

Public confidence and its impact on the performance and stability of banks in Zimbabwe

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ABSTRACT

The study sought to assess the factors determining public confidence and its impact on the performance and stability of banks in Zimbabwe. Empirical data was obtained through the administration of questionnaires to 131 respondents. The study findings were that public confidence in the banking sector was low and it was affected by a number of factors. The study concluded that the low public confidence significantly impacted the performance of banks in Zimbabwe. The study recommended the restoration of the role of the RBZ by capacitating its regulatory, supervisory and monitoring role in the financial sector, strengthening of corporate governance in the banking sector and the review of compensation offered to depositors by the Deposit Protection Corporation.

Key words: Bank integrity; public confidence; bank stability; deposit protection; return on assets;

1. INTRODUCTION AND BACKGROUND TO THE STUDY

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. Access to finance in sub-Saharan Africa remains one of the key obstacles to economic activity and growth of enterprises and was among the lowest globally (World Bank, 2014). Bank penetration rates are lowest in Sub-Saharan Africa, at 18%. This is 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 (Bankscope, 2010).

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 up the sector to indigenous owners (Mambondiani, 2013) This development led to the doubling of the number of banking institutions by 2002. The newly-licensed indigenous banks were structured in such a way 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; Chikukwa, 2004). Hyperinflation afflicted the Zimbabwean economy from the late 1990s to the 2000s, resulting in declining savings from depositors and pressuring many banks to explore other means of survival. Many banks were alleged to have used depositors' 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, culminating in the enactment of the Troubled Financial Institutions Resolution Act (2004) and the setting up of the Troubled Bank Fund (RBZ (2015).

It is generally believed that the central bank played a major role in the collapse of banks (Mambondiani, 2013) 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. World Investment Report (2014) highlights that hyperinflation in Zimbabwe culminated in the loss of one hundred

years of savings. The report also adds that after dollarization, Zimbabweans lost their life time savings and the conversion of pensions and life assurance investments into US dollars, has remained unresolved. Additionally, the high bank charges, together with zero interest rates on positive account balances, high punitive interest rates on loans and overdraft interest ranging from 12% to 30% further exacerbated confidence in the banking sector.

According to RBZ (2014), low deposit volumes (\$5.6 billion in December 2015) continue to pose liquidity challenges for banks in Zimbabwe. The transient nature of these deposits is a further challenge. 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).

The 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. According to this report, Zimbabwe last received foreign aid from multilateral institutions in the late 1990s and has been receiving humanitarian aid only. The external debt of 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 a 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 (Bloch, 2014).

Banks face competition with the emergence of mobile money transfer services (MMTS) which pose a serious threat to their survival. According to the 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. 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. According to the 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.

Table 1 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 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)

A 2013 survey by the Zimbabwe National Statistics Agency (Zimstats) shows that 40% of adults do not use any financial products and they turn to family and friends when they want to borrow. If they opt to save, they do so at home. Therefore, a large percentage of the population has no access to financial services. Furthermore, the 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. The large volume of money outside the banking sector is indicative of the lack of public confidence in the banking sector and contributes to financial instability which is detrimental to their performance (Strassburg and Khumalo, (2012).

The 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. 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.

Generally, the performance of banks in Zimbabwe has been relatively poor. Table 2 shows the individual banks' total assets and the return on assets ratio.

Table 2: Individual Banks Assets and Return on assets ratio at 31st December, 2014

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 (2014)

Table 2 shows that six banks made losses as well as recording negative percentage return on assets in 2014, which are signs of extreme poor performance. Furthermore, of the thirteen banks that made a profit, only

seven made a profit of more than \$5 million. This implies that 32% of the banks in the banking sector made losses and had negative returns on assets and 36% of the banks in Zimbabwe's banking sector are struggling as they have recorded very low profits and Return on Assets.

Between 2012 and 2014, the Zimbabwean financial sector lost six financial institutions (four commercial banks, one merchant bank and one building society) as well as thirty-two asset management and microfinance institutions. During this period, there were six banks under the assessment of the central bank which were in danger of collapse due to poor performance and difficulties in raising the new minimum capital requirements (RBZ, 2014).

Zimbabwe's banking sector has been characterized by turmoil and failures in recent years. 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). Royal Bank surrendered its licence in 2012 and was placed under liquidation while the licence of Trust Bank was cancelled in 2013. 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.

2. 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, culminating in a chain of bank collapses since 2004. This has resulted in the loss of deposits and savings by the banking public, leading to public skepticism of the banking sector. At the same time, the performance of the banking sector has been very unsatisfactory.

3. PURPOSE AND OBJECTIVES OF THE STUDY

The purpose of the study was to assess the factors that affect public confidence in the Zimbabwean banking sector and its effect on the stability and performance of the banks.

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 the lack of public confidence in Zimbabwe's banking sector.
- iii. To recommend ways in which public confidence in Zimbabwe's banking sector can be enhanced.

4. RESEARCH QUESTIONS

The study preceded 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?

5. PROPOSITION

The study is based on the proposition that public confidence has a significant impact on the performance of banks in Zimbabwe.

The study is of great significance in that it tries to determine whether there is a causal link between public confidence and financial stability and the performance of banks in Zimbabwe. 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.

6. LITERATURE REVIEW

6.1. Public confidence and bank stability

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. Bateman (2010) also 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. "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. 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. The two components essential for confidence are trust and certainty (Sprimford, 2011). 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: certainties of intention, subject and objects of the matter. 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).

According to Ongore and Kusa, (2013), 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. 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 (Ankrah, 2012).

A 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. 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.

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.

Shannak (2013), 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. 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 (Kosmidou and Zopounidis, 2012).

6.3 Impact of public confidence on fostering financial stability

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 (Ugwuanyi and Amanze, 2011). 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).

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 (Muhammad., Gatawa and Kebbi , (2011).

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; asset-liability mismatch arising from repricing risk exposures and regulatory issues that cause illegal activities like money laundering and proprietary trading (Momirovic, SimonoviĀ and MilisavljeviĀ , 2010).

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).

6.4 Impact of public confidence on bank performance

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.

7. METHODOLOGY

7.1 Data collection

The study is based on data collected from 19 financial institutions, consisting of commercial banks, building societies and a savings bank. The sample was drawn from corporate banking clients (companies), retail banking clients (small individual clients), and senior executives in the Reserve Bank of Zimbabwe (RBZ) Deposit Protection Corporation (DPC) and the Bankers' Association of Zimbabwe (BAZ).

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. The distribution of the questionnaires is detailed in Table 3.

Table 3. 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

7.2 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.

8. FINDINGS

8.1 General Level of Public Confidence

Frequencies were used to measure the general level of public confidence and identifying 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 in Table 4.

Table 4: 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% of the respondents felt that the general level of public confidence is "average", that is it not very high or very low, 27% felt that it was low, 21% felt that it was high and 14% felt that it was low. Only a very small number (7%) felt that it was 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 that are vulnerable whilst the rest of the banking sector seems stable and profitable.

The factors that were regarded as important for public confidence were identified as:

- Poor customer service and banking experience;
- High fees and bank charges;
- Fear of loss of deposits;
- Unresolved Zimbabwe Dollar account balances;
- Poor corporate governance
- Inadequate bank supervision and regulation
- Inadequate deposit protection
- Inadequate financial services and products

8.2 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. The measures that were considered are:

- The Deposit Protection System
- Insurance cover of \$500 per deposit.
- Current regulation, supervision and monitoring of the banking sector by the RBZ
- Measures by the RBZ to effect corrective action

- Measures to improve corporate governance and management practices
- Measures to improve the competence and integrity of executive officers of banks in Zimbabwe
- Measures to introduce financial innovation

The results are summarised in Figure 1 below.

Figure 1 Effectiveness of current measures to improve confidence

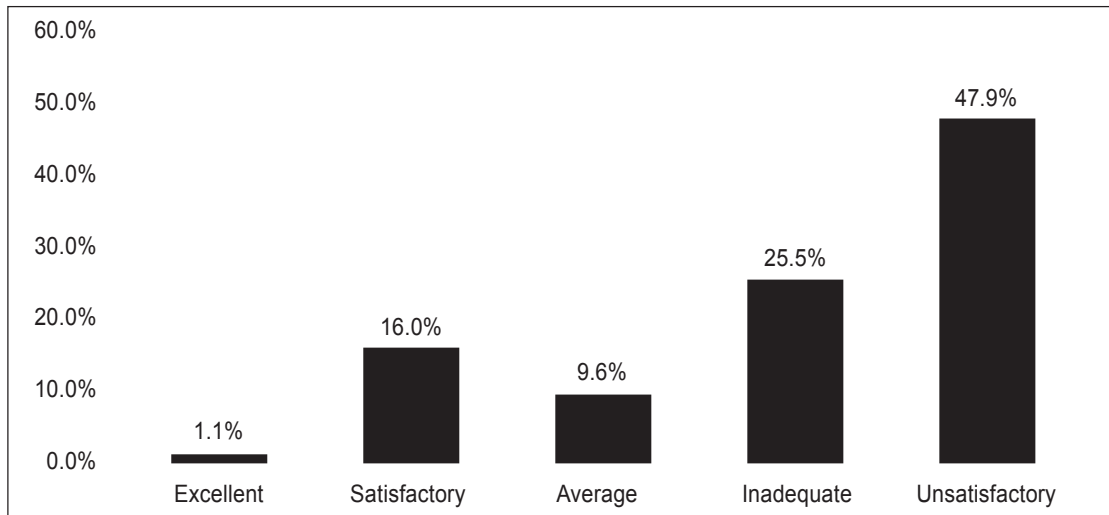


Figure 1 shows that more than 70% of the respondents stated that these measures were “inadequate and unsatisfactory” with only a few (17.1%) stating that they were “excellent or satisfactory”. Thus, improving public confidence in the banking sector remains a huge task for the industry.

8.3 Tests of Normality

A normality test was carried out to establish the distribution of the data and the results are shown in Table 5. Tests of normality use either the Kolmogorov-Smirnov or the 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 5 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 the 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.

8.4 Factor Analysis

Table 6: 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 6 shows the KMO value was 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 therefore shows that the study can continue and perform a valid factor analysis.

Table 7: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared 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 7 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 7 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 2 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 2: Scree plot

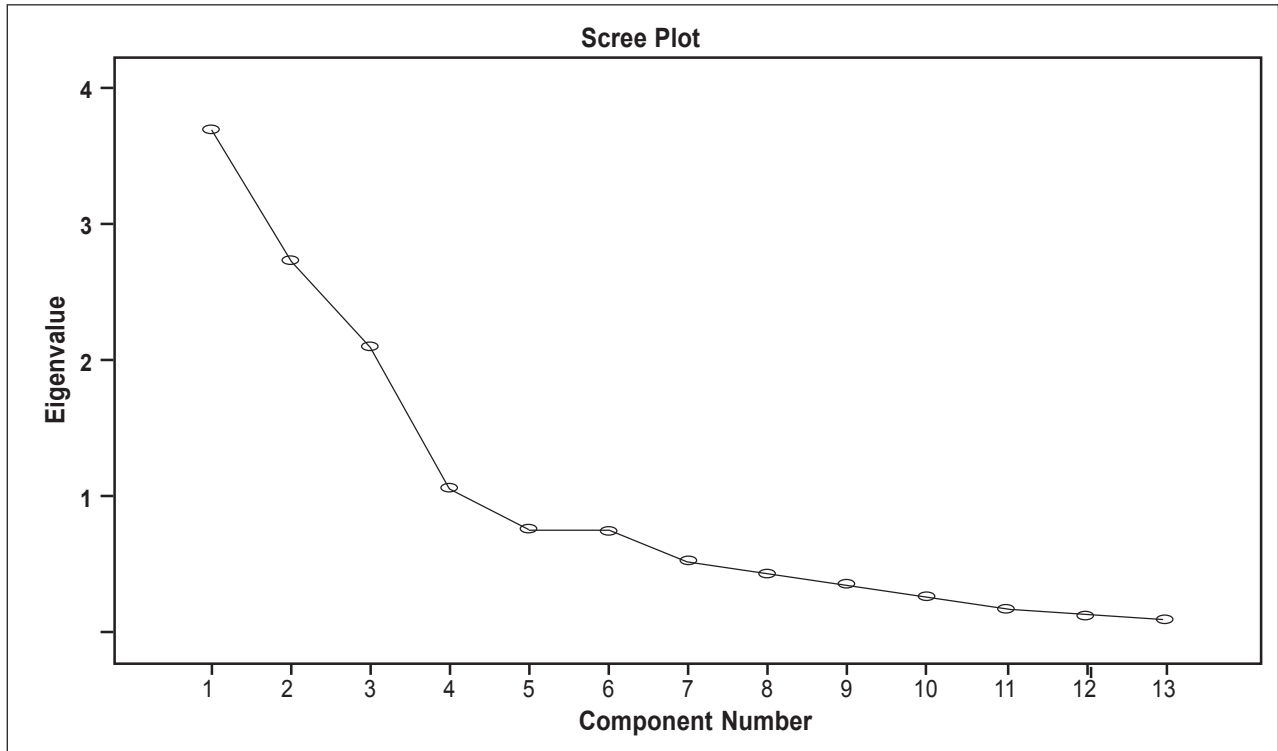


Table 8 shows the factor loadings that result from rotated component matrix showing the variables under each principal component which also assists in interpreting and establishing the identity of each principal component.

Table 8: Rotated Component Matrix

	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

Notes: Extraction Method: Principal Component Analysis; Rotation Method: Varimax with Kaiser Normalization. The rotation converged in 6 iterations.

Table 8 shows that under Component 1, which was earlier identified in the table as the most important factor or with the highest percentage contribution, had four variables under it. These variables were: 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 had the next highest percentage contribution according to Table 8, had two variables namely: inadequate deposit protection and insurance coverage review. Component 3, which is the next important component according to Table 8, had three variables which are: executive officers' competence, confidence in the integrity of the bank and poor bank corporate governance, whilst Component 4 had four variables, namely: inadequate financial services and products, financial innovation and new products, mobile banking impact and poor customer service and experience.

Therefore, it 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 the 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 and 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.

8.5 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 9.

Table 9: 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	—

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.

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 settled on the hypothesis that public confidence has got a significant impact on the performance of banks in Zimbabwe

9. SUMMARY AND CONCLUSIONS

The study has shown that the general level of public confidence in the Zimbabwean banking sector is low. The study concluded 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. The effectiveness of DPC's efforts in ensuring public confidence in the banking sector has been low. The main reason is that the current insurance coverage of \$500.00 provided by DPC does not instill confidence in the banking sector. The 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 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.

10. 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. It also recommended that 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. Finally, The Deposit Protection Corporation should review the compensation upwards and undertake public awareness programs and Banks should promote the use of mobile financial services and technology in banking, promoting financial inclusion and financial literacy.

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