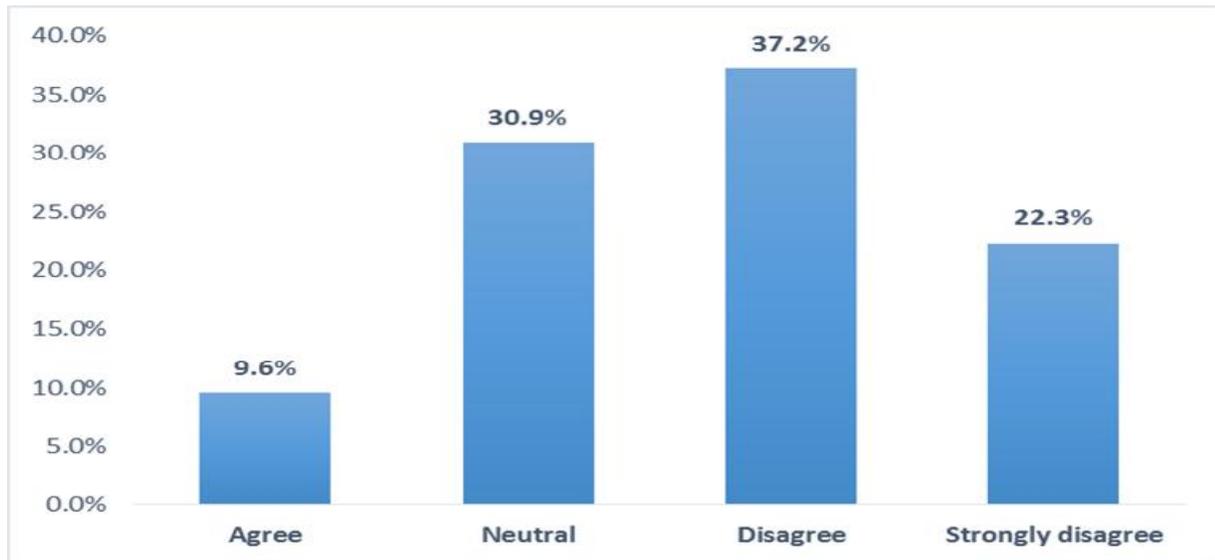


Figure 4.2 Whether current insurance coverage instills public confidence

The results in figure 4.2 show that 37.2% of respondents disagree that the current insurance coverage of their bank deposits of \$500.00 instills confidence in the banking sector, 30.9% were neutral, an additional 22.3% strongly disagree, whilst only 9.6% agree that the current insurance coverage of their bank deposits of \$500.00 instills confidence in the banking sector. This implies that the majority of the respondents do not believe that the current insurance coverage of bank deposits of \$500.00 instills confidence in the banking sector. This is contrary to the International Association of Deposit Insurers (IADI), (2011) which states that deposit insurance provides a formal or informal mechanism for handling bank failures, with the main objective of protecting smaller, less sophisticated depositors from incurring financial losses in the event of bank failure.

4.6.1.3 Review of insurance coverage

Table 4.14 shows how much respondents believe the insurance cover should be reviewed so as to improve their confidence in the banking sector and make them save more with a bank.

Table 4.14: Review of current insurance coverage to enhance public confidence

Review of insurance cover amount	Frequency	Percent	Cumulative Percent
\$1000.00	2	2.1	2.1
\$2000.00	14	14.9	17.0
\$3000.00	13	13.8	30.9
\$5000.00	19	20.2	51.1
More than \$5000.00	45	47.9	98.9
Non Response	1	1.1	100.0
Total	94	100.0	

Table 4.14 shows that 47.9% of the respondents believe that the current insurance cover of \$500.00 should be reviewed to more than \$5000.00 so as to improve their confidence in the banking sector and make them save more with a bank whilst 20.2% stated \$5000.00 is sufficient, 14.9% said \$2000.00, 13.8% concurred at \$3000.00 and only 2.1% believe if its reviewed to \$1000.00 it would improve their confidence in the banking sector and make them save more with a bank. The results imply that the majority of respondents believe that by reviewing the current insurance coverage of \$500.00 upwards to more than \$5000 their confidence in the banking sector would be enhanced and hence encourage them save more with a bank as they would know that all their savings are covered. This is in line with Moise and Illie (2012) who highlight that in order to increase depositor confidence in the banking system, the level of coverage should be increased and waiting time to obtain compensation for held deposits reduced.

The findings in this section show that there is an impartial view on whether the DPC has been effective in maintaining public confidence in the banking sector as their current insurance coverage of \$500.00 does not instill confidence in the banking sector but rather it should be reviewed upwards to more than \$5000.00 so as to improve public confidence in the banking sector and make them save more with a bank.

4.6.2 Regulation, supervision and monitoring of the banking sector

4.6.2.1 Effectiveness of the regulation, supervision and monitoring of the banking sector by RBZ

Figure 4.3 shows how the respondents rate the effectiveness of RBZ in enhancing public confidence in Zimbabwe's banking sector.

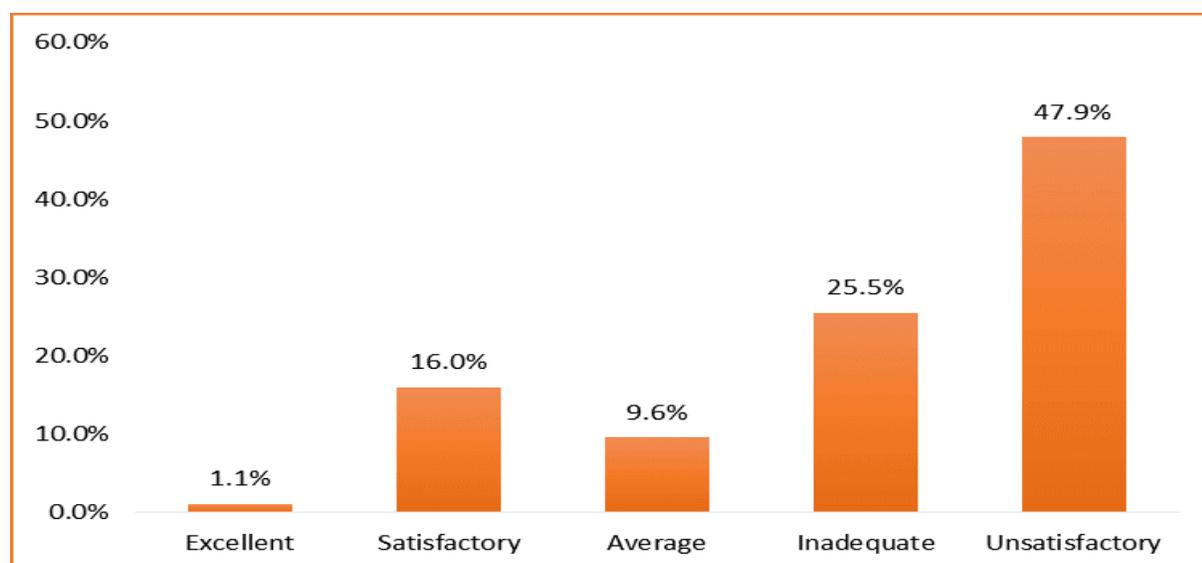


Figure 4.3 Effectiveness of RBZ

Figure 4.3 shows that 47.9% of the respondents state that the effectiveness of RBZ in enhancing public confidence in Zimbabwe's banking sector is unsatisfactory, 25.5% state that their efforts are inadequate whilst 16% state that it is satisfactory and an additional 1.1% say it is excellent. The results imply that the majority of the respondents believe that the effectiveness of RBZ in enhancing public confidence in Zimbabwe's banking sector is unsatisfactory. This is contrary to EIB (2013) who argue that public confidence is built in the knowledge that their banks are well regulated, monitored and supervised which ensures that the management and ethics of the same banks improves.

4.6.2.2 Time taken by RBZ to effect corrective action

Table 4.15 shows responses on whether the time taken by RBZ to effect corrective action to resolve the problems banks has improved public confidence and contributed to financial stability in the banking sector.

Table 4.15: Time taken by RBZ

Time taken by RBZ	Frequency	Percent	Cumulative Percent
Agree	17	18.1	18.1
Neutral	8	8.5	26.6
Disagree	46	48.9	75.5
Strongly Disagree	23	24.5	100.0
Total	94	100.0	

Table 4.15 shows that 48.9% of the respondents disagree, an additional 24.5% strongly disagree, whilst 18.1% agree and only 8.5% had a neutral view on the time taken by RBZ to effect corrective action to resolve problem banks has improved public confidence and contributed to financial stability in the banking sector. The results show that the majority of the respondents disagree that the time taken by RBZ to effect corrective action to resolve the problem banks has improved public confidence and contributed to favourable performance in the banking sector. This implies that the RBZ has been delaying in resolving problems in the banking sector in Zimbabwe hence this could be the reason why the majority of respondents believe RBZ was ineffective in improving public confidence in the banking sector. This is contrary to Donovan (2012) who argues that monitoring helps the regulatory authority to track achievements by a regular collection of information to assist timely decision-making, ensure accountability, and provide the basis for evaluation and learning.

4.6.3 Corporate governance and management practices

Figure 4.4 shows how the respondents rate the current corporate governance and management practices in the banking sector in Zimbabwe.

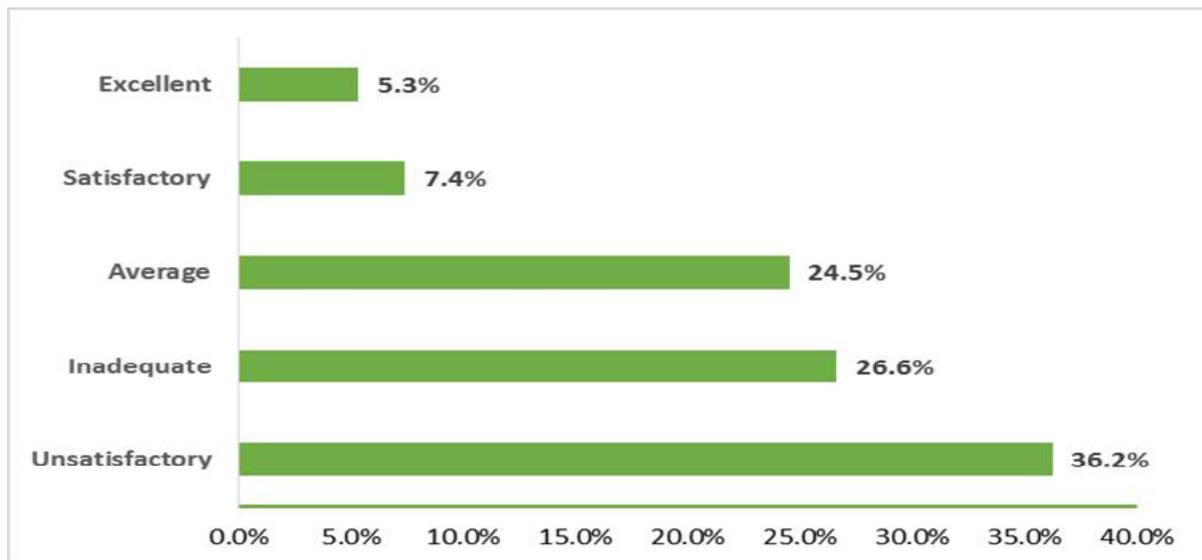


Figure 4.4 Corporate governance and management practices

Figure 4.4 shows that 36.2% of the respondents state that the current corporate governance and management practices are unsatisfactory, 26.6% state that they are inadequate, 24.5% suggest they are average, whilst 7.4% believe they are satisfactory and 5.3% state the current corporate governance and management practices are excellent. This implies that the majority of the respondents concur that the current corporate governance and management practices are unsatisfactory in promoting public confidence as well as contributing to favourable performance in the Zimbabwean banking sector. This is contrary to Bateman (2010) who argues that public confidence is the cornerstone of a stable banking system and because of a bank's special position of trust in the national economy; corporate governance is a matter of paramount importance.

4.6.3.2 Confidence in the integrity of the banking sector in Zimbabwe

Table 4.16 shows how the responses on whether they are confident in the integrity of the banking sector in Zimbabwe. Integrity is an aspect of character that leads people to behave ethically even when it is not in their best interest to do so (Mcintosh, 2014). Trust and integrity are important in banking as the distinctive features of banking differentiate this activity from other kinds business. These features include fiduciary duty, banks as intermediaries for transferring money from one party to another, banking services as contractual fee-for-service business and that banking is an essential component of an economy (Boatright, 2014).

Table 4.16: Confidence in the intergrity of the banking sector

Confidence in the intergrity of the banking sector	Frequency	Percent	Cumulative Percent
Agree	20	21.3	21.3
Neutral	24	25.5	46.8
Disagree	33	35.1	81.9
Strongly Disagree	17	18.1	100.0
Total	94	100.0	

Table 4.16 shows that 35.1% of the respondents disagree, an additional 18.1% strongly disagree, whilst 21.3% agree and 25.5% had a neutral view that they are confident in the intergrity of the banking sector in Zimbabwe. This implies that the majority of the respondents are not confident in the intergrity of the banking sector in Zimbabwe. McInnes and Lin (2007) observe that a higher consumer perception of benevolence, integrity and competence is positively related to a higher level of consumer trust that can result in meaningful customer relationship programs.

4.6.3.3 Confidence in the competence and intergrity of executive officers of banks in Zimbabwe

Table 4.17 shows the responses on whether the banking public are confident in the competence and intergrity of executive officers of banks in Zimbabwe.

Table 4.17: Confidence in the competence and intergrity of executive officers

Confidence in the competence and intergrity of executive officers	Frequency	Percent	Cumulative Percent
Strongly Agree	3	3.2	3.2
Agree	19	20.2	23.4
Neutral	13	13.8	37.2
Disagree	29	30.9	68.1
Strongly Disagree	30	31.9	100.0
Total	94	100.0	

Table 4.17 shows that 31.9% of the respondents strongly disagree, an additional 30.9% disagree, whilst 20.2% agree and only 3.2% had a neutral view on whether they are confident in the

competence and integrity of executive officers of banks in Zimbabwe. This implies that the majority of the respondents are not confident in the competence and integrity of executive officers of banks in Zimbabwe. This is contrary to Chowdhury (2009) who argues that the management of a banking institution must exhibit impeccable integrity and professionalism in their conduct so as to engender public confidence in the safety of their deposits.

The findings in this section show that the current corporate governance and management practices in the banking sector are unsatisfactory in promoting public confidence as well as contributing to favourable performance in the Zimbabwean banking sector. This is evidenced by the public's lack of confidence in the competence and integrity of the executive officers of banks as well as the integrity of the banking sector in Zimbabwe.

4.6.4 Effectiveness of financial innovation

Figure 4.5 shows to what extent respondents view the impact of financial innovation and new financial services and products on public confidence and whether it contributes to favourable performance in the banking sector.

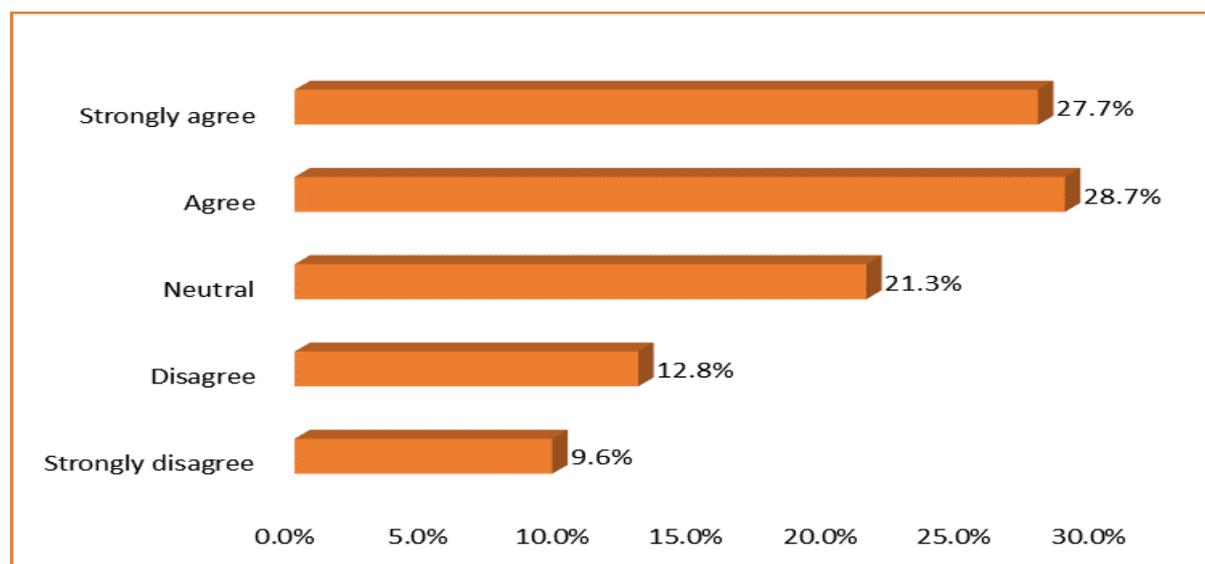


Figure 4.5 Effectiveness of financial innovation

According to figure 4.5, 28.7% agree and an additional 27.7% strongly agree, 21.3% of the respondents were neutral, whilst 12.8% of the respondents disagree and 9.6% strongly disagree that financial innovation and new financial services and products promote public confidence and

contribute to favourable performance in the banking sector. This implies that the majority of the respondents concur that financial innovation and new financial services and products promote public confidence and contribute to favourable performance in the banking sector.. This is in line with Ongore and Kusa (2013) who state that innovation in financial services, products and mobile banking have the potential to improve the relationships between banks and consumers by reaching remote corners of the world where the majority of the under banked and the unbanked population reside.

4.6.4.1 Impact of mobile banking

Table 4.18 shows the impact mobile banking has had on public confidence in the banking sector in Zimbabwe.

Table 4.18: Impact of mobile banking

Mobile banking impact	Frequency	Percent	Cumulative Percent
Excellent	18	19.1	19.1
Satisfactory	39	41.5	60.6
Average	12	12.8	73.4
Inadequate	14	14.9	88.3
Unsatisfactory	11	11.7	100.0
Total	94	100.0	

Table 4.18 shows that 41.5% of the respondents believe that the impact of mobile banking has been satisfactory, an additional 19.1% believe it was excellent, whilst 14.9% state it is still inadequate, with 11.7% saying it is unsatisfactory and 12.8% believe mobile banking has had an average impact on contributing to public confidence in the banking sector. The findings show that the majority of respondents concur that the impact of mobile banking in enhancing public confidence in the banking sector has been satisfactory. This is in line with Kathuo, Rotich and Anyango (2015) who established that the number of mobile banking transactions has tremendously increased since the introduction of mobile banking. Banks that have adopted mobile banking services have to a large extent increased their customer outreach and improved their financial performance.

This section shows that financial innovation and new financial services and products promote public confidence and contribute to favourable performance in the banking sector as shown by the positive impact mobile banking has had in the banking sector in enhancing public confidence through its convenience, speed in transaction and security.

4.7 Tests of Normality

A normality test was carried out to establish the distribution of the data and the results are shown in Table 4.19. Tests of normality use either the Kolmogorov-Smirnov or Shapiro-Wilk test. This study used a sample size of 94 respondents which was less than 2000. For a sample size less than 2000, the Shapiro-Wilk test is used.

Table 4.19: Tests of Normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	Degrees of freedom	Significance	Statistic	Degrees of freedom	Significance
Level of Public Confidence	.135	94	.000	.884	94	.000
Deposit Protection	.168	94	.000	.922	94	.000
Innovation	.206	94	.000	.891	94	.000
Regulation and monitoring	.196	94	.000	.886	94	.000
Corporate Governance	.194	94	.000	.907	94	.000

Using the Shapiro-Wilk test, the result gave a statistic value of 0.884 for level of public confidence, 0.922 for Deposit Protection, 0.891 for innovation, 0.886 for RBZ and 0.907 for corporate governance at a level of significance of 0.000 which is less than 0.05 ($p < 0.05$). This indicated that the sample was not normal and was unevenly distributed and therefore non-parametric tests were carried out.

4.8 Factor Analysis

Table 4.20: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.617
Bartlett's Test of Sphericity	Approx. Chi-Square	510.472
	Df	55
	Sig.	.000

Table 4.20 shows the KMO value is **0.617** which according to Beaumont (2012) is a good value to proceed with the test and would provide valid conclusions as it is above 0.5 and below 0.8 whilst the Bartlett’s Test of Sphericity has a sig value of **0.000** which is less than 0.001 which shows that the study can continue and perform a valid factor analysis.

Table 4.21: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared			Rotation Sums of Squared		
				Loadings			Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.693	28.404	28.404	3.693	28.404	28.404	2.848	21.907	21.907
2	2.730	21.004	49.408	2.730	21.004	49.408	2.756	21.199	43.106
3	2.091	16.082	65.490	2.091	16.082	65.490	2.330	17.920	61.026
4	1.050	8.079	73.568	1.050	8.079	73.568	1.630	12.542	73.568
5	.758	5.833	79.401						
6	.741	5.696	85.098						
7	.521	4.010	89.107						
8	.431	3.315	92.422						
9	.348	2.679	95.102						
10	.259	1.991	97.093						
11	.170	1.304	98.397						
12	.120	.926	99.324						
13	.088	.676	100.000						

Extraction Method: Principal Component Analysis.

Table 4.21 shows that the first four are the only components that have Eigen values over 1.00 and they have a cumulative percentage total of 73.568% of the total variability in the data. This

implies that the first four components noted in the table above are the four most important components of the analysis hence one could conclude that a four factor solution will be adequate to explain the data. Table 4.21 also shows that the first factor has the highest percentage, followed by the second factor, third factor and finally the fourth factor which implies that the most important component or factor that contributes the most is the first factor followed by the second factor, then the third factor and finally the fourth factor in that sequence.

Figure 4.6 shows a scree plot that supports the conclusion provided by illustrating the same data visually that there are four principal components represented by the first four vertically inclined dots on the scree plot graph.

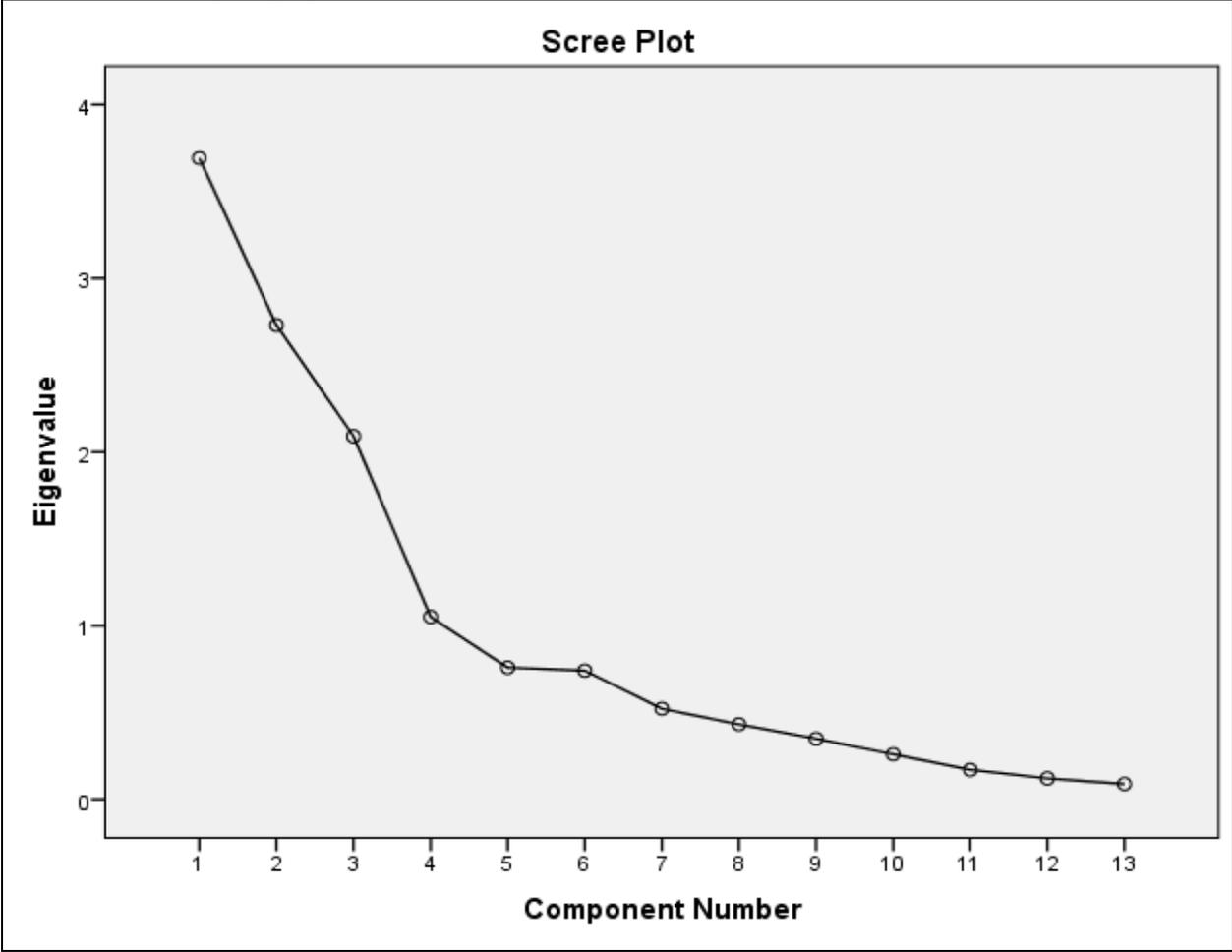


Figure 4.6: Scree plot

Table 4.22 shows the factor loadings that result from rotated component matrix showing the variables under each principal component which also assists in interpreting and establishing the identity of each principal component.

Table 4.22: Rotated Component Matrix^a

	Component			
	1	2	3	4
High Fees and bank charges	.882			
Unresolved Zimbabwe Dollar Accounts	.807			
Fear of loss of deposits	.742			
Inadequate bank regulation	.549			
Inadequate deposit protection		.859		
Insurance coverage		.748		
Executive officers competence			.859	
Confidence in the integrity of bank			.851	
Poor Bank Corporate Governance			.775	
Inadequate Financial Services and products				.879
Financial Innovation and new products	.370			.813
Mobile banking impact	-.409			.787
Poor Customer Service and experience				.581

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Table 4.22 shows that under component 1, which was earlier identified in table as the most important factor or with the highest percentage contribution, has got four variables under it. These variables are high fees and bank charges, unresolved Zimbabwe dollar accounts, fear of loss of deposits and inadequate bank regulation. The next component, which is component 2 and has the next highest percentage contribution according to table 4.22, has got two variables namely, inadequate deposit protection and insurance coverage review. Component 3 which is the next important component according to Table 4.22 has three variables which are executive officers' competence, confidence in the integrity of the bank and poor bank corporate

governance whilst component 4 has four variables namely, inadequate financial services and products, financial innovation and new products, mobile banking impact and poor customer service and experience.

It therefore seems reasonable to provisionally identify the first rotated factor with the variables high fees and bank charges, unresolved Zimbabwe dollar accounts, fear of loss of deposits and inadequate bank regulation as RBZ's role of monitoring and regulating the banking sector; the second rotated factor with the variables inadequate deposit protection and insurance coverage review as deposit protection; third rotated factor with the variables executive officers' competence, confidence in the integrity of the bank and poor bank corporate governance as corporate governance and management; whilst the fourth rotated factor with the variables inadequate financial services and products, financial innovation and new products, mobile banking impact and poor customer service and experience as financial products and services.

These results imply that the four principal components or factors of public confidence in Zimbabwe's banking sector are the monitoring and regulation of the banks, deposit protection, corporate governance and management as well as financial products and services which contribute to the stability of the banks. This is in line with Ameer and Mhiri (2013) who indicate that the factors impacting public confidence in the banking sector and contributing to bank performance are an effective deposit protection system; financial inclusion and customer expectations of financial services and products; effectiveness of bank monitoring, supervision and regulations; and good corporate governance and management.

4.9 Non-parametric Correlations

The non-parametric tests were conducted using the Spearman's rank correlation. Correlation analysis shows the direction, significance and magnitude of the relationships. The correlation ranges from -1.0 for a perfect negative relationship to +1.0 for a perfect positive relationship. The relationships between the independent factors of deposit protection, innovation, regulation and monitoring and corporate governance and the dependent factor of performance level were shown in Table 4.23.

Table 4.23: Nonparametric Correlations

		Deposit Protection	Innovation	Regulation and Monitoring	Corporate Governance	Performance level
Deposit Protection	Correlation Coefficient	1.000				
	Sig. (2-tailed)	.				
Innovation	Correlation Coefficient	.333**	1.000			
	Sig. (2-tailed)	.001	.			
Regulation and Monitoring	Correlation Coefficient	.507**	.483**	1.000		
	Sig. (2-tailed)	.000	.000	.		
Corporate Governance	Correlation Coefficient	.384**	.320**	.683**	1.000	
	Sig. (2-tailed)	.000	.002	.000	.	
Performance level	Correlation Coefficient	.665**	.533	.857	.620	1.000
	Sig. (2-tailed)	.000	.001	.000	.001	.

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (1-tailed).

The results established that there was a strong positive correlation between all the four variables and the performance level as they all had correlation coefficients above positive 0.5. Furthermore, all their p-values were less than 0.05 which means that they all have a significant relationship with performance level. These results imply that an effective deposit protection system; provision of financially innovative services and products; effective bank monitoring and regulation as well as good corporate governance and management in the banking sector has a significantly strong positive impact on the performance level of the banks. These results are in line with Ameer and Mhiri (2013) who indicate that the factors impacting public confidence in the banking sector and contributing to bank performance are an effective deposit protection

system; financial inclusion and customer expectations of financial services and products; effectiveness of bank monitoring, supervision and regulations; and good corporate governance and management.

4.10 Regression Results

The correlation coefficient provides the strength of the relationship, and to predict the value of a dependent variable from one or more independent variables, a regression analysis was conducted and the results obtained were as shown in Table 4.24.

Table 4.24: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749	.601	.466	.56243

Predictors: (Constant), Corporate Governance, Deposit protection, Innovation, RBZ

The results indicate that the value of R squared (0.601) and this showed that the model is a strong predictor of the level of public confidence in the banking sector. R squared assumes that every single variable explains the variation in the independent variable. This means that the independent variables of corporate governance, deposit protection, innovation and regulation and monitoring explain **60.1%** of the variance in the level of public confidence in the banking sector. The regression results can be further explained using the adjusted R squared (0.466) which shows the percentage of variation explained by only the independent variables that actually affect the dependent variable. The results of the adjusted R squared further reinforces that the model is a strong predictor of the level of confidence in the banking sector.

Table 4.25: ANOVA

	Sum of Squares	Degrees of freedom	Mean Square	F	Sig.
Regression	7.101	4	1.775	5.612	.000
Residual	28.153	89	.316		
Total	35.255	93			

Predictors: (Constant), Corporate Governance, Deposit protection systems, Innovation, Regulation and monitoring

Dependent Variable: Performance level

Table 4.25 shows that the p-value for this test is 0.000 which is less than the level of significance of 0.01 hence the set of predictors used are statistically significant at predicting the effectiveness and significance of public confidence on the stability of the banking sector. This implies that the results from this regression test were highly unlikely to have occurred by chance.

Table 4.26: Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.418	.344		4.128	.000
Regulation and monitoring	.459	.106	.496	4.314	.000
Corporate Governance	.086	.060	.155	1.425	.008
Deposit protection systems	.294	.095	.450	3.102	.003
Innovation	.114	.090	.157	1.270	.020

Dependent Variable: Performance level

According to the table 4.26 all the four variables have a p-value of less than 0.05 which indicates that the success of RBZ’s role of monitoring and regulating, good corporate governance and management, enhanced protection of deposits and innovative financial services and products in the Zimbabwean banking sector all predict the performance level in the sector. The table also shows that of the four variables that predict the performance level in the sector the one with the highest Beta and B coefficient was the success of RBZ’s role of monitoring and regulating, which implies that RBZ’s success in its role of monitoring and regulating the country’s banking sector contributes the most in predicting the performance level of the banking sector. This is also in line with the results earlier established by the factor analysis discussed in the previous section 4.8 that the principal component or factor of determining public confidence in the banking sector was the success of RBZ’s role of monitoring and regulating which in turn as shown in this section also contributes the most in predicting the performance level of the banking sector.

Therefore, this analysis has established that public confidence in the banking sector brought about by an effective deposit protection system, provision of financially innovative services and products; effective bank monitoring and regulation as well as good corporate governance and management in the banking sector has a significant impact on the performance of the banks in the sector. Hence, the research rejects the null hypothesis initially put forward which stated that:

H₀ Public confidence has no significant impact on the performance of banks in Zimbabwe

Whilst accepting the H₁ hypothesis initially put forward in chapter 1 which stated that:

H₁ Public confidence has got a significant impact on the performance of banks in Zimbabwe

4.11 Chapter Summary

The findings focused on the impact of factors influencing public confidence in the Zimbabwean banking sector. The study used the quantitative method on a sample of banks located in Harare. The chapter determined the level of public confidence in the banking sector, established the factors that contribute to public confidence as well as the strength and capabilities of measures used to enhance public confidence. The analysis of the results was conducted using factor analysis, non-parametric tests involving correlation, regression techniques and inferential statistics. The hypotheses initially put forward in chapter 1 were tested and one was accepted whilst the other was rejected. The next chapter shall provide the conclusions and recommendations for this study.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusions and recommendations arising from the study and areas that warrant further research.

5.2 Conclusions

5.2.1 To determine the level of public confidence in Zimbabwe's banking sector

The study has shown that the general level of public confidence in the Zimbabwean banking sector is low whilst the majority of banks are safe and sound except for about six indigenous banks that are under the Central bank's watch list as shown in Appendix B. The biggest challenge facing the banking sector in Zimbabwe is how to bring back public confidence and make the general public open accounts with banks.

5.2.2 To identify the factors that contribute to public confidence in Zimbabwe's banking sector

The study established that the factors that contribute to public confidence in Zimbabwe's banking sector were high fees and bank charges, unresolved Zimbabwe dollar account balances, fear of loss of deposits, inadequate bank regulation, inadequate deposit protection, executive officers integrity and competence, confidence in the integrity of bank, poor bank corporate governance, inadequate financial services and products, poor customer service and experience as well as bank failures. Furthermore, after conducting a factor analysis the study established that there were four principal components or factors that determined public confidence in Zimbabwe's banking sector and each factor or component was identified by the variables which were under it. The first factor, which has the highest contribution, included the variables high fees and bank charges, unresolved Zimbabwe dollar account, fear of loss of deposits, inadequate bank regulations. All these variables were identified by the researcher to be related to the monitoring, supervision and regulation of banks. The second factor was identified to be related to

deposit protection systems as it included the variables inadequate deposit protection and insurance coverage review; whilst the factor with third most contribution was identified as corporate governance and management of banks through the variables executive officers integrity and competence, confidence in the integrity of banks and poor bank corporate governance which were under that factor. The fourth and final factor was identified to be related to innovation of financial services and products as it included the variables inadequate financial services and products, financial innovation and new products, mobile banking impact and poor customer service and experience.

Therefore this study concludes that the principal factors that contribute to public confidence in Zimbabwe's banking sector are effectiveness of bank monitoring, supervision and regulations; effective deposit protection system; good corporate governance and management as well as provision of innovative financial products and services in that sequence.

5.2.3 To assess the extent to which the current measures have contributed effectively to public confidence in the banking sector

The findings from this study have led to the researcher to concluding that the effectiveness of DPC's efforts in ensuring public confidence in the banking sector has been average. Furthermore, one of the main reasons is that the current insurance coverage of \$500.00 provided by DPC does not instill confidence in the banking sector but rather it should be reviewed upwards to more than \$5000.00 so as to improve public confidence in the banking sector and make the public save more with a bank. On the other hand, RBZ has been ineffective in improving public confidence in the banking sector as it has been delaying in resolving problems in the banking sector as well as inadequately regulating and monitoring the banking sector which has led to past bank failures. Furthermore, the current corporate governance and management practices in the banking sector are unsatisfactory in promoting public confidence as well as contributing to favourable performance in the Zimbabwean banking sector. This is evidenced by the public's lack of confidence in the competence and integrity of the executive officers of banks as well as lack of confidence in the integrity of the banking sector in Zimbabwe. However, mobile banking and other similar innovative financial products and services have had a positive impact on public confidence in the banking sector and this shows that financial innovation and new financial

services and products promote public confidence and contribute to favourable performance in the banking sector.

5.3 Hypothesis testing

The study conducted a non-parametric correlation test as well as regression analysis and established that public confidence in the banking sector brought about by an effective deposit protection system, provision of financially innovative services and products; effective bank monitoring and regulation as well as good corporate governance and management in the banking sector has a significant impact on the performance of the banks in the sector. Hence, the research rejects the null hypothesis initially put forward which stated that:

H₀ Public confidence has no significant impact on the performance of banks in Zimbabwe

Whilst accepting the H₁ hypothesis initially put forward in chapter 1 which stated that:

H₁ Public confidence has got a significant impact on the performance of banks in Zimbabwe

Therefore the study concludes that the low public confidence in the banking sector in Zimbabwe has had a significant impact on the performance of banks in Zimbabwe as their performance has also been low and unsatisfactory as well. However, if public confidence is enhanced through provision of effective deposit protection system, financially innovative services and products by banks; effective bank monitoring, supervision and regulation as well as practice of good corporate governance and management by banks in Zimbabwe the banking sector could achieve favourable performance.

5.4 Recommendations

To improve public confidence in the Zimbabwean banking sector, it is recommended that:

- The traditional role of the Reserve Bank of Zimbabwe as a central bank should be restored by capacitating its regulatory, supervisory and monitoring role in the financial sector.

- The corporate governance and management processes should be strengthened through amending the relevant legislation, ethical conduct of directors and management and strict internal systems and controls.
- The Deposit Protection Corporation should review the compensation upwards and undertake public awareness programmes.
- Banks should promote the use of mobile financial services and technology in banking, promote financial inclusion and financial literacy.

5.5 Areas of Further study

The researcher discovered areas of further study which include gaps that need to be enhanced in the regulatory and supervisory system in Zimbabwe's financial sector in view of bank failures and loss of public confidence in the banking sect. The other area could be to determine whether the same factors still impact bank performance and financial stability in future periods.

References

- Abaenewe Z. C., Ogbulu O M and Ndugbu M O. (2013), Electronic Banking and Bank Performance in Nigeria, West African Journal of Industrial and Academic Research, Vol..est. 6 No.1 March 2013.
- Adele H. A. and Akanbi T.A. (2012), Effects of New Financial Products on the Performance of Ademola O. G., Olusegun J. O. and Kehinde O. (2013), Bank Distress in Nigeria and the Nigeria Deposit Insurance Corporation Intervention, Global Journal of Management and Business Research Finance, Volume 13 Issue 8 Version 1.0 Year 2013, Publisher: Global Journals Inc. (USA), Online ISSN: 2249-4588 and Print ISSN: 0975-5853.
- Admati A. R., Conti-Brown P. and Pfleiderer P. (2012), University of California, UCLA Law Review, L. REV. 852 (2012).
- Ahmad A. E. M. K., and Al-Zu'bi, H. A. (2011), E-banking Functionality and Outcomes of Customer Satisfaction: An Empirical Investigation, International Journal of Marketing Studies Vol. 3, No. 1; February 2011, www.ccsenet.org/ijms.
- Ainin S., Lim C. H., and Wee A. (2005), Prospects and Challenges of e-banking in Malaysia, The Electronic Journal of Information Systems in Developing Countries, <http://www.ejisdc.org>, 2005.
- Alam N. (2012), The Impact of Regulatory and Supervisory Structures on Bank Risk and Efficiency: Evidence from Dual Banking System, Macrothink Institute, Asian Journal of Finance and Accounting, ISSN 1946-052X, 2012, Vol. 4, No. 1.
- Alawode A. A. and Al Sadek M. (2008), What is Financial Stability? Financial Stability Paper Series No. 1/March 2008, Central Bank of Baharain.
- Al-Laham M., Al-Tarawneh H., and Abdallat N. (2009), Development of Electronic Money and Its Impact on the Central Bank Role and Monetary Policy, Issues in Informing Science and Information Technology Volume 6, 2009.
- Ameur I. G. B., Mhiri S. M. (2013), Explanatory Factors of Bank Performance: Evidence from Tunisia, International Journal of Economics, Finance and Management, VOL. 2, NO. 1, March 2013.

Ankrah E. (2012), Technology and Service Quality in the Banking Industry in Ghana, Information and Knowledge Management, www.iiste.org, ISSN 2224-5758 (Paper) ISSN 2224-896X, (Online), Vol 2, No.8, 2012.

Bakare A. S., The trend and growth implications of bank recapitalization in Nigeria, African Journal of Business Management, Vol. 5(14), pp. 5938-5945, 18 July, 2011, Available online at <http://www.academicjournals.org/AJBM>.

Banan M. R. (2010), E-banking and managerial challenges, Georgian Electronic Scientific Journal: Computer Science and Telecommunications 2010|No.1 (24).

Barth J. R., Lin C., Ma Y., Seade J., Song F. M. (2013), Do bank regulation, supervision and monitoring enhance or impede bank efficiency?, Journal of Banking and Finance, Vol. 38, Issue 8, August 2013, Pages 2879–2892, Elsevier.

Bateman M. (2010), Why Doesn't Microfinance Work? (Zed Books), microfinance? Evidence from a randomized evaluation.

Bateman M. and Joon Chang H. (2009), The Microfinance Illusion, Mimeo, University of Juraj.

Bátiz-Lazo B. and Woldesenbet K., The Dynamics of Product and Process, 4th ed, Prentice Hall Financial Times, Harlow.

Berger, A. N., Imbierowicz, B., Rauch, C., The Roles of Corporate Governance in Bank Failures during the Recent Financial Crisis, December 2012.

Bikker J. A. (2010), Measuring Performance of Banks: An Assessment, Journal of Applied Business and Economics, Vol. 11(4) 2010.

Blundell-Wignall A. and Atkinson P. (2010), Thinking Beyond Basel III: Necessary Solutions for Capital and Liquidity OECD, Journal: Financial Market Trends, Volume 2010 – Issue 1, © OECD 2010, Pre-publication version.

Blundell-Wignall A., Atkinson P. and Hoon Lee S. (2008), The Current Financial Crisis: Causes and Policy Issues Financial Market Trends, © OECD 2008.

Brand T. H. (2012), On the Performance of Consumer Confidence Measurement, Section on Survey Research Methods – JSM 2012, TCMB Đdare Merkezi Đstiklal, Cad. No:10 06100 Ulus Ankara, Turkey.

Caprio, Jr. G. (2013), Financial Regulation after the Crisis: How Did We Get Here, and How Do We Get Out? Special Paper 226, LSE Financial Markets Group Special Paper Series.

Cariboni J., Joossens E. and Uboldi A. (2010), The promptness of European Deposit Protection Schemes to face banking failures, *Journal of Banking Regulation* (2010) 11, 191–209. doi:10.1057/jbr.2010.13.

Caruana J. and Avdjiev S. (2012), Sovereign creditworthiness and financial stability: an international perspective, *Public debt, monetary policy and financial stability*, Banque de France, *Financial Stability Review* • No. 16 • April 2012 71.

Chattopadhyay, Kumar S., (2011), Financial Inclusion in India: A case-study of West Bengal

Chiwira O., Tadu R. and Muyambiri B., Financial inclusion and financial stability: the important role of financial regulation in explaining the relationship. Empirical review, *Journal of Research in International Business and Management* (ISSN: 2251-0028) Vol. 3(4) pp. 139-149, April, 2013. Available online @<http://www.interestjournals.org/JRIBM>, Copyright ©2012 International Research Journals.

Chowdhury, A. (2009), *Microfinance as a Poverty Reduction Tool: A Critical Assessment*.

Coco, G. and Pignataro, G. (2009), *Inequality of Opportunity in the Credit Market: Do the poor have equal opportunity to participate in the credit market?*

Dailami M and Masson P. (2009), *Measures of Investor and Consumer Confidence and Policy Actions in the Current Crisis*, Policy Research Working Paper 5007, The World Bank

Demirguc-Kunt A. and Klapper L. (2012), *Measuring Financial Inclusion: The Global Findex Database*, The World Bank Development Research Group Finance and Private Sector Development Team, April 2012.

Denzin, N. and Lincoln, Y. (2003), "The Discipline and Practice of Qualitative Research", in *Innovative Banking in UK*.

Denzin, N. and Lincoln, Y. (eds.) *Collecting and Interpreting Qualitative Materials*, 2nd Development Prospects Group, International Finance Team, July 2009.

Diamond, D. (1996), Financial intermediation as delegated monitoring: a simple example. *Economic Quarterly*, Federal Reserve Bank of Richmond. 82,3: 51- 66.

Diamond, D. And Dybvig, P.H. (1983), Bank runs, deposit insurance, and liquidity. *Journal of Political Economy*. 91: 401-19.

Diamond, D.W. (1984), Financial intermediation and delegated monitoring. *Review of Economic Studies*. 51:393-414.

Dichter T. (2007), A Second Look at Microfinance: The Sequence of Growth and Credit in Economic History. Financially Self-Sufficient Institutions, and Showing Improvement in the Lives of the Poorest Women and their Families.

Donovan K. P. (2012), Mobile Money, More Freedom? The Impact of M-PESA's Network Power on Development as Freedom, *International Journal of Communication* 6 (2012), 2647–2669 1932–8036/20120005.

Duch R. M. and Kellstedt P. M. (2011), The heterogeneity of consumer sentiment in an increasingly homogenous global economy, Vol. 30, Issue 3, September 2011, ISSN 0261- 3794, *Electoral Studies* 30 (2011) 399–405.

E. J. Pan (2011), *Structural Reform of Financial Regulation*,

Easterby-Smith, M., Thorpe, R. and Jackson, P. (2008), *Management Research*, 3rd ed, SAGE Publications, Inc., California, pp. 1-45.

Ed-Zilla Daniel P. and Jonathan A. (2013), Factors affecting the Adoption of Online Banking in Ghana: Implications for Bank Managers, *International Journal of Business and Social Research (IJBSR)*, Volume -3, No.-6, June, 2013.

Ergungor O. E. and Thomson J. B. (2005), Systemic Bank Crises, Policy Discussion Paper, No. 9, February, 2005, Federal Reserve Bank of Cleveland. Evidence from Developing Bank Supervision in Bulgaria and Hungary, Paper prepared for the ECPR Joint Sessions in Lisbon, Portugal, 14-19 April 2009, Workshop 9: “The Role of Transnational Experts in European Integration: Recharging the Debate”.

Eriksson, P. and Kovalainen, A. (2008), *Qualitative Methods in Business Research*, 1st ed,

Gakure R. W., Ngugi J. K., Ndwiga P. M. and Waithaka S. M. (2012), Effect of Credit Risk Management Techniques on the Performance of Unsecured Bank Loans Employed Commercial Banks in Kenya, *International Journal of Business and Social Research (IJBSR)*, Volume -2, No.-4, August 2012.

Ghalib A. K. (2010), Does Microfinance Reach the Poorest? Empirical Evidence of Programme

Gorton, G. (1988), Banking panics and business cycles. *Oxford Economic Papers*. 40:751-781.

Gorton, G., and Pennacchi, G. (1990), Financial intermediaries and liquidity creation. *Journal of Finance*. 45:49-71.

Hatch, M. J. and Cunliffe, A. L. (2006), *Organisation Theory*, 2nd ed, Oxford University, SAGE Publications Ltd., London.

Hawkins J. (2011), *Regulating on the Fringe: Reexamining the Link between Fringe Banking and Financial Distress*, Draft – Forthcoming 86 *Indiana Law Journal* (2011).

Hays F. H., De Lurgio S. A., and Gilbert, Jr. A. H., *Efficiency Ratios and Community Bank Performance*, *Journal of Finance and Accountancy*, ().

Hoti A., Alshiqi–Bekteshi S. and Livoreka B. (2014), *Performance of Foreign Banks Operating in Kosovo – ProCredit Bank Kosovo - Raiffeisen Bank Kosovo and NLB Prishtina*, *Academic Journal of Interdisciplinary Studies*, MCSER Publishing, Rome-Italy, Vol 3 No 2, June 2014, E-ISSN 2281-4612, ISSN 2281-3993.

Jack W. and Suri T. (2010), *The Economics of M-PESA*, August 2010.

James, K. and Vinnicombe, S. (2002), "Acknowledging the Individual in the Researcher", in Jegede C.A. (2014), *Effects of Automated Teller Machine on the Performance of Nigerian Banks*, *American Journal of Applied Mathematics and Statistics*, 2014, Vol. 2, No. 1, 40-46 Available online at <http://pubs.sciepub.com/ajams/2/1/7> © Science and Education Publishing DOI:10.12691/ajams-2-1-7.

Kabanda, S.K., Brown, I., Nyamakura, V. and Keshav, J. (2010), 'South African banks and their online privacy policy statements: A content analysis', *SA Journal of Information Management* 12(1), Art. #418, 7 pages. DOI: 10.4102/sajim.v12i1.4.

Karimzadeh M. and Alam D. (2012), *Electronic Banking Challenges In India: An Empirical Investigation*, *Interdisciplinary Journal of Contemporary Research In Business*, June 2012 Vol. 4, No 2.

Karnani A. (2007), *Microfinance Misses Its Mark*.

Karnani A. (2009), *The Bottom of the Pyramid Strategy for Reducing Poverty: A Failed Promise*

Kelkar V. (2010), *Financial Inclusion for Inclusive Growth*.

Khrais L. T. (2012), *The Adoption of Online Banking: a Jordanian Perspective* *European Journal of Business and Management* www.iiste.org, ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)

Khundadze S. (2009), *The Problem of Moral Hazard and Effects of Deposit Insurance Project*, *IBSU Scientific Journal* 2009, 3(2), 89-114.

Kimos Adjei J. K. and Arun T. (2009), *Microfinance Programmes and the Poor: Whom Are They Reaching? Evidence from Ghana*, *Brooks World Poverty Institute Working Paper 72*, Manchester University.

Kosmidou K. And Zopounidis C. (2008), Measurement of Bank Performance in Greece, South-Eastern Europe Journal of Economics 1 (2008) 79-95.

Kumbirai M. and Webb R. (2010), A financial Ratio Analysis of Commercial Bank Performance in South Africa, African Review of Economics and Finance, Vol. 2, No. 1, Dec 2010.

Kvale, S. (1996), InterViews, 1st ed, Sage Publications, Inc., London.

Leckson-Leckey G. T. Y., Osei K. A., Harvey S. K. (2011), Investments in Information Technology (IT) and Bank Business Performance in Ghana, International Journal of Economics and Finance, Vol. 3, No. 2; May 2011.

Mabvure T. J., Kamoyo M., Ndlovu B., Gwangwava E. and Manuere F. (2012), Multinational Banks' Role in Zimbabwe's Economic Development, Journal of Sustainable Development in Africa, (Volume 14, No.7, 2012), ISSN: 1520-5509.

Makina D. (2009), Recovery of the Financial Sector and Building Financial Inclusiveness United Nations Development Programme Comprehensive Economic Recovery in Zimbabwe Working Paper Series Working Paper 5 2009.

Makoni, T.A. (2010), 'Overview of Zimbabwean Banking Sector', <http://EzineArticles.com/?expert=Dr.Tawafadza> A. Makoni (accessed on 14th September 2012).

Mambondiani L., Zhang Y. and Arun T. Corporate Governance and Bank Performance: Evidence from Zimbabwe.

Microcredit and the Poorest of the Poor: Theory and Evidence From Bolivia, Economics and Sociology Occasional Papers 28334, Ohio State University.

Moise N. M. and Illie E. (2012), Financial Crisis Impact on Bank Deposits Guarantee, International Journal of Academic Research in Economics and Management Sciences, January 2012, Vol. 1, No. 1.

Momirovic D. M., Simonović Z. and Milisavljević Z. (2010), Deposit Insurance System in Serbia - Weaknesses and Improvements, Petroleum-Gas University of Ploiesti BULLETIN, Economic Sciences Series, Vol. LXII No. 3/2010, 1 – 13.

Montgomery, H., Weiss, J. and Kurmanalieva, E. (2003), Micro-finance and Poverty Reduction in Asia: What is the Evidence?

Morduch J. (2000), The Microfinance Schism, World Development 28:4, The All-Party Parliamentary Group on Microfinance, Helping or hurting: What role for microfinance in the

fight against poverty? Report on the All-Party Parliamentary Group on Microfinance's inquiry into the UK's role in supporting the microfinance sector worldwide.

Muhammad A., Gatawa N. M., and Kebbi H. S. B. (2011), Impact of Information and Communication Technology on Bank Performance: A Study of Selected Commercial Banks in Nigeria (2001 – 2011), *European Scientific Journal*, March 2013 edition vol.9, No.7 ISSN: 1857 – 7881 (Print) e - ISSN 1857- 7431.

Muhammad, A. (2009), *Grameen and Microcredit: A Tale of Corporate Success*.

Mumvuma, T., Mujajati, C. and Mufute, B. (2003), 'Understanding Reform: the Case of Zimbabwe', First Draft URP.

Mwakajumilo S. L. I. (2014), Non- Performing Assets and Their Impact on Growth of Banking Industry In Tanzania: A Case of NMB Bank, *International Journal of Development Research* Vol. 4, Issue, 6, pp. 1304-1307, June, 2014, ISSN: 2230-9926.

Nair A. and Fissaha A. (2010), *Rural Banking: The Case of Rural and Community Banks in Ghana*, Agriculture and Rural Development Discussion Paper 48, The World Bank, May 2010.

Navajas S., Schreiner M., Meyer R. L., Gonzalez-Vega C., and Rodriguez-Meza J. (1998), The World Bank Development Research Group Finance and Private Sector Development Team

Nel, H.F. (2003). Financial-system stability as a central bank objective. Paper delivered at the Biennial Conference of the Economic Society of South Africa. Somerset-West, Cape. 17-19 September 2003.

Ngaujake, Uahatjiri (2004) Protecting depositors and promoting financial stability in South Africa: is there a case for the introduction of deposit insurance? Masters thesis, Rhodes University. November 2013, ISSN 1359-9151-226.

Nowak R. A. (2011), *How Effective is Global Financial Regulation?, The Basel Accords' Role in Mitigating Banking Crises*, Duke University, Durham, North Carolina, 2011.

Oghojafora B. E. A., Olayemia O. O. O., Okonjia P. S. and Okolieb J. U. (2010), Poor Corporate Governance and its Consequences on the Nigerian Banking Sector, *Serbian Journal of Management* 5 (2) (2010) 243 – 250.

Oman Khanlen A. E., Taiwo N. J. and Okorie U. (2013), The Role of Corporate Governance in the Growth of Nigerian Banks *Journal of Business Law and Ethics*, Vol. 1 No. 1, December 2013. ©American.

Ongore V. o. and Kusa G. B. (2013), Determinants of Financial Performance of Commercial Banks in Kenya, *International Journal of Economics and Financial Issues*, Vol. 3, No. 1, 2013, pp.237-252, ISSN: 2146-4138, www.econjournals.com.

Owojori A. A., Akintoye I. R. and Adidu F. A. (2011), The challenge of risk management in Nigerian banks in the post consolidation era *Journal of Accounting and Taxation*, Vol. 3(2), pp. 23-31, June 2011, Available online at <http://www.academicjournals.org/JAT>, ISSN 2141-6664 ©2011 Academic Journals.

Pal R. and Pal R. (2012), *Income Related Inequality in Financial Inclusion and Role of Banks* Partington, D. (ed.) *Essential Skills for Management Research*, 1st ed, SAGE Publications Ltd., London.

Partington. (Cranfield School of Management), (2008), *Research Strategies Overview* (unpublished Teaching Material), UK.

Pholphirul P. (2008), *Financial Instability, Banking Crisis, and Growth Volatility In Thailand: An Investigation of Bi-Directional Relationship*, *International Journal of Business and Management* June, 2008, Press, Oxford.

Ragnvald S. R. (2001), *Self-Service Banking: Value Creation Models and Information, Exchange*, Series Editors: Dag Olsen and Sandeep Puroo, Volume 4 No 3, 2001.

Raz A. F., Irawan C., Indra T. P. K. and Darisman R. (2014), *Financial Supervision and Bank Profitability: Evidence from East Asia*, *Journal of Reviews on Global Economics*, 2014, 3, 241-253.

Research and Guidance Committee International Association of Deposit Insurers C/O Bank For International Settlements Central bahnpplatz 2, (2013), *Financial Inclusion and Deposit Insurance Research*, Ch-4002 Basel, Switzerland June 2013 Dobrila and University of Cambridge.

Saunders M., Lewis P. and Thornhill A. (2009), *Research Methods for Business Students*, Fifth edition 2009 Pearson Education Limited, Edinburgh Gate, Harlow, Essex, CM20 2JE, England.

Saunders, M., Lewis, P. and Thornhill, A. (2007), *Research Methods for Business Students*, *Selected Commercial Banks in Nigeria*, *Research Journal of Finance and Accounting*, www.iiste.org, ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online), Vol 3, No 7, 2012.

Shannak R. O. (2013), *Key Issues in E-Banking Strengths and Weaknesses: The Case of Two Jordanian Banks*, *European Scientific Journal*, March 2013 edition vol.9, No.7 ISSN: 1857 – 7881 (Print) e - ISSN 1857- 7431.

Sigurjonsson T. O. (2010) "The Icelandic Bank collapse: challenges to governance and risk management", *Corporate Governance: The international journal of business in society*, Vol. 10 Iss: 1, pp.33 – 45.

Simanowitz A. and Walter, A. (2002), *Ensuring Impact: Reaching the Poorest while Building*.

Smets F. (2014), *Financial Stability and Monetary Policy: How Closely Interlinked?*, *International Journal of Central Banking* June 2014. *ial Series on Information Exchange* its

Spendzharova A. B. (2009), *Multi-level Governance of Banking Regulation in the EU*:

Sriharsha R. K. (2011), *A Study on Extent of Financial Inclusion among Small Borrowers in Andhra Pradesh*.

Strassburg S. and Khumalo J. (2012), *FinScope MSME Survey Zimbabwe 2012*, FinMark Trust, Johannesburg, South Africa.

Tandelilin E., Kaaro H., Mahadwartha P. A. and Supriyatna (2007), *Corporate Governance, Risk Management, and Bank Performance: Does Type of Ownership Matter?*, EADN WORKING PAPER No. 34 (2007), Final Report of an EADN Individual Research Grant Project, May 2007.

Tombini A., Banco (2006), Conference on “Macprudential Supervision: Challenges for Supervisors”, IMF and the Korean Financial Supervisory Service, Seoul, November 7-8, 2006.

Ugwuanyi G. O. and Amanze P. G. (2014), *Banking Sector Reform: An Approach to Restoring Public Confidence on the Nigerian Banking Industry*, *Research Journal of Finance and Accounting* www.iiste.org, ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online), Vol.5, No.6, 2014.

Ugwunta D. O., *The Structure of the Nigerian Banking Sector and its Impact on Bank Performance* *Journal of Economics and Sustainable Development* www.iiste.org ISSN 2222- 700 (Paper) ISSN 2222-2855 (Online), Vol.3, No.7, 2012.

Unnikrishnan R., Ramasubbian H., Duraiswamy G., Somanathan R. and Dewan I. (2012), *Identifying Targeting with Nonparametric Methods: An Application to an Indian Microfinance Program*. Discussion paper 03-11, Indian Statistical Institute.

V. Micajkova (2013), *Deposit Insurance in Times of Financial Crisis*, *South-Eastern Europe Journal of Economics* 2 (2013) 165-176.

Wiig A. (1997), *Microcredit programmes: Methods for solving dilemmas of credit expansion*, CMI Working Papers 12, April 2012.

Woldie A., Hinson R., Iddrisu H., Boateng R. (2008), Internet banking: an initial look at Ghanaian bank consumer Perceptions; Banks and Bank Systems, Volume 3, Issue 3, 2008.

Živko I. and Kandža T. (2013), Impact of Financial Crisis on Banking Sector Stability in Republic Croatia, Poslovna Izvrnost Zagreb, God. Vii (2013) Br. 1.

Appendix A

QUESTIONNAIRE

My name is Caleb Phiri (Registration Number R851499U) and I am a Master of Business Administration (MBA) degree student with the University of Zimbabwe's Graduate School of Management (GSM). I am undertaking a dissertation project in partial fulfilment of the requirements for the MBA degree program. I kindly request your precious time to complete this questionnaire which is expected to take not more than 5 minutes. Your confidentiality will be strictly observed. The questionnaire is comprised of closed-ended questions that you are expected to tick (✓). I take this opportunity to thank you in advance and hope that you will enjoy.

a) BRIEF DESCRIPTION OF THE BANK CLIENT

Retail Clients

1) What is your gender?

1.1) Male

1.2) Female

2) What is your age?

2.1) Below 20

2.2) 21-30

2.3) 31-40

2.4) 41-50

2.5) Above 50

3) Which of these best describes your current occupation?

- 3.1) Formally employed
- 3.2) Self-employed
- 3.3) Currently unemployed
- 3.4) Student
- 3.5) Retired

4) Which of the following best describes the type of industry you work in?

- 4.1) Government
- 4.2) State owned enterprise
- 4.3) Large private enterprise
- 4.4) Small and medium enterprise
- 4.5) Informal sector

General level of confidence in the Zimbabwean banking sector

5) Which bank do you use?

- 5.1) Indigenous bank
- 5.2) International bank
- 5.3) Both
- 5.4) None at all

6) How many years have you been banking?

- 6.1) Less than one (1)
- 6.2) One (1) to five years (5)
- 6.3) Five (5) to ten (10) years
- 6.4) More than ten (10) years
- 6.5) Not at all

7) How many bank accounts do you have?

- 7.1) One (1)
- 7.2) Two (2)
- 7.3) Three (3)
- 7.4) Four (4)
- 7.5) More than four (4)

8) What is your level of confidence in the Zimbabwean banking sector?

- 8.1) Excellent
- 8.2) Good
- 8.3) Neutral
- 8.4) Poor/ Inadequate
- 8.5) Unsatisfactory

9) Do you have confidence that your bank will be able to pay up your money at all times?

- 9.1) Strongly agree
- 9.2) Agree
- 9.3) Neutral
- 9.4) Disagree
- 9.5) Strongly disagree

10) How has your confidence towards the banking sector changed in the past 12 months?

- 10.1) Significantly increased
- 10.2) Slightly increased

- 10.3) Remained the same
- 10.4) Slightly decreased
- 10.5) Significantly decreased

11) How likely are you to recommend your bank?

- 11.1) Very likely
- 11.2) Likely
- 11.3) Neutral
- 11.4) Unlikely
- 11.5) Very unlikely

Factors that determine public confidence in the Zimbabwean banking sector

Indicate whether the following factors influence public confidence and financial stability in the Zimbabwean banking sector?

		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
12)	Poor customer service and experience					
13)	High fees, bank charges and interest rates					
14)	Fear of loss of deposits					
15)	Unresolved Zimbabwe dollar account balances					
16)	Poor bank corporate governance and management practices					
17)	Inadequate bank regulation					
18)	Inadequate deposit protection					
19)	Inadequate financial services and products					

20) Do past bank failures discourage you from saving more with banks?

- 20.1) Most likely
- 20.2) Likely

- 20.3) Neutral
- 20.4) Unlikely
- 20.5) Most unlikely

Current measures used to enhance public confidence in the Zimbabwean banking sector

21) How effective is the Deposit Protection Corporation (DPC) in maintaining public confidence and promoting financial stability in the banking sector?

- 21.1) Excellent
- 21.2) Good
- 21.3) Neutral
- 21.4) Average
- 21.5) Poor

22) The insurance coverage of your bank deposits provided by DPC is currently \$500.00. Does the \$500.00 cover instill your confidence in the banking sector and contribute to financial stability?

- 22.1) Strongly agree
- 22.2) Agree
- 22.3) Neutral
- 22.4) Disagree
- 22.5) Strongly disagree

23) If the insurance cover of \$500.00 was to be reviewed, how much would improve your confidence in the banking sector and make you save more with a bank?

- 23.1) \$1,000
- 23.2) \$2,000

- 23.3) \$3,000
- 23.4) \$5,000
- 23.5) More than \$5,000

24) Can financial innovation and new financial services and products promote public confidence and contribute to financial stability in the banking sector?

- 24.1) Strongly agree
- 24.2) Agree
- 24.3) Neutral
- 24.4) Disagree
- 24.5) Strongly disagree

25) What has been the impact of mobile banking on public confidence and financial stability in the banking sector?

- 25.1) Excellent
- 25.2) Good
- 25.3) Neutral
- 25.4) Average
- 25.5) Poor

26) How effective is the Reserve Bank of Zimbabwe as a mechanism to maintain public confidence and promote financial stability in the banking sector?

- 26.1) Excellent
- 26.2) Good
- 26.3) Neutral
- 26.4) Average
- 26.5) Poor

27) Has the time taken by RBZ to effect corrective action to resolve problem banks improved public confidence and contributed to financial stability in the banking sector?

- 27.1) Strongly agree
- 27.2) Agree
- 27.3) Neutral
- 27.4) Disagree
- 27.5) Strongly disagree

28) How effective is good corporate governance and management practices in promoting public confidence and contributing to financial stability in the banking sector?

- 28.1) Excellent
- 28.2) Good
- 28.3) Neutral
- 28.4) Average
- 28.5) Poor

29) Do you have confidence in the integrity of the banking sector in Zimbabwe?

- 29.1) Strongly agree
- 29.2) Agree
- 29.3) Neutral
- 29.4) Disagree
- 29.5) Strongly disagree

30) Do you have confidence in the competence and integrity of executive officers of banks?

- 30.1) Strongly agree
- 30.2) Agree
- 30.3) Neutral
- 30.4) Disagree
- 30.5) Strongly disagree



THANK YOU

Appendix B

Individual Banks Assets and Return on assets ratio at 31st December, 2013

Bank	Bank Assets (millions)	%age of Total Assets	Profit after Tax (millions)	Return on Assets (%)
CBZ	1,427.83	25.04	17.52	1
CABS	623.31	10.03	18.15	3
BancABC	527.15	9.24	14.20	3
Stanbic	475.03	8.33	18.30	4
Stanchart	424.80	7.45	9.63	2
FBC	322.96	5.66	5.54	2
Barclays	307.81	5.39	2.95	1
NMB	259.48	4.55	-3.32	-1
ZB	257.38	4.51	0.81	0.3
MBCA	179.69	3.15	4.04	2
Metbank	169.02	2.96	-1.79	-1
Ecobank	127.07	2.22	1.36	1
Steward	126.61	2.22	N/A	N/A
Agribank	123.89	2.17	-9.27	-7
AfrAsia	108.31	1.89	-16.20	-0.14
POSB	89.99	1.57	-0.21	-0.2
FBC BS	78.93	1.38	7.07	10
ZB BS	36.78	0.64	1.95	5
Allied	34.82	0.61	-3.15	-8
Total	5,465.92	100	83.80	1

Source: Bank Financial Statements, RBZ and MMC

Individual Banks Deposits and Loans to Deposit Ratio at 31st December, 2013

Bank	Deposits (millions)	Number of Depositors Thousands)	%age of Total Deposits	Loans (millions)	% of Total Loans	Loans to Deposit Ratio (%)
CBZ	1,303.98	62	29.17	889.99	28.51	64
CABS	486.02	208	10.87	322.31	10.22	70
BancABC	348.19	93	7.79	325.05	10.31	87
Stanbic	388.03	85	8.68	312.55	9.91	81
Stanchart	314.40	65	7.03	180.68	5.73	61
FBC	279.82	52	6.26	212.51	6.74	61
Barclays	248.13	80	5.55	115.43	3.66	44
NMB	216.04	29	4.83	181.32	5.75	80
ZB	211.11	140	4.72	132.20	4.19	63
MBCA	131.30	27	2.93	77.58	2.46	61
Metbank	118.37	14	2.64	102.34	3.25	76
Ecobank	83.26	29	1.86	92.92	2.95	113
Steward	59.57	375	1.33	N/A	N/A	N/A
Agribank	56.61	60	1.26	90.42	2.87	156
AfrAsia	72.59	27	1.62	91.88	N/A	N/A
POSB	72.15	N/A	1.61	47.68	1.51	76
FBC BS	43.33	37	0.96	44.90	1.42	108
ZB BS	18.40	38	0.41	12.65	0.40	58
Allied	17.57	12	0.39	3.21	0.10	23
Total	4,336.71	1,496	100.00	3,700.00	100	73

Source: Bank Financial Statements, RBZ and MMC (2014)

Individual Bank's Shareholders Equity and the Capital Adequacy Ratio

Bank	Total Shareholders' Equity (millions)	Market Share	Risk Based Assets (millions)	Capital Adequacy
CABS	115.52	14.22	525.09	22.00
CBZ	112.76	13.88	811.83	13.89
BancABC	80.93	9.96	481.72	16.80
Stanchart	75.12	9.25	340.54	22.06
Stanbic	66.07	8.13	314.61	21.00
Metbank	45.71	5.63	173.15	26.40
Barclays	44.34	5.46	260.83	17.00
NMB	42.45	5.22	245.65	17.28
Ecobank	40.11	4.94	115.82	34.63
FBC	39.03	4.80	255.61	15.27
ZB	36.13	4.45	268.46	13.46
MBCA	31.71	3.90	137.86	23.00
FBCBS	25.81	3.18	56.11	46.00
Agribank	19.45	2.39	139.65	15.00
ZBBS	16.56	2.04	38.52	43.00
POSB	12.45	1.53	91.87	13.55
Allied	8.39	1.03	36.18	23.19
Total	812.55	100.00		

Source: Bank Financial Statements, RBZ and MMC (2014)