**Impact of Regulatory Framework on deposit mobilization by Standard Chartered Bank**

BY

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**DECLARATION**

I, Lynn T.C. Muchada, 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 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.


_____                    Date: :_____

Student signature




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Supervisor's Signature       Name:_____Date:_____

## DEDICATION

I dedicate this dissertation to the God Almighty who gave me the strength and ability to work on this and even in times I thought of giving up he would give me inner strength to carry on. You are an awesome God.

**ACKNOWLEDGEMENT**

I would like to thank everyone who walked this journey with me and assisted me in their own special way. Special thanks go to my supervisor Mr. Arnold Chidakwa without whose invaluable and expert guidance I would not have completed this dissertation.

My appreciation goes out to my family for the wonderful support and the constant encouragement when at times I felt like giving up. To Fungai, thank you for the unwavering support, "you are the wind beneath my wings". To Wilson, I appreciate your support and would not have done this without you. Many thanks also go to my friends who were always there to support me and always believed in me.

Many thanks also go to the all who responded by completing the questionnaires without which my study would not have been complete.

Above all my special acknowledgement goes to the one who gives wisdom, The Lord God Almighty who establishes our plans.

**ABSTRACT**

The purpose of this study was to establish if the Reserve Bank of Zimbabwe has put in place policies and regulatory frameworks that impact on deposit mobilization by financial institutions. The study also aimed at ascertaining whether these policies would influence the behavior of depositors as they make savings decisions.

Standard Chartered Bank Zimbabwe was used as a case study as it was easier for the researcher since they are employed by the bank thus making it possible for the researcher to access information from the bank employees and the bank customers.

Data was collected through a survey, and a research questionnaire was used to both the bank staff and the bank customers. A sample of 50 was drawn from the population through the use of stratified random sampling technique and elements of the sample were from Africa Unity Square and Robert Mugabe branches of Standard Chartered bank for ease of access to the researcher. The questionnaires were self administered and of the 50 questionnaires that were administered, 42 were completed and returned.

The study found that the majority of the respondents were of the opinion that the Reserve Bank of Zimbabwe's supervisory function became ineffective in 2009 after losing its role of being lender of last resort. This era was preceded by the hyperinflation era experienced by the country during the period 1997 to 2008. The respondents witnessed the slashing of zeroes by the central and how deposits were eroded by inflation and the lack of suitable policy, and as a result felt that the Reserve Bank of Zimbabwe was not doing enough to protect depositors' funds. Most customers who participated in the study indicated that the banks products did not meet their needs. They also noted that banks are charging high interest rates not in tandem with international rates. The majority of the respondents indicated that the Reserve bank regulatory framework was adequate for the supervision of banks and were familiar with the Reserve bank Act and its responsibilities regarding supervision.

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# CHAPTER 1

# INTRODUCTION

The role of financial institutions is critical in economic development as it provides structures which help bridge the gap between savers and lenders through their intermediation role. The central function of a financial system is the mobilisation of deposits and creating assets/loans, a condition necessary for accelerating economic growth (Nzotta & Okereke, 2009). According to Baily et al. (2009) many financial institutions are linked through tight webs of complex trading relationships, thus the failure of one large institution can inflict significant losses on others. As Baily et al. (2009) put it, one troubled bank can damage many others, reducing the financial system's capacity to bear risk and make loans. Because of their role, banks must satisfy regulatory capital requirements that are intended to protect them in the event of bank failure Elliot (2010). He further states that the issue of bank capital has become relevant in the recent past with the Basel Committee also coming in with a more stringent definition of capital.

There are certain regulatory requirements that financial institutions must satisfy which are measured by capital adequacy ratios which are generally specified to ensure that a bank's capital is in line with its portfolio of risky assets, Basel III (2011). These ratios will be made up of some measure of capital to some measure of risk adjusted assets.

The purpose of this study was to determine if the regulatory framework for financial institutions in Zimbabwe was impacting the level of deposits mobilised and held by banks. Previous studies have looked at cases where the deposits were being mobilised in local currency but the Zimbabwe case stands out as the currency in use is foreign.

The chapter will look at the Background to the Study, Research Problem, Research Objectives, Research Question, Research Proposition, Significance of Research, Scope of the Research, Ethical Issues and Structure of the Research.

## 1.1 Background to the Study

The banking sector in Zimbabwe has experienced major developments since the country attained independence in 1980. The financial services sector experienced steady growth such that by the time the government adopted the Economic Structural Adjustment Program (ESAP) in 1990, it had grown significantly. Prior to the 1990 reforms, Zimbabwe's financial system was made up of the Reserve Bank of Zimbabwe (RBZ), five commercial banks, two discount houses, four merchant banks, three building societies, six finance houses and the Post Office Savings Bank (POSB), a statutory corporation, prior to liberalization, Reserve Bank of Zimbabwe (1991). The economic reforms further liberalised the financial services sector by lowering the barriers to entry. This resulted in the birth of locally owned indigenous banks that increased the level of competition and consequently service delivery. This was evidenced by the personalised services offered by banks like Trust Bank and NMB who went the extra mile by even offering banking services while in the comfort of your home or office. Prior to financial liberalisation, the traditional banks were conservative and risk averse.

The regulatory body, Reserve Bank of Zimbabwe was evidently still operating within its core mandate as well. Deposit mobilisation was not an issue for financial institutions as the culture of maintaining savings with banks was still heavily ingrained in people. The Zimbabwean financial sector, however, faced some serious challenges in December 2003. Reserve Bank of Zimbabwe records show that a total of ten banking institutions were placed under curatorship, while two institutions were under liquidation and one discount house had been closed by the time 2004 came to a close. www.rbz.co.zw/inc/publications.

According to the Reserve Bank of Zimbabwe (2004), the major problems being experienced in the sector were as a result of very serious irregularities in organisations' structures, insufficient systems in place to manage risk, poor corporate governance practices coupled with challenges in liquidity management and solvency. Also contributing to the challenges was the inability by those in the sector to adjust to the complex macroeconomic environment. These were underpinned by inadequate risk management systems resulting in failure by

banks to timeously identify measure, monitor and control risks. The Reserve Bank also argued that controls were inadequate to mitigate the risks the banks were exposed to, leading to their failure. (RBZ, 2012).

The country went through a decade of inflation which ended up in hyper inflation eroding saving and capital that had been accumulated by most financial institutions over time (Dore, Hawkins, Kanyenze, Makina & Ndlela, 2008). The capital erosion of most financial institutions was as a result of regulations governing financial institutions which forced banks either to purchase government treasury bills that yield highly negative real interest rates or to make deposits at the RBZ that paid no interest.

The establishment of the Government of National Unity (GNU) saw the dollarization of the Zimbabwean economy in February 2009. This helped address the speculative activities which had become rampant, during the period 2000-2008. In stark contrast, the banking sector thrived during the peak of the Zimbabwean crisis, as most banks became key players in highly speculative activities in areas such as Zimbabwe's bullish stock exchange and real estate. The high paper profits that were recorded by some banks were largely as a result of revaluation of assets in sympathy with inflation and exchange rate developments in the market. In some instances banks declared dividends from unrealised profits arising from investments in long-term assets which were experiencing an asset bubble, (Makoni, 2009).

**1.1.1 Financial Institutions**

It will be noted from this research that most financial institutions employ different banking business models. Some institutions employ the bait and hook model whilst other because of established roots and reputation ride on their strong brands. Some institutions are very aggressive in their approach to business as a strategy to gain market share. All financial institutions therefore have different risk profiles within their portfolios of assets and liabilities. TN bank employs what it calls furniture banking, NMB is for the wealthy clients and Barclays bank's business model is centred on listed entities whilst Stanbic bank's thrust is on Multinational corporations. CBZ has successfully banked all government entities.

Kingdom Bank, POSB and ZB bank seem to focus on the mass market and Standard Chartered bank looks after top tier corporations.

### 1.1.2 Regulators

Large financial institutions have important economies of scale that reduce the cost of their financial services. Capital requirements that lean against small financial institutions tend to allow managers of the larger financial institutions to be more lax as they can access finance at lower rates thereby affording customers low cost financial services.

The larger banks which are ranked by total operating income and not capital much as they claim to be very much capitalized, will issue more loans. This can be concluded to mean that there are economies of scale, ecouraging increased merging of the banking sector in Zimbabwe, (Ministry of Finance, 2012). At the same time, most foreign owned banks with relatively more deposits, which is the cheapest source of funding are very conservative in extending loans which is a reflection of their being risk averse. Research has revealed that where there is no competition for deposits, incentives are created for simple forms of financial products, such as lending to large corporations as is the case with the multinational banks in Zimbabwe.

### 1.1.3 Banking Sector in Zimbabwe

The country's financial sector is made up of a variety of institutions with the Reserve Bank of Zimbabwe (RBZ) being the regulatory authority. The mix is comprised of insurance companies and pension funds, venture capital companies, commercial banks, asset management companies, merchant banks, the Zimbabwe Stock Exchange, building societies, microfinance institutions, the People's Own Savings Bank (POSB), developmental financial institutions, and money transfer agencies. The banking sub-sector currently comprises seventeen commercial banks, four merchant banks and four building societies. Four of the

privately owned commercial banks are multinationals with a majority of foreign ownership. Collectively, these multinational banks command 60 percent of the commercial bank market share, (RBZ, 2012). The financial sector structure is briefly given in Table 1.1.

**Table 1.1 : Structure of Banking Sector in Zimbabwe**

| Type of Institution | Number |
|---|---|
| Commercial Banks* | 17 |
| Merchant Banks | 4 |
| Building Societies | 4 |
| Savings Bank | 1 |
| **Total Banking Institutions** | **26** |
| **Asset Management Companies** | **16** |
| **Microfinance Institutions** | **157** |

*Excludes Barbican bank which was relicensed but is not yet operational
**Source: RBZ, 2012**

## 1.2 The Reserve Bank of Zimbabwe (RBZ)

The principal role of a central bank in an economy is to nurture an efficient financial system through the application of appropriate instruments to influence the levels of the monetary and credit aggregates in the pursuit of low inflation, economic growth and balance of payments viability, (Blinder, 2010). He further states that in developing economies, central banks usually go beyond these traditional roles to engage in developmental activities in order to speed up the economic development process and enhance the environment for the performance of their primary role.

## 1.2.1 Mandate of the Reserve Bank of Zimbabwe

The core functions of the RBZ, as spelt out in the Reserve Bank of Zimbabwe Act (1964), are:

   a)  Issuance of legal tender currency notes and coins in Zimbabwe;

b) Maintenance of Zimbabwe's external reserves to safeguard the international value of the legal currency;

c) Promotion and maintenance of monetary stability, and a sound and efficient financial system in Zimbabwe;

d) Acting as banker and financial adviser to the Government; and

e) Acting as lender of last resort to banks.

Consistent with this mandate, the bank is charged with the responsibility and sole aim of ensuring high standards of banking practice and financial stability through its surveillance activities as well as the promotion of an efficient payments and clearing system. The RBZ in addition to its core functions, like central banks in other developing economies, has over the years performed some major developmental functions, focused on all the key sectors of the economy.

## 1.2.2 The Role of the RBZ in Ensuring Public Confidence

Banking business being a highly leveraged one, essentially every aspect of it can be said to have implications for depositors' safety and by extension, the whole financial system.

Throughout the world, the approach of regulators to increase banking confidence through ensuring depositor safety is by restricting bank risks to a level that is satisfactory to depositors or to the regulatory authorities assigned to protect depositors' interests, the insurance of deposits with a premium levied to cover depositors' claims and the government's assumption of overall responsibility for monetary stability and depositors' protection. The function which the bank regulators assume in protecting and insuring depositors is similar to the position any creditor or insurer takes in protecting his interest. There is strong evidence of improvements in both the quality and quantity of bank credit with a well capitalised financial system as put forward by Rousseau and Xiao (2007) implying that the level of financial institutions capital has a greater impact on the overall financial system performance and contribution to the economy.

The Reserve Bank of Zimbabwe in pursuit of its core mandate of maintaining financial stability had a statutory obligation to supervise financial institutions to avoid contagion repercussions in the whole sector. The Central Bank has, however, noted with much concern that the gradual deterioration in asset quality reflected by the level of non-performing loans are now trending towards the watch list category.  Asset quality challenges can result in increased liquidity risks especially given the current operating environment where any credit extended is largely financed by volatile short term deposits. It is therefore imperative that financial institutions improve their credit risk management systems with special emphasis on credit assessment, origination, administration, monitoring and control standards.

### 1.2.3 Licensing Regulations

Since the establishment of the RBZ in 1956, all Commercial and Merchant banks have been required to obtain a license to conduct business. Bank chartering is adopted primarily to prevent "over-banking" and to keep dishonest and inexperienced people from operating banks, either of which would lead to bank failure and possible depositor losses and hence reduce public confidence in the entire banking system. This is necessary to avert exploitation of the public by just any person(s) and/or corporate body thus causing banking instability in the economy.

### 1.2.4 Maintenance of Adequate Capital

A bank should have adequate capital to provide a cushion for absorbing possible loan losses, fund its internal needs and for growth. Adequate capital provides added security for depositors and the deposit insurance system. Bank regulators envision capital as an important ingredient in holding banking risks to an acceptable level. The determination of adequate capital for bank has been a very knotty problem the world over and until recently, when the Basel committee came up with the concept of risk-weighted assets in measuring capital adequacy,

capital adequacy was determined through setting capital guidelines by bank size, (Basel, 1999). Regulators tried to disseminate laws covering this issue, though somewhat in a vague form.

At the beginning, a minimum paid-up share capital would be specified for all licensed banks. What constitutes the minimum capital ratio is left for the RBZ to determine. Again failure to comply with this provision may constitute a ground for the revocation of the license of a bank. Figure 1.1 shows the capitalisation levels of banks as at 31 December 2011 where 82% of the Commercial Banks, 67% of the Merchant Banks and all the Building societies had managed to raise the required capital as set by the RBZ.

**Bank Capitalisation Levels**
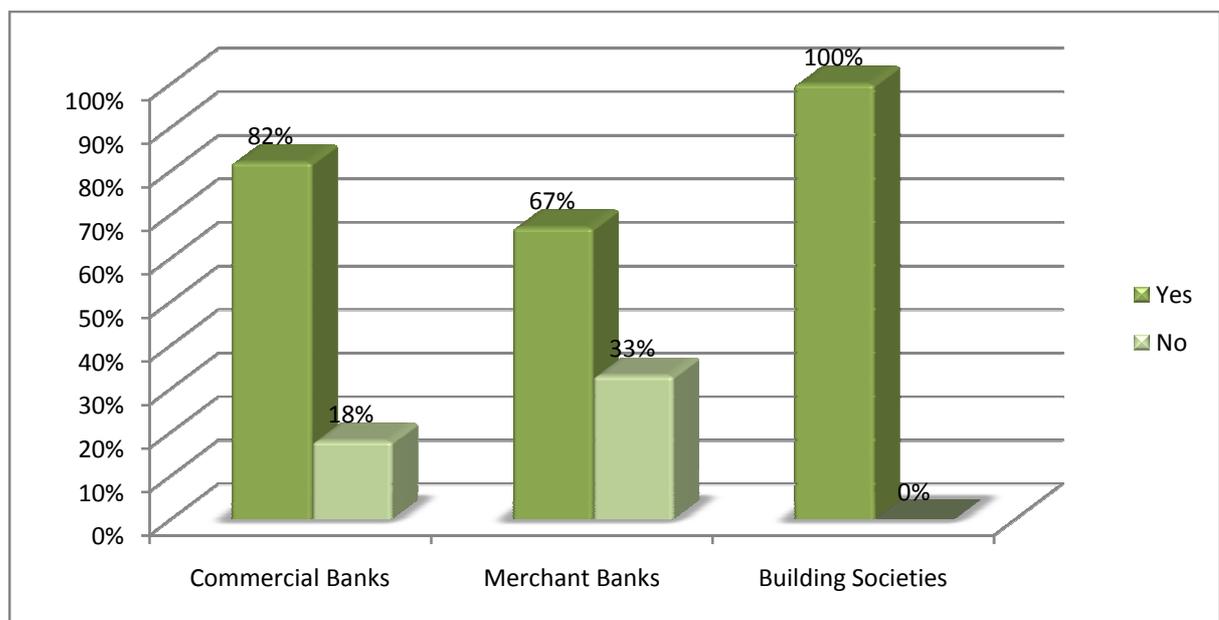


**Figure 1.1 Source RBZ, 2012**

### 1.2.5 Background to Standard Chartered Bank

Standard Chartered Bank (SCB) was the first financial institution to be established in Zimbabwe in 1882 (SCB Intranet). It is one of Zimbabwe's largest international banks, with a customer base of 84,000 in both Consumer Banking and Wholesale Banking (SCB Intranet)

The bank has one of the largest distribution networks in Zimbabwe, with 26 branches spread throughout the country. SCB is a client focused financial institution, with dedicated relationship managers attuned to financial institutions and commodity, global and local corporate clients. The bank offers a wide range of personal banking products and services including transactional account services debit cards.

## 1.2.6 Local Banks' Deposit Levels

Deposits in the financial sector increased from US$2.87 billion in January 2012 to US$3.22 billion in May 2012. Total loans and advances amounted to US$2.30 billion in May 2012 compared to the May 2011 figure of US$1.68 billion. This translates into a loan to deposit ratio of 84.6% against international standards of 70-90% (RBZ, 2012). In the environment of growing depositor confidence, broad money supply, defined as total banking sector deposits, exhibited an upward trend, over the period May 2011 to May 2012, increasing by 31% from US$2,733.7 million. Month-on- month broad money grew by 3.7% to US$3,580.2 million in May 2012, (RBZ 2012).

While deposits continued to grow, total credit to the private sector was $3.029.6 million as at the end of May 2012, (RBZ, 2012).

However deposits continue to be of a short term nature, thereby presenting worrisome vulnerabilities in the sector. In this regard, short term deposits, which comprise demand, savings and under 30-day deposits, constituted 75.6% of the total deposits in the banking sector as at 31 May 2012. The high concentration of short term transitory deposits partially reflects that economic agents are largely using the banking system for facilitating salary payments rather than deliberate and planned savings (RBZ, 2012).

## 1.3 Problem Statement

Since the dollarization of the economy, the financial sector has been experiencing liquidity challenges as depositors are not keen to deposit their savings for a variety of reasons, while the central bank is not able to perform its function of lender of last resort as the country is not using its own currency. Depositors have been known to penalize banks for undertaking risks, performing poorly or otherwise jeopardizing the value of their assets by engaging in non-core activities as was the case with Trust Bank Corporation in 2004 where the bank took on a speculative stance but depositors upon discovering that quickly withdrew their funds thereby creating a run on deposits, (Levine, 2004). By withdrawing funds or requiring deposit rate premiums from less stable institutions, depositors have the potential to increase allocative efficiency and mitigate moral hazard. This type of quantity or price-based discipline only materialises if depositors possess both the willingness and ability to monitor their banks. Whereas the former depends upon the degree to which deposits are believed to be protected by regulatory oversight and insurance guarantees, the latter requires both access to and understanding of the relevant bank data (Barth et al., 2006).

Depositors have lost confidence in Zimbabwe's financial system as reflected by a low ratio of market deposits to GDP. It is believed that at least 50% of cash resources are held in the informal system owing to lack of investor confidence (RBZ, 2012). Failure of a bank in an economy reduces the level of confidence within the system and thus not all commercial transactions will go through the formal system. The loss of confidence in some local banks can be blamed in part on depositors who were not scrutinising carefully the banks they were entrusting their money with. Ideally depositors ought to look at the level of capital a financial institution holds which should inform them of the risk they face should that institution face some problem. Although this may seem unrealistic, making sure that the financial institution has met the predetermined requirements should give the depositor some form of comfort. In reality however all that a depositor looks at is whether or not they qualify or meet the requirements of the said bank.

Financing bank operations with short term debt implies that the bank must continuously raise new funding to repay the current creditors. Short-term debt provides valuable discipline inside financial firms as there is need to ensure that at any given time they are able to meet the demands of the depositors should they require their money. On the other hand it can also create systemic problems as was the case with Renaissance Merchant Bank. However the need to repay the debt may force banks to dump assets and reduce lending during a financial crisis which has a negative impact on economic development.

Banks raise funds by accumulating deposits from both companies and individual depositors while extending loans to individuals, companies and the government through the purchase of bonds. Thus the primary assets of banks are loans and bonds while the primary liabilities consist of deposits. According to Saunders and Cornett (2005), on a banks' balance sheet, loans represent the majority of the bank's assets, but these loans come with risk. Should the bank issue loans to firms or consumers which are then not repaid, this would result in a crisis. Credit management therefore involves the management of the rewards and risks that would need to be balanced through astute and prudent risk management, failure of which could lead to litigation, financial loss or damage of the banks reputation (RBZ Guideline No. 1 2006). Lending activities have been a contentious and difficult matter especially in developing and emerging markets (Richard 2008). This is because customers in general are complaining about lack of credits and the excessively high standards and requirements set by banks, while on the other hand, the commercial banks have suffered large losses as a result of loans not repaid. It has therefore been ascertained hat in order to minimize loan losses and manage credit risk, it is necessary for banks to have an effective credit risk management system in place (Basel 1999).

According to Auronen (2003), the theory of asymmetric information argues that it may be impossible to differentiate between good borrowers and bad borrowers, which may result in adverse selection and moral hazards problems. Adverse selection and moral hazards have resulted in substantial accrual of

nonperforming accounts in banks. Derban et al., (2005) observe that deliberation that forms the basis for sound credit risk management system includes: policy and strategies that visibly outline the scope and distribution of a bank credit facilities and the manner in which a credit portfolio is managed. This would involve how loans are originated, appraised, supervised and collected. Derban et al., (2005) further argues that screening potential borrowers is an activity that has been widely put to use in the banking sector through credit assessments. According to the asymmetric information theory, a collection of reliable information from future borrowers becomes critical in achieving effective screening. This is seemingly true of the Zimbabwean financial system in which banks are still recovering from the effect of adopting the multicurrency system with most banks still appraising their clientele base before they make any significant lending decision to the economic sectors. Companies are however complaining that banks are not providing any meaningful lines of credit while depositors feel that the screening processes by some banks is more stringent that of others.

Illiquidity results from the mismatch between the maturities of a bank's assets and liabilities. The risk that banks may be forced to sell illiquid assets in a financial crisis increases with its use of short-term debt. Thus, it is not enough to ensure that capital requirements should increase in relation to the maturity mismatch between assets and liabilities; there should be constant monitoring of these as is the case with Standard Chartered Bank where liquidity stress tests are regularly monitored. Regulators should consider systemic effects when setting bank capital requirements. All things being equal, capital requirements should be higher for larger banks, banks that hold more illiquid assets and banks that finance more of their operations with short-term debt (Baily et al., 2009).

The purpose of this study is therefore to establish if the Reserve Bank of Zimbabwe has put in place policies or frameworks that impact on deposit mobilisation by banks. The aim is to ascertain whether these policies will influence the behaviour of depositors as they make savings decisions.

**1.4 Research Objectives**

The objectives of the study are to:

- Examine how supervisory and regulatory functions of the Reserve Bank of Zimbabwe impact on Standard Chartered Bank's ability to mobilise deposits.
- Establish the impact of the market wide liquidity challenges on the levels of deposits.
- Ascertain the effect of Standard Chartered Bank Zimbabwe's policies and product range on depositor decisions.
- Recommend as necessary, following findings from the research study.

**1.5 Research Questions**

The research questions that this study seeks to answer are briefly outlined as follows:

- Does the supervisory and regulatory function of the Reserve Bank of Zimbabwe have an impact on Standard Chartered Bank's ability to mobilise deposits?
- What is the effect of liquidity challenges on deposit levels?
- Ho do policies and product range offering affect depositor decisions?
- What recommendations can be made from the study findings?

**1.6 Proposition**

Regulatory frameworks will have a positive impact on the deposit attraction and retention of an economy.

**1.7 Justification of Research**

This research comes in the face of the challenges being experienced by financial institutions to meet depositors' withdrawal demands or to effect payment instructions as the market appears to be going through a liquidity challenge.

Further the research should provide an insight as to whether this crisis is as a result lapses in bank management and if the regulatory framework in place is effective in protecting the depositor's interests as well as ensuring that banks are being run efficiently.

## 1.8 Delimitations of the Study

The study will look at the regulatory body in Zimbabwe, the Reserve Bank of Zimbabwe and its impact on deposits post dollarisation of the economy in 2009. The focus will be on Standard Chartered Bank Zimbabwe with Harare being the area of focus as the majority of the bankable population as well as company headquarters are located in the capital.

## 1.9 Organisation of the Rest of the Document

The rest of the document is arranged as follows:
- Chapter 2 reviews the relevant theoretical and empirical literature.
- The methodology is presented in Chapter 3.
- Chapter 4 presents and discusses the study findings.
- Chapter 5 concludes the study with a summary and recommendations

# CHAPTER 2

# LITERATURE REVIEW

## 2.1 Introduction

The purpose of this chapter is to review both theoretical and empirical literature focusing on bank supervision and regulation. The section will be arranged as follows: Section 2.1 Function of the banking system, Section 2.2 Bank Supervision, Section 2.3 Bank Regulation, Section 2.4 Deposit Mobilisation

## 2.2.1 Banking System Functions

The banking system plays an important role of promoting economic growth and development through the course of financial intermediation. Development economists argue that the mere existence and evolution of financial institutions and markets comprise an important element in the process of economic growth. Delgado and Meza, (2012).The banking system, in encouraging economic growth, plays a number of roles which include among many others enhancing the usefulness of resource mobilisation by combining individual savings. Banks would also be responsible for growing the portion of public resources which have been devoted to interest-yielding assets and long-term investments. This facilitates the growth of the economy which  relates to the savings function of banks, whose role is established by the fact that when it is in short supply in any country, investment and the standard of living will decline.

Financial institutions also provide a more organised allocation of the savings into investment than the individual savers can accomplish on their own. This consistent flow of savings into investment ensures that more goods and services can be created, thus growing productivity as well as the nation's standard of living. They also manage or reduce risks faced by firms in their production processes by providing liquidity and capital together with facilitating a dependable

payments system which ultimately provides support for the economy, (Blinder, 2010). In this regard, certain financial assets such as current accounts, deposit/savings accounts, and domiciliary accounts etc, which act as media of exchange for payments, will come to mind. Cheques, credit cards and electronic transfers are the major means of payment today. The banking system makes available credit to finance investment and consumption. This is a principal function of the banking system but there are risks that are associated with this which financial institutions face.

Banks raise funds by accumulating deposits from both companies and individual depositors while extending loans to individuals, companies and the government through the purchase of bonds. Thus the primary assets of banks are loans and bonds while the primary liabilities consist of deposits. According to Saunders and Cornett (2005), on a banks' balance sheet, loans represent the majority of the bank's assets, but these loans come with risk. Should the bank issue loans to firms or consumers which are then not repaid, this would result in a crisis. Credit management therefore involves the management of the rewards and risks that would need to be balanced through astute and prudent risk management, failure of which could lead to litigation, financial loss or damage of the banks reputation (RBZ Guideline No. 1 2006).

Lending activities have been a contentious and difficult matter especially in developing and emerging markets (Richard 2008). This is because customers in general are complaining about lack of credits and the excessively high standards and requirements set by banks, while on the other hand, the commercial banks have suffered large losses as a result of loans not repaid. It has therefore been ascertained hat in order to minimize loan losses and manage credit risk, it is necessary for banks to have an effective credit risk management system in place (Basel, 1999).

According to Auromen, (2003), the theory of asymmetric information argues that it may be impossible to differentiate between good borrowers and bad borrowers, which may result in adverse selection and moral hazards problems. Adverse selection and moral hazards have resulted in substantial accrual of

nonperforming accounts in banks. Derban et al., (2005) observe that deliberation that forms the basis for sound credit risk management system includes: policy and strategies that visibly outline the scope and distribution of a bank credit facilities and the manner in which a credit portfolio is managed. This would involve how loans are originated, appraised, supervised and collected. Derban et al., (2005) further argues that screening potential borrowers is an activity that has been widely put to use in the banking sector through credit assessments. According to the asymmetric information theory, a collection of reliable information from future borrowers becomes critical in achieving effective screening. This is seemingly true of the Zimbabwean financial system in which banks are still recovering from the effect of adopting the multicurrency system with most banks still appraising their clientele base before they make any significant lending decision to the economic sectors. Companies are however complaining that banks are not providing any meaningful lines of credit while depositors feel that the screening processes by some banks is more stringent than that of others.

## 2.2.2 Bank Supervision

Supervision is the practice of monitoring banks to ensure that they are conducting out their activities in a secure and sound manner and in compliance with laws, rules and regulations. It is a means of establishing the financial state and of ensuring that laid down rules and regulations are complied with at any given time (Llwellyn, 2002). Supervision is one of the primary functions of a central bank which is the governing body for financial institutions in any country. It is imperative therefore that any laid down rules are adhered to.

A most favorable regulatory regime and strategy will among other things balance regulatory rules, supervisory review and market discipline. According to Llewellyn (2002), several problems appear with a highly authoritarian approach to regulation. The risks under deliberation may be too intricate for simple rules, authoritarian rules may prove inflexible and not adequately responsive to market

conditions, and the rules may have negative effects, where they are regarded as actual rather than minimum standards.

Llewellyn further highlights the fundamental issue of the degree to which regulation differentiates between various banks according to their risk characteristics and their risk analysis, management and control systems. A significant theme of this framework is that regulation can never be an alternative to market discipline. On the contrary, regulation needs to strengthen, not replace, market discipline within the regime, (Wachtel, 2010)

Calomiris (2006) discusses the influence of three limitations to the regulatory position of the US Federal Reserve during the Greenspan era namely opposition by politicians, opposition by big banks, and the effect on the erosion of Federal Reserve regulatory power. In this context, it is noted that, in the final decades of the twentieth century, during the same time that the public authorities around the globe were emphasizing the important role for market discipline in bringing forth good governance in financial firms. The same authorities as well as the international firms in their standard-setting activities were refining regulatory rules, standards and codes to govern the operations of financial institutions.

Blinder, (2010) also suggests that good regulation and supervision will reduce the negative impact of moral hazard and price shocks on the banking system. This will result in a reduction in the number of bank failures as well as banking system distress. The traditional role of banks revolves around financial intermediation, provision of an efficient payments system and serving as an instrument for the implementation of monetary policies. An effective conduct of the functions will promote resource mobilization and channeling of funds to viable projects.

Banks are more regulated than other organisations because of their roles as financial intermediaries. They mobilise funds from the surplus units at a cost for on lending to the deficit, (Banking Act, (24:01). Furthermore, in carrying out their financial intermediary role, banks will ensure that the funds raised can be accessed by the depositors as and when needed. While in their care, the funds

are advanced as loans at an interest rate. The spread between the deposit and lending is the most important source of income for banks.

Banks also present an efficient payment system in the economy. They provide a smooth and efficient mechanism for making payment to settle both business and personal transactions, and international financial commitments on behalf of their customers. Savings are therefore stimulated for investment in the economy by banks. Banks in the process of intermediation contribute significantly to real economic development. Evidence also suggests that there is a positive correlation between real output growth, investment, bank assets and money supply. (Heimann, (2001) states that growth in the banking sector when well conveyed would result in the growth of the real sector while the opposite is also possible if the banking sector is subdued and inefficient. The prosperity and strength of any economy relies heavily upon the proper and prudent functioning of the country's system of financial intermediation, (Heimann, 2001). However if the financial system is strong, the economy will have the capacity to grow and the strength to absorb any shocks to the system as was the case with the United States during and after the crisis of 2008. On the other hand if the financial system is weak, the problems are magnified.

Levine, (2011) comments that in performing their various functions, it is expected that banks will ensure prudent management of assets and guarantee the safety of depositors' funds. They are expected to strictly adhere to safe and sound banking practices, maintain adequate internal control measures to prevent incidences of fraud, forgery and other financial malpractices, to ensure stability and stimulate public confidence in the system (Banking Act, 24:01). The proper management of banks is therefore a pre-requisite for economic prosperity in any nation as the vehicle for the implementation of monetary policy. Indeed, the contribution of banks to the development of the economy depends on the quality of their services and the efficiency with which these services are provided, (Levine, 2011).

### 2.2.3  Bank Regulation

According to Wehinger, (2008), bank regulation is expected to achieve stability, of both individual institutions as well as the system as a whole with a number of aspects attached to this. Capital adequacy principles influence the amount of risk that is taken through the amount of capital held to cover unforeseen losses, as well as providing equity holders with an incentive to keep an eye on the amount of risk being taken. Limitations on liquidity and funding practices seek to guarantee that institutions have enough liquid assets on hand to meet the short term liabilities.

Deposit insurance is a significant mechanism in maintaining the stability of banks by reducing the motivation for bank runs. There is a variety of other areas of prudential regulation and supervision, like regulatory oversight of risk management practices. Regulation should be carefully designed to strike a balance between stability and growth, as well as ensure that possibilities for regulatory arbitrage are reduced.

The regulation of banks has been described by Llewellyn (2002) as a body of specific rules or agreed behaviour either imposed by government or other external, agency or self imposed by explicit or implicit agreement within the industry that restricts the activities and business operations of banks. It is the codification of public policy towards banks to accomplish a defined objective and/or act cautiously. Banking regulation has two major components:

(i) The rules or agreed behaviours; and
(ii) The monitoring and scrutiny of financial institutions to determine safety and soundness and ensure compliance.

The importance of the banking sector in economic development is such that there is need to emphasize the need for banking sector regulation. The market mechanism used to raise and allocate financial resources of any nation or government the world over to socially desirable economic activities has its own

imperfections. These will then result in the need to regulate this sector more than any other sector in an economy.

Cecchetti and Disyatat (2010) show how the United States Federal Reserve developed its lender of last resort role following the financial crisis to deal with a range of problems of which liquidity issues were top of the list. Liquidity problems can affect clearing (central bank liquidity), individual financial institutions (funding liquidity) and financial markets (market liquidity). The Federal Reserve however quickly adapted its lending activity to deal with all three of these problems by ensuring that policies were established to avoid recurrence. There was on the other hand significant public condemnation against the Federal Reserve's lending which was considered as a bailout of Wall Street firms. This resulted in the passing of the Dodd-Frank financial reform bill in 2010 which limits the Federal Reserve's ability to use emergency lending powers to support individual institutions.

The concerns of the Regulatory Authorities and hence the need for intensive banking regulation and supervision are discussed further. For the first post independence decade the Banking Act (1964) was the main legislative framework in Zimbabwe. Since this was enacted at a time when the majority of commercial banks were foreign owned, there were no guidelines on prudential lending, insider loans, percentage of shareholder funds that could be lent to one borrower, definition of risk assets and no provision for bank inspection, www.rbz.co.zw.

However, as the drive for financial development continued, the Reserve Bank Act 22:15 (1999) was approved and its main function was to reinforce the supervisory role of the Bank through setting of prudential guidelines within which banks operate, conducting both on and off site surveillance of banks, enforcing sanctions and where necessary placement under curatorship and investigating banking institutions wherever necessary, (RBZ, 2000).

 The protection of depositors has come to be accepted as the most fundamental reason for banking regulation and supervision Acharya et al. (2010). Banks are depositories of public savings and managers of the payment mechanisms, and

this makes them susceptible to collapse. This is hinged on the fact that bank depositors have difficulty protecting their interests when compared to other bank creditors and investors as their influence is limited to the level of deposits held. Bank depositors are seldom given the opportunity to voice their opinion.

The Federal Reserve has a twofold mandate to uphold stable prices and full employment (Blinder, 2010). Several other central banks such as the European Commission Bank have price stability as their principal mandate. Any central bank is supposed to use its policy tools to manage interest rates and the growth of money and credit with the aim of achieving its specified goals. An autonomous central bank can pursue these goals without worry about an election cycle that might persuade elected policy makers to pursue short-term goals such as unsustainably high employment and real growth with little concern for longer-run inflationary implications (Acharya et al., 2010).

Some argue that the function of a central bank should begin and end with the macro objectives of monetary policy, and that any other responsibility would divert the central bank from accomplishing its principal goal of economic stabilization (or more specifically, price stability), (Goodfriend, 2010). However, this approach does not take into account, the important connections between monetary policymaking, financial regulation, and prudential supervision that support a wider role for a modern central bank. In addition to its macroeconomic effects, monetary policy can affect the behavior of financial institutions and may ultimately create weaknesses in the financial system.

According to (Blinder, 2008), differentiating between the large and small banks may successfully square the circle with regards to the conflict of interest between bank supervision and monetary policy. Even very stern security and soundness regulation applied to a few small banks will have insignificant macroeconomic consequences. On the other hand, large increases or reductions of credit by a few industry giants are most likely to have macroeconomic consequences. It therefore makes sense to have the central bank supervise the systemically important financial institutions while leaving the rest to other agencies.

Supervision entails the promotion and development of sound and wide range of financial services to meet the needs of the economy. This ensures efficiency, security and sensitivity of banks to the needs and complaints of customers, thus ensuring compliance with laid-down regulations which are relevant to achieving high standards of banking. This also enables the achievement of important developmental and social goals through their compliance with monetary and credit allocation policies, (Freshfields, 2007). He further states that the goals of regulation are ensuring that depositors are protected, protecting the economy from the activities of the banking system and protecting banks' customers from the monopolistic power of banks.

In the United Kingdom, authorities have come up with their own exclusive framework for prudential supervision with a strong emphasis on risk or ethics based supervision. Authority has developed the ARROW approach to regulation. This ascertains what resources should be dedicated to supervision of each institution, in line with the risk it poses to the system as a whole. Such risks to the system reveal in turn both the riskiness of its activities and the impact on the overall financial system if the risks were to occur.

In Egypt however, a mixture of financial indicators place the Egyptian financial sector at a reasonable position with regards to financial involvement when compared to similar developing countries. While the attraction to savings by customers in Egypt was high by even by international standards, the banking sector was not operating efficiently in 2008. The bulk of savings were processed through the financial structures as bank deposits. The deposit-to-GDP ratio in June 2008 which was 100 percent was a great deal higher than the world average and considerably higher than that of several developed economies. This being the case however, not much of the deposits were channelled to the bona fide, productive private sector and was therefore used mainly to subsidize government deficits or as loans issued to state-owned organisations, (World Bank, 2009).

Thornsten et al., (2005) are of the view that motivation for small firms and households to utilise deposits as well as other financial services are reduced. The minimum amounts required for a deposit are too high to make it possible for the lower or zero income groups of the population to have access to the banking system and therefore tends to discourage that group of people from saving through these formal channels. According to Nasr, (2009), the deficiency in mobilization of deposits from these small savers is not as a result of repressed financial markets since the interest rates paid on deposits are quite high. Even though comparative advantage is held by state-owned banks when it comes to attracting small depositors as they are leveraged by their vast branch network in governorates and villages, they are instead focusing on the large depositors, and offer very little in terms of financial services to the somewhat disadvantaged groups of society. Banks have of late been making an effort to cater for and offer products attractive to small depositors but because the regulatory and supervisory system in Egypt is rather new, its effectiveness has only been tested in current years and the depositors are still to gain confidence in it and its policies. A study of the current banking practices shows that there are a number of areas where the aim of regulations and the way in which supervision is being conducted are yet to fully cater for the competent provision of financial services with the aim of increasing access.

According to Financial Services Authority (2006, p. 20), firm risk assessments are performed at least once during every regulatory period and these will have a planning, discovery, evaluation and communication phase. For the remainder of the regulatory period until the next re-assessment is conducted, the firm will be subject to continuous monitoring. The outcome of the risk assessment may also result in additional measures being taken. During the years prior to the crisis, supervisory resources were preoccupied with takeovers, demutualization and the implementation of Basel II.

Llewellyn (2006) classified prudential regulation of banks into three distinct categories namely preventive, protective and supportive. While the preventive regulation is intended to limit the risk undertaken, the protective regulation offers

security in the event of failure. The supportive regulation is in form of a lender of last resort function.

The banking industry determines the financial services available to the economies, hence, regulation is essential to prevent monopolistic control and avoid potential abuse (Bordo and Wheelock, 2010). In developing economies, banks play their traditional intermediary roles as well as being used as a vehicle for achieving developmental and social objectives. Banks in third world countries have to develop indigenous entrepreneurs by channeling credit for their use. As a result, the World Bank (1989) noted that banks in these economies have to be regulated to make sure that they play their appropriate role in economic development.

Thus, the rationale for bank regulation and supervision can be stated as efficiency, allowing diversity of choice, competition, stability of banking system, macroeconomic stability, and developmental and social objectives. Section 2.4.1 will further look at the structures of bank supervision and regulatory structures.

## 2.4.1 Bank Supervision and Regulatory Structures

There is no theoretically optimal system or standard blueprint of what constitutes the best structure of banking system regulation and supervision (Bank for International Settlement, 2000). Factors like differences in political structures, general complexity and state of development of the financial systems, the nature and extent of public disclosure of banks' financial positions, level of market discipline; the availability and robustness of information technology, and the capacities of the regulator dictate regulatory and supervisory approaches, (Financial Stability Institute, 2010).

The Basel Committee on Banking Supervision in 1997 published an implicit framework for the regulation and supervision of banks code-named, The Core Principles for Effective Banking Supervision. The framework can be interpreted as comprising four distinct yet complementary sets of arrangements:

a) Legal and institutional measures for the formulation and execution of public policy with respect to the financial sector, and the banking system in particular.

b) Regulatory arrangements regarding the formulation of laws, policies, prescriptions, guidelines or directives applicable to banking institutions (e.g. entry requirements, capital requirements, accounting and disclosure provisions, risk management guidelines).

c) Supervisory arrangements with respect to the implementation of the banking regulations and the monitoring and policing of their application; and

d) Safety net arrangements providing a framework for the handling of liquidity and solvency difficulties that can affect individual banking institutions or the banking system as a whole and for the sharing of financial losses that can occur.

The Core Principles illustrate what could be termed a "cradle to grave" approach covering the licensing of individual banks and the process of ongoing supervision. Also included are mechanisms for taking prompt corrective actions in case institutions do not meet regulatory or supervisory requirements. This would also include exit arrangements for institutions facing serious losses or default and possibly resulting in the activation of safety net arrangements. The overall aim of this comprehensive process of supervision is to ensure that banks can be established, operated and reorganized in a safe, transparent and professional manner.

According to Johnson (2009), one of the costs of globalisation is that countries are affected, through trade and financial transactions, and by the actions of other countries. Developments that negatively affect financial-sector stability and competence in one country can easily impact the other countries. Moreover, countries are genuinely involved in adopting practices that have improved risk management, competence and control in other countries. The Basel Committee

has continued to facilitate collegial approach to cross border supervision through cooperation and resource input in response to the increasing globalisation of financial systems. This has raised concerns for standards and competence of regulators across the globe which has been met by agreement on conduct, codes or principles.

According to Basel III (2011), the focus has been on strengthening the global capital and liquidity rules with the goal of promoting a more resilient banking sector. It further states that a strong and resilient banking system is the basis for sustainable economic growth as banks are at the core of the credit intermediation process between depositors and borrowers. Banks play a critical role by providing services to consumers, businesses and governments who depend on them to conduct their daily business, both at a domestic and international level. However the weaknesses in the banking sector were rapidly conveyed to the rest of the financial system and the real economy, resulting in a massive reduction of liquidity and availability of credit (Basel III, 2011).

## 2.5 Deposit Mobilisation

Banks raise funds by accumulating deposits from businesses and individual depositors and making out loans to individuals, businesses and the government through buying bonds. Thus, the principal assets of banks are loans and bonds while primary liabilities are made of deposits. According to Saunders and Cornett (2005), a banks' balance sheet has loans representing the bulk of a bank's assets, but the loans come with risk. If the bank makes bad loans to firms or individuals for example, the bank will be in a dilemma if those loans are not repaid as the bank could be called upon to make available the depositors funds.

It is said that standard measures of the capacity to meet deposit obligations (capitalization and liquidity) connect strongly with net deposit flows in the ensuing period. But while evidence for quantity based discipline is strong and robust, that for the standard form of price-based discipline is not. Clear evidence, that depositors "demand" higher deposit rates from less stable institutions is lacking although these institutions will themselves offer attractive rates in a bid to lure

clients from the more stable financial institutions. The most recent case would be that of Interfin Bank Limited which was placed under curatorship on 11 June 2012. The bank would offer rates that were outside the market range and as is human nature there were a few depositors who fell for the ploy.

Depositors display this sophisticated discipline if they envisage the deposit rate as a suitable option for institutional stability and not solely as an instrument through which banks compete for funds and offer return for risk or poor performance reflected in their fundamentals. Banks cannot essentially be hopeful of increases in the net inflow of deposits, ceteris paribus, by raising deposit rates, (Karas et al., 2006).

However, according to Martinez-Peria and Schmukler (2001), all else being equal, weaker banks are portrayed as being subject to market regulation should they experience less net growth in deposits or if they pay superior deposit rates. Depositors are assumed to respond to the observed weakness by either directing money away from weaker institutions or, call for a deposit rate payment as compensation. More than just compensate for evident risk, escalating rates may carry the hint of additional risk. That being the case, regular tests for market regulation may not generate strong results and should be complemented by direct estimation of the deposit supply function.

While this is not much of a concern when depositors are knowledgeable and instruments for distributing financial information are dependable, the capacity to discipline banks in settings in which these features are under-developed has been open to question. Doubts have been expressed as to the private sector's ability for efficient supervision in countries in which informational structures such as accounting rules and disclosure requirements lag behind international standards (Levy-Yeyati et al., 2004). Institutional immaturity is simultaneous with banking sector simplicity and a more powerful business community, both of which may contribute to depositors experiencing lower costs to revealing bank information. Therefore, there is "no systematic tendency" for less developed countries to be less endowed with the basics for market discipline (Caprio and Honohan, 2004).

Careful empirical studies, however, that either confirm or cast doubt upon the ability of depositors to discipline banks in immature institutional environments are rare. Post-communist Russia presents us with a laudable test case of depositors' ability to provide regulation in an emerging market with under-developed institutions. Simultaneous with the general change launched in the early 1990s, hundreds of private commercial banks entered its new, principally un-regulated, deposit market, (Spicer and Pyle, 2002). However a number of major banking crises ensued. While the funds which were held in non-state banks were not insured, the depositors soon became acquainted with the private costs of institutional failure. In other words, from soon after the dawn of the new market era, depositors possessed ample motivation to penalize banks known to be performing badly or taking on undue risks.

In numerous emerging market economies like Nigeria, depositors' enthusiasm and capacity to keep an eye on banks is prejudiced by the existence of large state-owned and/or foreign-owned banks. The deposits of the former often carry an implicit, if not explicit, insurance guarantee. Foreign banks may be renowned as already being exposed to regulation by the international markets on which their debt and equity trade and as such will attract higher deposit levels, (Caprio and Honohan, 2004). Since the global financial crisis, banks in Nigeria have not been able to carry out their statutory function. The financial crisis has resulted in a dramatic change in savings behaviour and profitability outlook for the banking sector across the globe. The crisis has also reduced the confidence of the general public in the entire Nigerian banking industry.

The Turkish banking failures have helped raise a range of questions with regards to the role of governance failures and moral hazard. While there are concerns about the possible moral hazard problems brought about by the underdeveloped regulatory and supervisory structures, as well as the related party lending associated with the holding company structures have often been stated by the powers that be and the private sector participants in Turkey, these issues have never been empirically analyzed in the context of the Turkish crises of 2000 and 2001, (Yildrim, 2008).

The new Turkish government of 1999 passed a new banking law with an aim of improving the regulatory and supervisory standards in the country. This created a new bank regulatory and supervisory agency, working under a supposedly independent Bank Regulation and Supervision Board. The dual authority of the Treasury and the Central Bank to regulate and supervise the banking sector was transferred to the Board and in September 2000 Banking Regulation and Supervision Agency (BRSA) became fully operational, (Yildrim, 2008).

The full coverage deposit insurance as well as regulatory and supervisory failures have created of moral hazard problems. Deposit insurance removes the motivation for depositors to keep an eye on bank risk and therefore encourages banks to substitute deposits for equity and to keep portfolios with larger risk than they otherwise would (Wheelock and Wilson, 1995).

However, the responsiveness to these incentives is likely to differ at bank level. High franchise value is expected to mitigate moral hazard issues by increasing the cost of financial distress. It is empirically shown that banks with high franchise values assume less risk, (Keeley, 1990) and (Konishi and Yasuda, 2004).

## 2.6 Core Deposit Gathering Models

According to Macguire (2006), different approaches to core deposit gathering generate deposit bases with very diverse offerings to effectiveness and value. The highest-performing core deposit gathering model includes all features of the funding attracted growth, interest expense, fee income, non-interest expense and deployable term-related behaviours to full advantage. Conventional reviews of core deposit gathering that focus on just costs and fees are too narrow to arrive at the correct answer. Extensive empirical evidence on ALM-related core deposit behaviours, taken from recent statistical analyses of deposits across a wide range of financial institutions, provides perspective for evaluating the three models which are core deposit gathering: traditional branching, high-convenience banking and posting/internet.

## 2.6.1 Drivers of Core Deposit Supply Behaviours

Two interrelated supply behaviours on core deposit earnings have advantages namely patterns of total balances supplied over time and retention of existing balances. Supply behaviours, growth included, and preservation of existing accounts/balances result from organization and market pricing as well as many other drivers work together in a multifaceted environment. The management of behaviour influences and how they are addressed is a fundamental element in differentiating among Core Deposit-Gathering Models.

Core depositors are inspired by two types of influences namely the finance influence and the non-financial or ambiguous influence. The theory is that providers of core deposits obtain value from rate paid if it is applicable, net of expected fees plus service, convenience, relationship and other non-pecuniary elements of their experience. The depositors obtain twofold benefit from their funds which are the same as interest-producing investments if they are rate bearing and also as a conduit to other value sources such as access to financial sector payment systems, principal protection and high levels of liquidity. Depositor focus on non-financial value elements, that is, looking beyond just rate paid, creates the special earnings advantages associated with core deposits.

Long and stable core deposit average lives are the norm, not the exception, for banks, thrifts, and credit unions, (Macguire, 2006). Information amassed over many time periods across multiple studies allows that concern to be directly addressed, by back testing previous statistically based forecast values against retention data collected. Core deposit average lives and values are often a contentious asset/liability management (ALM) model input. Unlike total balances supplied and repricing, these are not directly observable in the course of business, (Brookhart, 2004). Thus, industry participants often disagree about the length of average lives, even when statistically derived information is available and documented.

There are a number of solutions to these disagreements which have been identified. These include developing a comprehensive model of core deposit retention behavior; statistically analyzing institution specific, customer- level retained balances data using an empirical model built from the theoretic model. The use of projected empirical models to forecast retention and run off, producing average life estimates as well as proving the authenticity of the exercise by back testing forecast values to actual retention level observed over time. Without all of the above steps, there may be grounds for doubt; with them the case for statistically estimated average lives is firmly and unambiguously made. Back testing, is a reasonably straightforward activity which requires the comparison of previous forecasts of retained balances to observed actual retention values. Regulatory average life estimates via their implied retention/ run off patterns can also be examined in competition across the same set of ensuing retention data.

## 2.7 Conceptual Framework

Bank failures destroy investor confidence and retard economic growth in most countries. With lost confidence comes limited intermediation thereby impacting negatively on growth prospects of any economy. Regulatory authorities all over the world have enacted laws, supervised financial institutions amongst a list of measures to protect depositors funds as well as the financial systems but still banks failure occur with serious ripple effects. Because of systemic, effects financial systems are no longer insulated from crises with the traditional boundaries. The effects of a financial crisis in one country or region can easily spill over to closely related counterparties as financial systems are increasingly becoming global. As a measure to protect this important sector, Basel III is coming up with a refined definition of capital under three pillars to be implemented by member countries by 2013 which should see financial institutions holding better quality and quantity of capital, (Basel III, 2011).

## 2.8 Summary

The chapter looked at both empirical and theoretical perspectives on how the regulatory framework impacts savings. The lessons that can be drawn from the

above are that although regulatory frameworks are in place in all countries, the manner in which they carry out their functions vary. In order to achieve maximum efficiency it is necessary for central banks to concentrate on core business as well as migrating best practise on solutions that have been successfully incorporated by other countries.

CHAPTER 3

RESEARCH METHODOLOGY

## 3.0 Introduction

This section provides an insight into the strategy adopted in the collection, analysis and interpretation of the data collated for the study. It provides a detailed analysis of the research plan and tools utilized in the actualization of this study. A research methodology is a strategy of enquiry which moves from the underlying philosophical assumptions to research design and data collection. Cryer, (2011) views research methodology as a rationale for the methods used to gather and process data. The research methodology will be approached from the following perspectives; the research design, paradigm, primary data collection techniques, data analysis strategy and research limitations.

## 3.1 Research Design

Saunders et al, 2009 suggests that there are a number of ways in which a research can be carried out such as case studies, surveys descriptive and explanatory studies. In carrying out the research, the survey method was used.

## 3.2 Research Paradigm

Cryer, (2011) defines research paradigm as "a school of thought or framework for thinking about how research ought to be conducted to ascertain truth". Denzin and Lincoln (2000, p 157) agree that paradigm is "a set of beliefs that guide action". There are various philosophies that are used by researchers in research and to note is that there is no superior philosophy or less superior philosophy. Saunders et al 2009 comment that the philosophy are better at doing different things and better depends on the research question the researcher is trying to address, (Saunders et al., 2009). Cryer, (2011) however classifies the research paradigms into the 'traditional' research paradigm based on quantitative, scientific

or experimental truth among others and the 'interpretivist' paradigm based on qualitative, phenomenological, non traditional approaches.

## 3.2.1 Positivist Research Philosophy

Positivism recognizes "working with an apparent social reality and that the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists" (Saunders et al., 2003, p.83).

This approach deems that reality is stable and can be observed and illustrated from an objective point of view without interfering with the event being studied. The phenomena should be isolated and that observations should be repeatable. This often involves manipulation of reality with variations in only a single independent variable so as to identify regularities in, and to form relationships between, some of the constituent elements of the social world. According to Saunders et al. (1997), the main feature of the positivist approach is that it is deductive (theory is tested by observation), it seeks to explain the casual relationships between variables, normally uses quantitative data, employs controls to allow the sting of hypothesis and uses a highly structured methodology to facilitate replication.

## 3.2.2 Interpretivism Research Philosophy

In interpretivism the researcher attempts to wear the shoes of the study participants while understanding their world from their point of view (Saunders et al., 2009). The researcher will use the lived experiences and beliefs of the subjects as the data for analysis. Cryer, (2010) notes that the truth is not based on mathematical logic but it has to be a conclusion in the mind of the reader based on the researcher's power of argument (Cryer, 2010). Phenomenology falls under interpretivism and Denscombe, (2004) comments that it is a way of researching that uses qualitative methodologies and places prominence the individual's views and personal experiences.

The researcher adopted the interpretivism research paradigm as it was most suitable for the study which involved small samples of living beings answering questions about how and why something is happening. The researcher funded their own research thus the small sample size. Using this philosophy the researcher managed to draw from the subjects their lived experiences during the economic turmoil and get their perspective on the country's banking system. This enabled the researcher to obtain firsthand information with regards to the respondents' experiences.

## 3.3 Primary Research Method

### 3.3.1 Qualitative Method

Qualitative research as defined by Shank, (2002, p5) is "a form of systematic empirical inquiry into meaning". In the context of the study the researcher was making an inquiry into the impact of regulatory frameworks on deposit mobilisation.

Denzin and Lincoln, (2000, p3) maintain that qualitative research entails an interpretive and naturalistic approach meaning that qualitative researchers will study elements in their natural environments thereby attempting to understand, or to deduce, phenomena in with regards to the meanings people bring to them.

Qualitative research shares the theoretical theory of the interpretivism paradigm, which is based on the belief that social reality is formed and sustained through the subjective experience of people involved. The concern of qualitative researchers is in attempting to accurately describe, decode, and deduce the meanings of phenomena taking place in their normal social contexts (Fryer, 1991). The qualitative method uses the inductive process and is more exploratory, since it is not limited to statistical models, hypothesis and equations. There are various ways to conduct qualitative methods such as action research, case studies, grounded theory, and participative enquiry. However, for the purpose of this study the researcher used the primary research method and did not focus much on the detailed explanation of these methodologies. As with

quantitative methods, the sample population, the formulation of research limitations and objectives are the same.

### 3.3.2 Quantitative Method

Shuttleworth (2008) defines the quantitative method as being the standard experimental method of most scientific disciplines. This type of experiment is sometimes referred to as true science, and uses traditional mathematical and statistical means to come up with conclusive results. They are commonly used by physical scientists, although social sciences, education and economics have been known to use this type of research. It is the opposite of qualitative research. Quantitative research involves counting and measuring of events and performing the statistical analysis of a body of numerical data.

The functional or positivist paradigm that guides the quantitative mode of inquiry is based on the assumption that social reality has an objective ontological structure and that individuals are responding agents to this objective environment. The assumption behind the positivist paradigm is that there is an objective truth existing in the world that can be measured and explained scientifically. The main concerns of the quantitative paradigm are that measurement is reliable, valid, and can be generalised in its clear prediction of cause and effect (Cassell and Symon, 1994).

### 3.3.3 Surveys

Surveys involve selecting a sample of subjects from the population and Bell J and (2010) and Saunders et al, 2009 concur that a survey aims in most cases at obtaining information from a representative selection of the population in a cost effective way by way of questionnaires being administered to the sample.

For the purposes of this research a survey of fifty bank employees and customers was used. A sample of each group was selected and the researcher is convinced that it was a representative sample.  Cassell and Symon, (1994) define a sample

as being that group of elements which is drawn from a population and studied to make inferences about the population. The first and most critical stage of any survey is to select the sample. It is essential to verify that the sample is not biased and is fully represents the population from which it is drawn. After deciding on the sample the researcher decided that the survey questions would be asked through the administering of questionnaires.

According to Cassell and Symon (1994) a researcher can use the descriptive survey approach or the analytical survey. The researcher for their purposes chose to use the analytical survey through the distribution of questionnaires.

### 3.3.4 Analytical Survey

The intention of analytical survey is to verify if there is any connection between different variables. In carrying out this survey the researcher had to familiarise with the theoretical context required in order to identify the independent, dependent and extraneous variables.

Analytical surveys attempt to describe and explain the reason behind the existence of certain situations using two or more variables and are usually examined to test research hypotheses. The results will in turn allow the researcher to examine the interrelationships among variables and to draw a descriptive conclusion.

The researcher used qualitative research method to solicit information from the respondents on banking sector confidence.

Employing the qualitative method allowed the researcher to state the research problem in very specific, definable, and set terms as well as to investigate problems in realistic settings. The issue of liquidity challenges as well low deposits in banks is a problem that is currently being faced by financial institutions in the country. Arrive at more objective conclusions by minimizing subjectivity of judgment although there is the risk that results can be manipulated as is the case with laboratory experiments.

## 3.4 Sampling Strategy

A variety of sampling techniques such as probability and non probability sampling, as well as judgmental sampling can be used. The researcher decided to select a sample from the population as it was not feasible to look at the entire population.

There are two sampling techniques that are widely used, probability sampling and Non-probability or judgmental sampling. Amongst the probability sampling techniques this research will employ stratified random sampling as well as judgmental sampling on the non probability techniques. Probability samples are selected such that every element of the population has a known chance or probability of being included and these have a greater chance of the generalisation of the results of such samples (Adler E S and Clark R, 2008). Non probability samples are where the members of the population have an unknown or no chance of being selected.

Stratified sampling involves dividing the population into homogeneous non overlapping groups (i.e., strata), selecting a sample from each group, and conducting a simple random sample in each stratum. (Cochran, 1963). On the basis of information available from a frame, units are allocated to strata by placing within the same stratum, those units which are more-or-less similar with respect to the characteristics being measured. If this can be reasonably achieved, the strata will become homogenous, i.e., the unit-to-unit variability within a stratum will be small.

The researcher divided the population into two groups namely bank customers and bank employees. The bank employees were further split into the following strata, non managerial and managerial. The customers' strata were made up of corporate customers, small to medium enterprises and individual customers. Having grouped the respondents into the various strata, the researcher again used judgmental sampling to study the participants in depth. The researcher then drew the samples from the groups based on their judgment of what units will facilitate an investigation (Adler, E.S and Clark, R, 2008).

## 3.5 Data Collection Process

### 3.5.1 Sources of Data and Instruments of Data Collection

To ensure the reliability of the information resulting from the research, the researcher drew data from both primary and secondary sources. The use of triangulation enhances reliability and validity of data through the use of different method types for data collection. The aim of using triangulation is to be able to see the same thing using different perspectives and thus be able to confirm or challenge the findings of one method with those of another, (Laws, 2003). Laws further stated that although accounts collected through triangulation may not result in matching data, it does not mean that the data collection process is faulty, but that people view similar phenomena differently.

Below is a brief description of these sources.

## 3.5 Data Collection Process

Primary data sources are the resources on a topic upon which successive explanations or studies are based. This includes anything which has not been collected before for any other purpose, Saunders et al, (2009). Primary sources are records of events as they are initially described, with no explanation or analysis. They are also sets of data, such as census statistics, which have been tabulated, but not interpreted. Primary data has the advantage of giving the researcher the opportunity to conduct an unbiased and extensive study on the research problem set out to solve.

For the purpose of this research, the researcher used obtained primary data from respondents who were either customers or employees.

### 3.5.1 Questionnaires

The instruments of research are determined in line with the nature and objective of the research. This study used a survey format hence the use of a carefully designed and standardised questionnaire that allowed respondents to answer

certain collated questions. Questioning involves using a questionnaire (data collection instrument) to ask respondents questions to secure the desired information. To facilitate this process, the questionnaires were administered in the country's capital city of Harare, based on the fact that the city accounts for 95% of banking activities in the country. The city also accounts for the largest percentage of commercial trade activities in the country, which therefore attracts the largest patronage of banking services and products. The questionnaire was the most suitable instrument for this research as the aim was to collect data relating to facts, activities, level of knowledge, opinions, expectations and aspirations, attitudes and perceptions.

The researcher used a structured questionnaire, which contained a series of questions. The advantage with this is that questions are presented in sequence. The researcher used both closed and open ended questions for the research. The result of the questionnaire was combined with data collated from secondary sources as well as observations, to draw concluding inferences.

According to Siniscalco and Auriat, (2005), a questionnaire is said to be standardised when each respondent is to be exposed to the same questions and the same system of coding responses. This is so that any differences in responses to questions can be interpreted as being a reflection of differences among respondents, rather than differences in the processes that produced the answers.

The development of the questionnaire was made in line with the research objectives to establish the importance and contribution of financial institutions with respect to raising deposits in a dollarized economy and risk profiles of an institution as defined by the type of customers the financial institution concentrates on.

The major challenge of questionnaires in this research was the fact that the responses were limited as some people failed complete the forms.

### 3.5.2 Population

A population is a group of individual persons, objects, or items from which samples are taken for measurement for example a population of presidents or professors, books or students Saunders et al., (1997). The population of the research comprised all the people residing in Harare.

### 3.5.3 Sampling

Sampling is the process of selecting units (e.g., people, organizations) from a population of interest so that by studying the sample one gets an indication or distribution of the various responses to the population from which they were chosen. The rationale behind sampling is that by selecting a representation of the population, the researcher may draw conclusions about the entire population (Cooper and Schindler, 2001).

 A sample is a finite part of a statistical population whose properties are studied to gain information about the whole.  As Kotler, (1997) puts it, a target of less than 1% of the population can often provide good and reliable results. The sample for the purpose of this study was the 50 respondents from the banking public i.e. both the individual and corporate clients that were selected for the role of providing feedback  on the attributes they consider and which will influence their decisions when making the all choice of making deposits.

It was necessary to select a sample of the population for a variety of reasons; it cost less for the researcher to provide questionnaires for sampled respondents than it would have for any other method. The probability and viability of getting questionnaires to all bank customers as well as employees would not have been possible given the limited time given to carry out the study. The quality of data collected was better considering the time constraints. The set timeframes there was not enough time to adequately study the whole population.

## 3.6 Data Analysis

The data collected from the questionnaires was organised by coding it to give a standardized format and the interpretation of these findings considered. During the data collection process both qualitative and quantitative data were gathered. The researcher used tables, histograms and pie charts to display the collected.

## 3.6.1 Analysis Techniques

The role of analysis is to supply evidence which justifies claims that the research changes beliefs or knowledge and is of sufficient value (Howard and Sharp, 1983). Silverman emphasises that analysis depends on the character of the research question which also depends on the chosen theoretical framework The research is meant to provide information and not raw data and as a result data analysis was necessary for the data to be reduced to summaries through the use of analysis packages such as Statistical Package for Social Sciences (SPSS) which show trends and patterns.

## 3.7 Research Limitations

The research methodology selected had the following limitations:

a) The sample size was small due to time and costs. This will, however, not negatively affect the results given that it was larger than the 30 that tends to result in small sample bias.

b) Failure by respondents to disclose some of the requested information as it was deemed to be strategic information for the bank's operations. The impact was that the results were not a reflection of what was on the ground.

**3.8 Ethical Considerations**

According to Saunders et al, (2009) ethics refer to the appropriate behaviour that researchers have to exhibit with regards to the rights of the people under study. Researchers are responsible to those people who participate in their studies. Easterby – Smith et al, (2008) state that the key concern for researchers should be to ensure that they do not cause harm to the respondents. Participants to a study should be protected from physical, emotional, social, financial and legal harm during data collection as well as after the study is concluded.

Avoidance of harm is seen as the foundation of ethical issues for researchers and all potential participants should be advised that they are under no obligation to participate in any study but should do so voluntarily. The researcher should make it clear to the respondents that they have a right to decline to respond to any question, (Cooper and Schindler, 2008).

# CHAPTER 4

## DATA PRESENTATION AND ANALYSIS

### 4.1 Introduction

The purpose of this chapter is to present and analyse the study findings. For the analysis, bar charts, pie charts, and graphs showing trends and simple percentage were used to present the data. The chapter looks at response rate to questionnaires, analysis of demographics of respondents and business relationship with bank.

### 4.2 Data Analysis

### 4.2.1 Response rate

The survey questionnaire sought to obtain the respondents' views on issues concerning the impact of the regulatory framework on deposit mobilization by Standard Chartered Bank. These were administered to two sampling groups comprising of Standard Chartered bank employees and Standard Chartered bank customers. A summary of the questionnaires to each category of respondent and the response rate is presented in Table 4.1.

**Table 4.1 Percentage Distribution of Returned Questionnaires**

| Percentage Distribution of Respondents | | | |
|---|---|---|---|
| | Administered | Returned/ Completed | Percentage (%) |
| **Bank Staff** | 25 | 22 | 88% |
| **Bank Customers** | 25 | 20 | 80% |
| **TOTAL** | 50 | 42 | 84% |

From the above table, it can be see that out   a total of 50 questionnaires that were administered 42 or 84% were completed and returned. The average

response rate of 84% was considered to be sufficient for the analysis. Thus, the findings could be interpreted with some degree of confidence. Respondent demographics are presented next.

## 4.2.2 Demographics

Demographics are important in business and social research. The demographic structure of the study respondents has implications for the integrity of study findings and conclusions. In view of this, the study captured the following demographic variables - gender, age, marital status and, educational levels, employment status and income levels are presented in sections 4.2.1 through 4.2.2 respectively.

### 4.2.2.1 Gender

Gender sometimes has a relationship with how issues are perceived. The gender profile of the respondents was analysed to establishes links if any, with particular response patterns.

The respondents' gender profile is summarized in Figure 4.1. The Figure shows that 60% of the respondents were male with 40% were female.



**Gender of Respondents**
■ male ■ Female

40%

60%
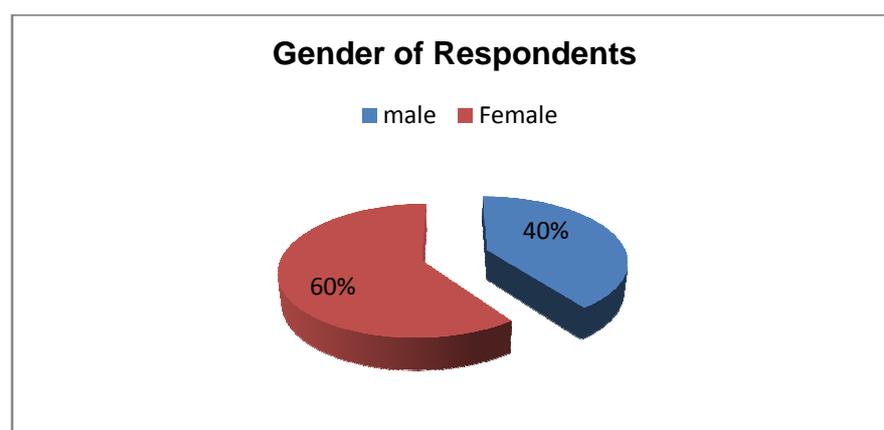
**Figure 4.1: Gender of respondents**

## 4.2.2.2 Age of Respondents

The respondents' ages are summarized in Figure 4.2.
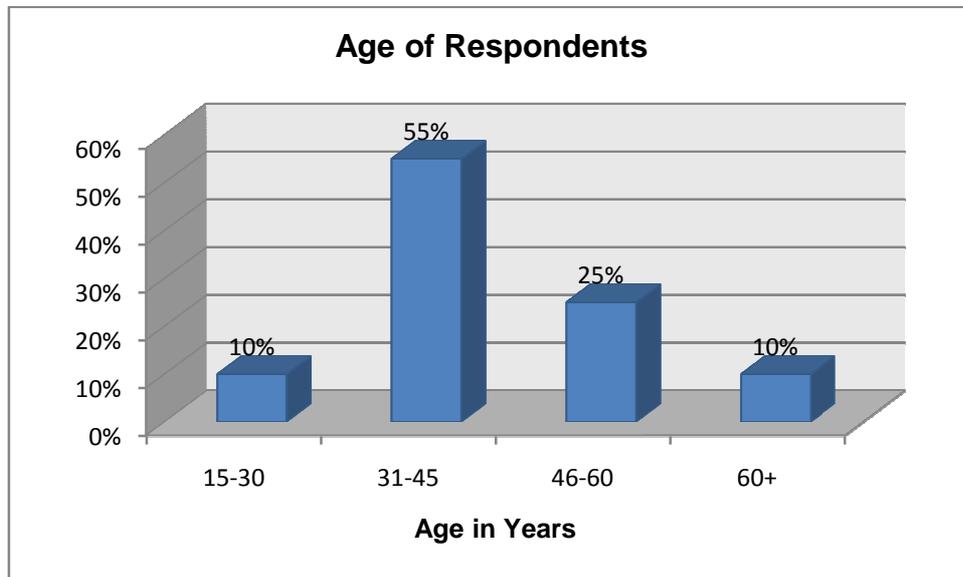


**Figure 4.2: Age of respondents**

Figure 4.2 shows that most of the respondents (55%) fell in the 31-45year age group which is the most active age group in both the employment sector and being the most active in banking. 90% of the respondents are between the ages of 31 and 60. This is the age group that utilizes banking services the most. The respondents perspectives captured in this study are therefore very relevant 90% are coming from the demographic sector that utilizes banking services at a high rate.

## 4.2.2.3 Marital status

Marital status can be an important variable in an individual's personal financial management decisions. This determines an individual's responsibilities, risk appetite and appreciation of banking issues. Banking relationships and hence the bank's ability to attract deposits from individuals falling into various marital strata will be influenced by a number of factors. Thus, the researcher sought to

establish the marital status of the study respondents. The findings are summarized in Figure 4.3
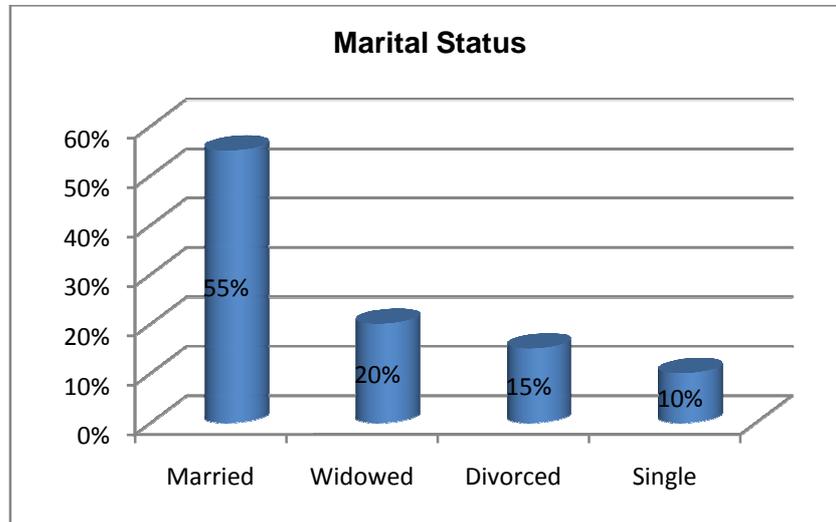


**Figure 4.3: Marital status**

The study established that that 55% of the respondents were married, 20% widowed, 25% divorced while the remaining 10% were single. The profile of the respondents shows that the Bank is largely dealing with a class that prefers stability that it has demonstrated over the years. Stability is engrained in the Bank's integrity and own internal governance structures as well exogenous policies (national monetary management framework) that govern the banking sector.

**4.2.2.4 Educational levels**

Respondents were also requested to indicate their level of education. Level of education can affect appreciation of economic issues. The researcher sought to establish relationships between educational level and response patterns.
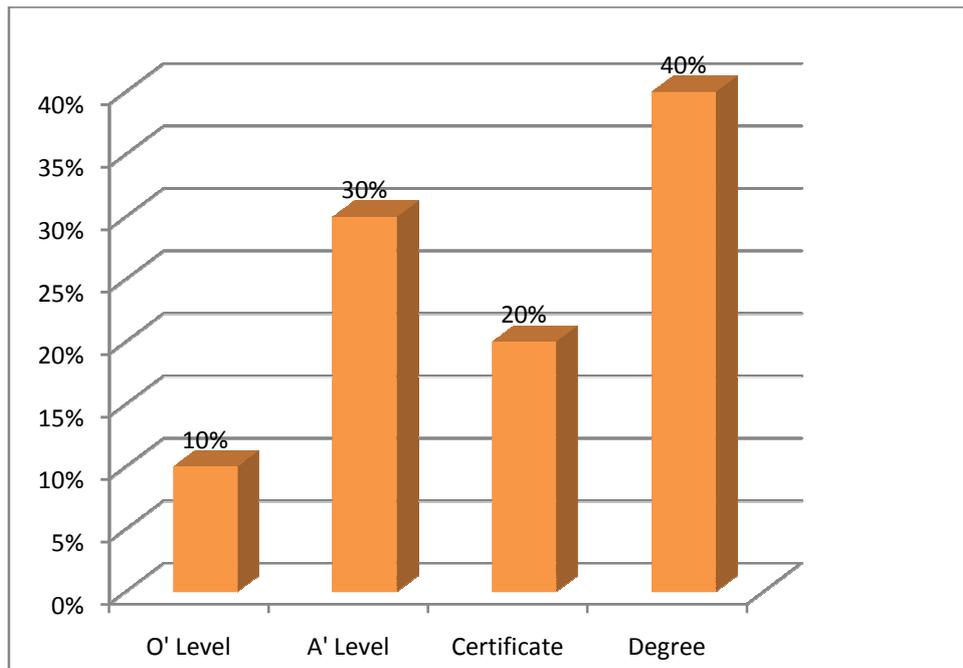
**Figure.4. 4: Educational levels**

The Figure shows that 40% of the total respondents attained university education while 30% have advanced level. The figures indicate that level of education has a bearing on 100% of respondents had "O" Level education and above. Assumption can thus be made that responses came from a sample that had fair to good appreciation of what to expect of banking institutions, given the relatively high education rate recorded in the respondents.

### 4.2.2.5 Employment status

Respondents were asked to indicate their employment status given the importance of employment as a source of income for most people in Zimbabwe. It is from this income that the respondents will be able to make some savings that become deposits to the bank. Thus, this variable will be interpreted very closely with the levels of incomes earned by the respondents. The study findings on the employment status are summarized in Figure 4.5.
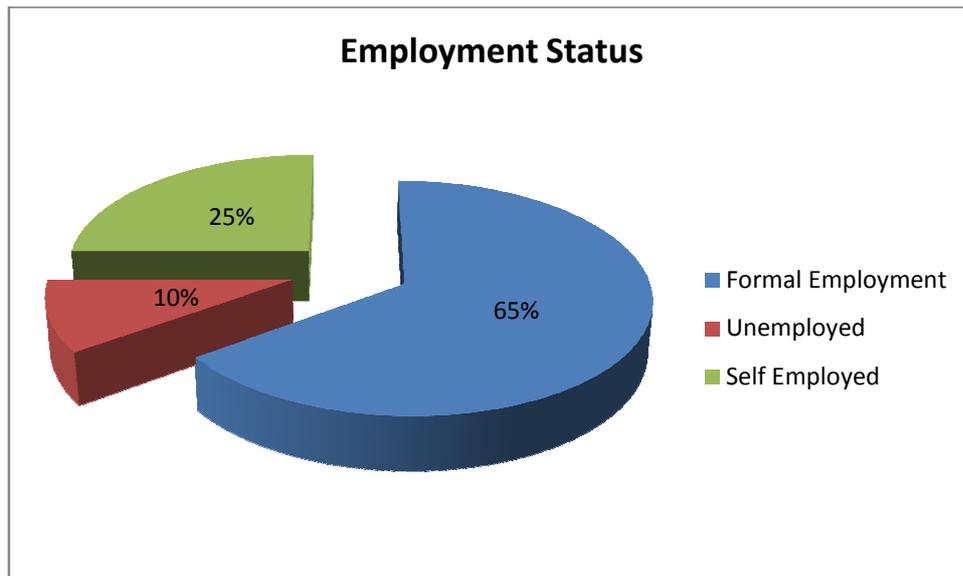
**Figure 4.5: Employment status**

10% of the respondents were not employed, while 95% were either self employed or formally employed. The 10% recorded as unemployed are engaged in the informal sector

### 4.2.2.6 Monthly income

A related question to the employment status was the monthly incomes that respondents earned. The researcher was fully aware of the sensitivities surrounding discussions on incomes. To circumvent this, the respondents were required to indicate the range within which their incomes fell. The results are summarised in Figure 4.6.
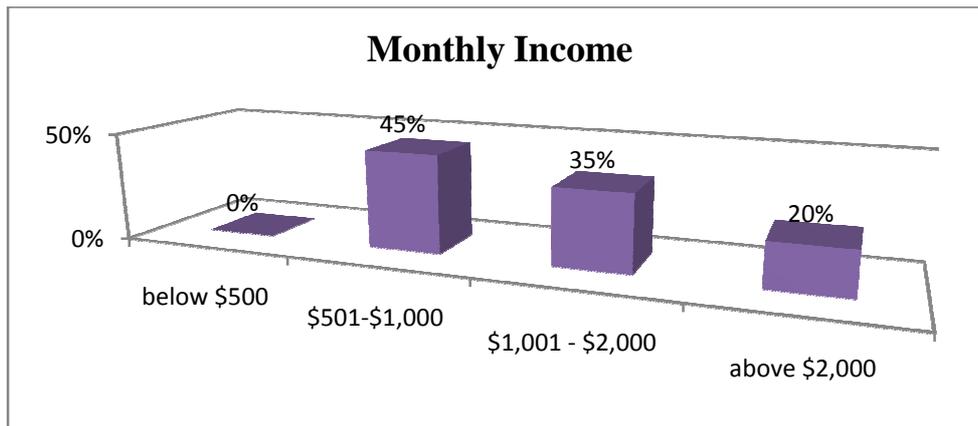
**Figure 4.6: Monthly income.**

The results indicate that that the formally employed make the most use of the banking services, therefore the responses received were from those with higher incomes as they are concerned with safe and sound banking policies to safeguard their deposits.

## 4.3 Business Relationship with the Bank

The study also sought to establish the relationship that the respondents have had with the bank. The nature of the relationship was held to various levels including the length of time that client respondents had been transacting with the Bank, staff respondents were required to indicate the length of time that they have been with the Bank and the type of account that individual participants held. These results are summarised in Sections 4.3.1 through 4.3.2.

## 4.3.1 Length of Time with Active Account

The study results regarding the length of time that client participants have been dealing with the Bank are depicted in Figure 4.7.
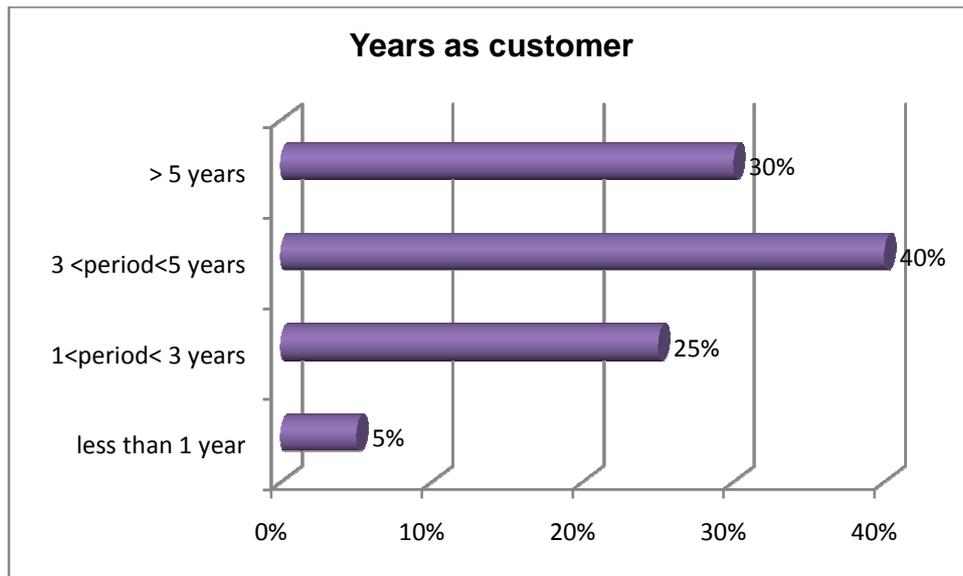
**Figure 4.7 Periods with Active Account**

The Figure shows that of the total respondents, 70% of the customers had maintained bank accounts for at least 3 years, while 30% had been banking with Standard Chartered for more than 5 years. The respondents have banked for a fairly long time with the bank, prior to introduction of dollarization and post dollarization era. These experiences have resulted in the customers continued deposits with the bank despite the ineffectiveness of the regulatory body. The attraction with Standard Chartered Bank according to the respondents has been its resilience over the years despite the economic challenges. Because of its international affiliation bank operations are governed by both the Financial Services Authority and the local regulatory body hence its ability to withstand the test of time. Perspectives of the remaining 30% that have had accounts for less than three years are equally important as their comments are mostly influenced by experiences of the post dollarization era.

### 4.3.2 Period as a Bank employee

The employment profile of the staff respondents is given in Figure 4.8.
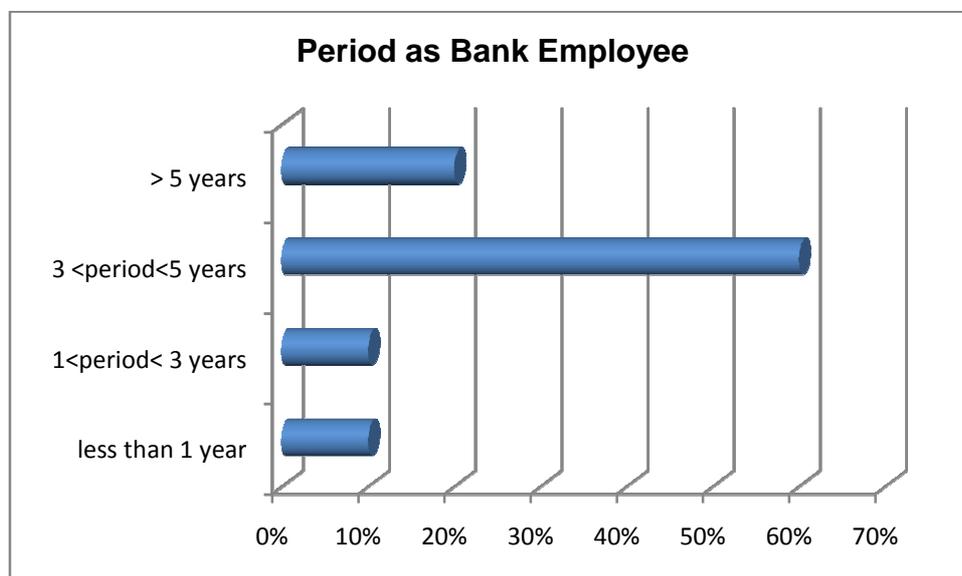


**Figure 4.8 Period as bank employee**

The study established that 60% of the staff has worked for Standard Chartered Bank for at least 3 years and 20% for more than 5 years. Of the remaining 20%, 10% had been employed by the bank for at least 1 year while 10% had been in employ for less than one year. These figures indicate that the responses are as a result of experience gained over the years and better understanding of banking and the issue of deposit mobilization that was under study.

### 4.3.3 Type of account held

One of the key activities characterising a client-bank relationship is the type of account held by the client. It is through this account that the client will save thereby creating deposits for the bank. The type of; and level of activity on; that account determine the status of the client in the bank. It is worth noting that this information was not meant to discriminate against customers but get a deeper understanding of the bank's portfolio as shown by the respondents and future business potential. The results are contained in Figure 4.9.
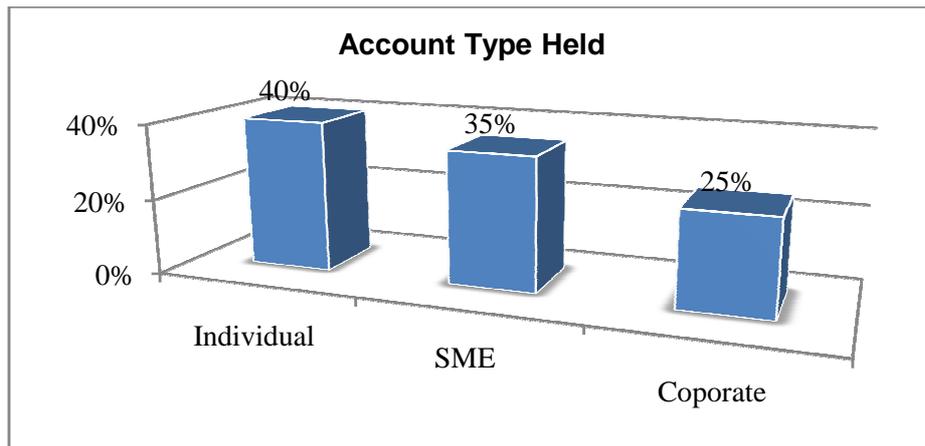
**Figure 4.9: Account type held**

Figure 4.9 indicates that the respondents from the customer segment were almost evenly distributed among the 3 major account types with 40% being the individual customer, while 35% being SME customer and the remaining 25% consisting of the corporate customer. The indication is therefore that all account holders are fairly represented. It can therefore be inferred that responses in this study represent the full spectrum of banking clients.

## 4.4 Customers' views about the banking sector

The role of the financial system is one of financial intermediation which involves mobilising resources from the surplus units and supporting investors. Thus, customers can be investors (depositors), borrowers or both. Their views about the banking sector are critical as they are important players in the financial intermediation process. Thus, the study posed a number of questions that sought to gauge their views. Their views are reported in Sections 4.4.1 through the analysis of their thoughts on the supervisory and regulatory capabilities of the regulatory body.

**4.4.1 Stability and reliability of the banking sector in the past**

Stability can be defined as the ability to stand the test of time. In this study it refers to the ability of financial institutions to remain in profitable business despite the recent economic challenges experienced by the country. Reliability on the other hand refers to the ability by financial institutions to effectively carry out core banking business without inconveniencing or prejudicing its clientele.

The importance of stability and reliability is that it affects the decisions of depositors as it is one of the most important factors looked at when making decisions to deposit their savings. The Zimbabwe financial crisis experienced by the banking sector during the period 2003 – 2004 evidenced the fact that once depositors lose confidence in a bank's ability to protect their funds, they will immediately withdraw their deposits thereby causing instability in the financial sector.



**Stability of Banking sector 1980 - 1998**

■ Yes  ■ No

5%

95%
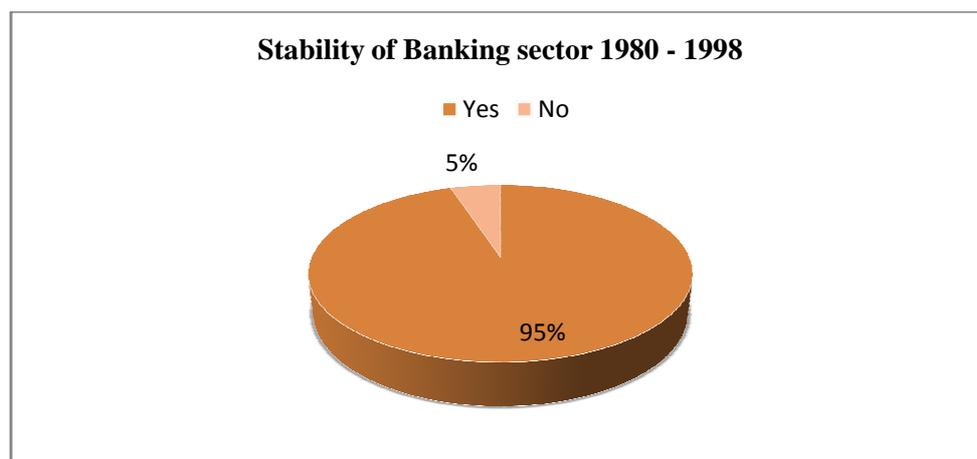
**Figure 4.10: Stability of the banking sector**

Figure 4.10 indicates that 95% of the customers felt that the banking sector was stable and reliable during the post independence era up until 1998. It is evident that the majority of respondents had positive views of the banking sector. It was observed that 98% of the respondents believed that the stability was as a result of effective supervision by the Central Bank while 2% felt otherwise (See Figure 4.11). As such although depositors may not have been fully conversant with the regulatory policies and frameworks then, In hindsight they feel that the central bank functions were more effective.
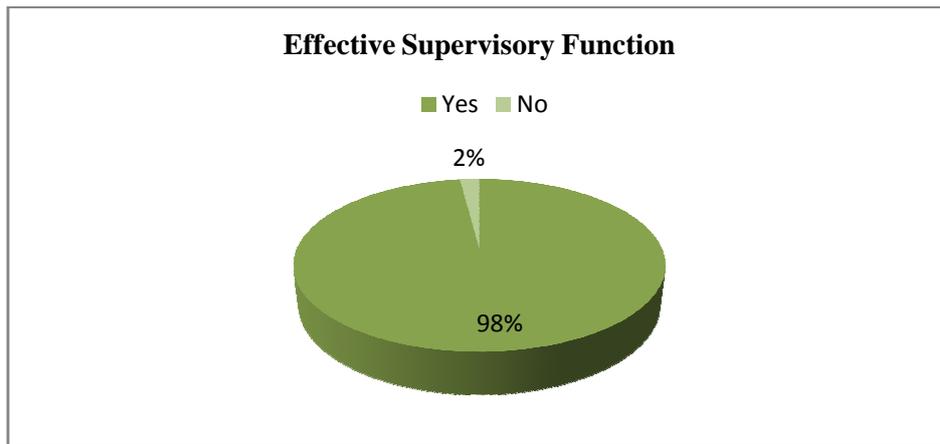
**Figure 4.11: Effective supervisory function**

The customers' views regarding the supervisory function were also sought for the period after adoption of multi currency system in 2009. The findings are given in Figure 4.13. In the same vein it can be assumed that in period 1998 to 2009 banking customers were in a " wait and see" attitude as the environment was changing very fast.
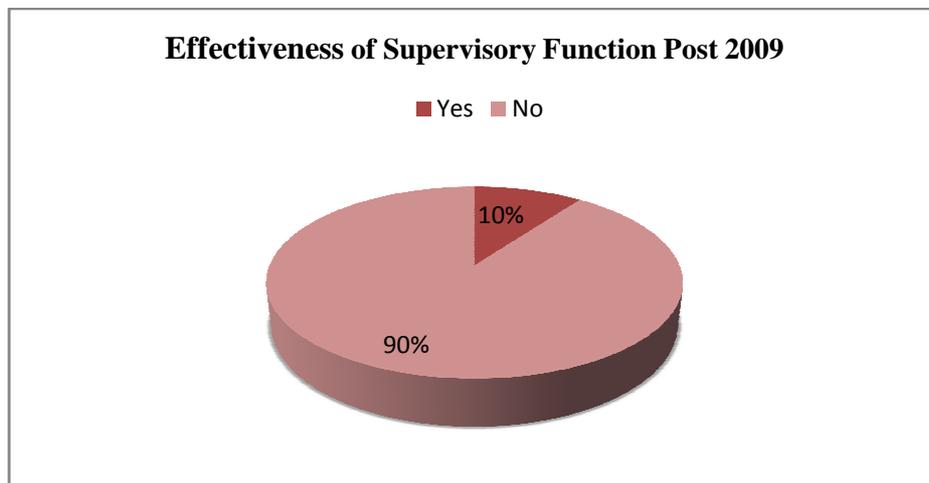


**Figure 4.12: Effectiveness of supervisory function Post 2009**

The study noted that 90% of the respondents felt that the Reserve Bank of Zimbabwe's supervisory function became ineffective in 2009 after the central lost its ability to provide lender of last resort support to financial institutions. The

economic instability during the decade prior to dollarization sparked a lot of interest in the general public regarding the policies governing the banking sector and safety of customers' deposits. Only 10% of the respondents felt that the supervisory role was still effective.

The lender of last resort is one of the main functions of any central bank and supports banks in times of financial distress. In an economy where it does not play this role, the central bank is incapacitated and can therefore not manage the liquidity situation. Since dollarization in 2009 the Reserve Bank of Zimbabwe is faced with such a situation and its regulation of the financial sector is limited.

## 4.4.2 Role of the RBZ in protecting depositors' funds since 2009

Banking is based on a trust relationship between the bank and the customer therefore the study sought to establish the customers' view regarding the ability of the institution to safeguard their deposits. Respondents were asked to rate if Reserve Bank was protecting depositors' funds. Protection of depositors' funds is a key component in ensuring credibility of the central bank and the whole banking system. The researcher sought to establish the perception of the Reserve Bank that was held.
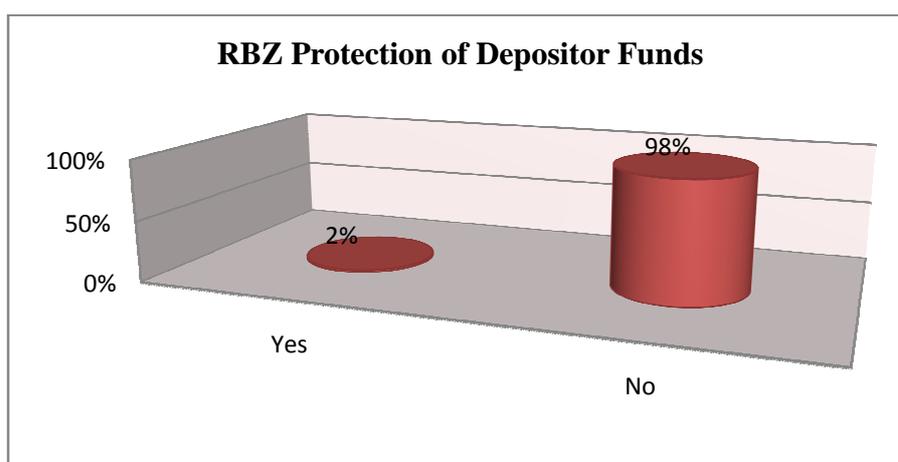


**Figure 4.13:** RBZ Protection of Depositor Funds

Study findings showed that only 2% felt that the RBZ was playing a critical role to protect depositors, while an overwhelming 98% thought otherwise This can be explained by sentiments emananating from the hyperinflationary environment and the migration to "multi currency" environment whereby deposits held in Zimbabwe dollars were not converted, resulting in loss of deposits. Although 98% of the respondents felt that the Reserve Bank is not doing enough to protect the depositors funds, the increase in capital requirements for financial institutions s well as the fact that the central bank as part of its regulation requires that all financial institutions comply with Basel Is indication that efforts are being made. One of Basel II standards requires financial institutions to maintain enough cash reserves to cover risks incurred by operations. The indication is that depositors do not have full appreciation of these measures. In spite of all these measures taken by the Reserve Bank, respondents in this study did not feel the Central bank was doing enough to protect depositor funds. This sentiment was probably largely influenced by events of the hyperinflationary environment.

In addition, the regulatory function is meant to achieve a number of objectives such as conducting monetary policy, including the possible use of lender of last resort powers, preserving financial stability, supervising and regulating banks and safeguarding payment as settlement systems. In light of this, the researcher sought the respondents' views about what they thought was the possible relationship between bank regulations and service quality, efficiency and bank competitiveness. The responses are contained in Figure 4.14
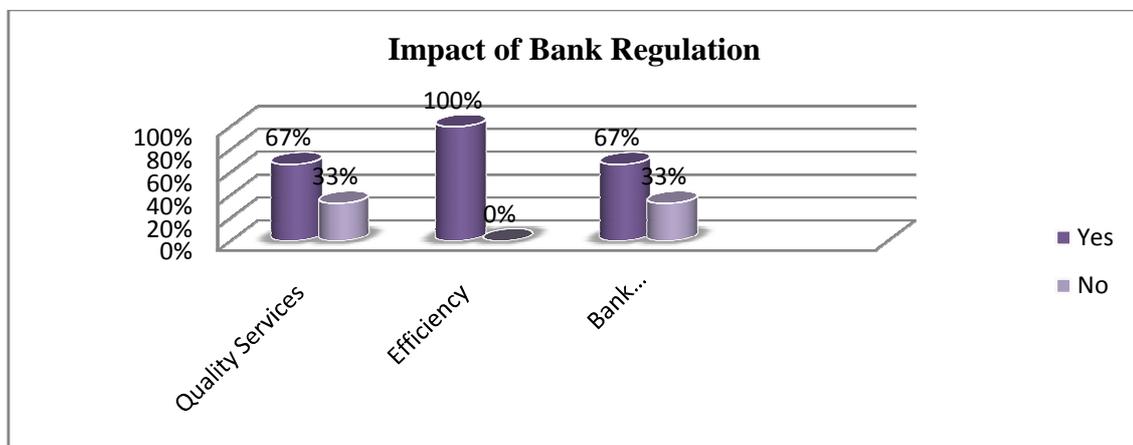


**Figure 4.14:** Impact of Bank Regulation

Efficiency was viewed by 100% of the respondents as being the most important result of regulating of banks by the Reserve bank. The indication is that all customers considered efficiency as being affected by bank regulation. Quality services and bank competitiveness although also important were ranked lower than efficiency. This can be viewed as implying that respondents believed that banks could take other measures to enhance quality and competiveness without being affected by the regulatory framework.

Since one of the functions of the central bank is to regulate and supervise financial institutions, the study sought to establish the position of the Reserve Bank of Zimbabwe with regards to this role.
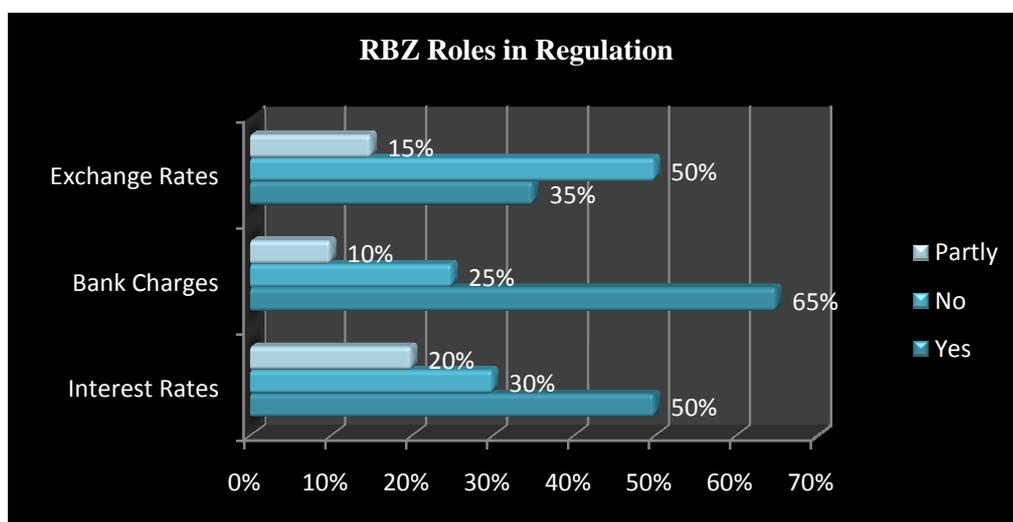


**Figure 4.15 RBZ roles in regulation**

**Exchange Rates**

Out of the study sample, 35% of the respondents felt that the central bank were playing a role in regulation of exchange rates while 50% were of the opinion that the central bank was not involved at all. The remaining 15% felt that it was partly involved in the establishment of these. Indication is that customers may not fully understand that exchange rates are determined by international markets through market forces.

**Bank charges**

With regards the regulation of bank charges, 65 % of felt that the RBZ is playing a critical role in the regulation of bank charges, while 25% felt that there was no intervention by the central bank. The 15% remaining were of the opinion that there was limited involvement by the central bank.

**Interest Rates**

It can be inferred that 50% respondents assumed that the central bank was influencing interest rates with 30% believing that the Reserve Bank was taking a back seat by adopting a wait and see attitude. The remaining 20% felt that there was limited intervention by the central bank.

**4.4.3 Views about the current financial services product offering**

Customers are attracted to do business with financial institutions by the product offering available to them. Banks are constantly trying to keep up with customer needs by offering a variety of products from which the customer can select those most suitable to them. The respondents were asked to rate if the financial institutions were offering services that fulfilled needs of customers as a way of gauging respondents' assessment of customer centricity of financial institutions.

Figure 4.16 shows the respondents' views about the ability of the current financial institutions' product offering to meet customer needs.
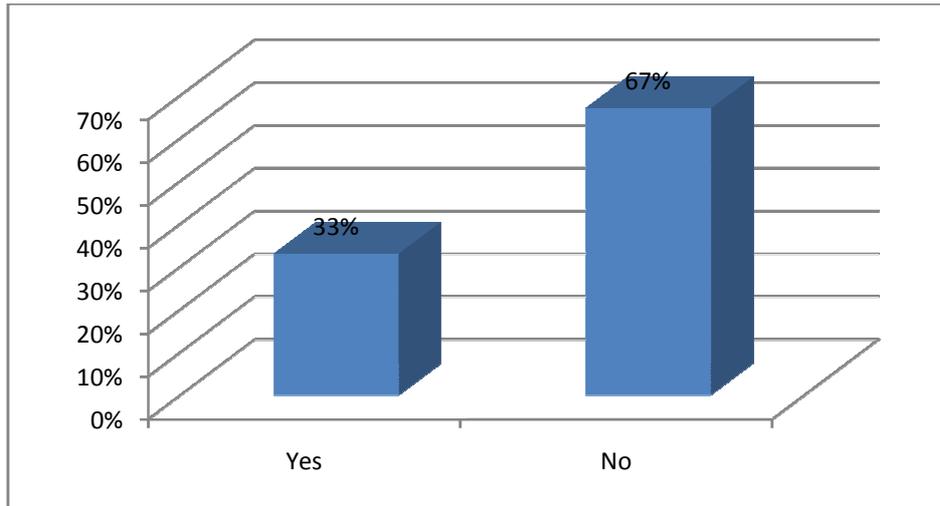
**Figure 4.16: Do products on offer satisfy needs of customers**

Most of the customers, at 67%, indicated that the banks' products do not meet their needs. Results are in keeping with results shown in figure 4.16 indicating that respondents expected products such as mortgage loans, vehicle financing, fixed deposits and money market investments over and above the basic deposit and payment settlement function.

Pursuant to the gaps in the level of the current financial sector offering and customer expectations, the researcher asked respondents to indicate what they hoped for the banks to introduce to the market in order to address the "existing gap". The views are summarised in Figure 4.16.
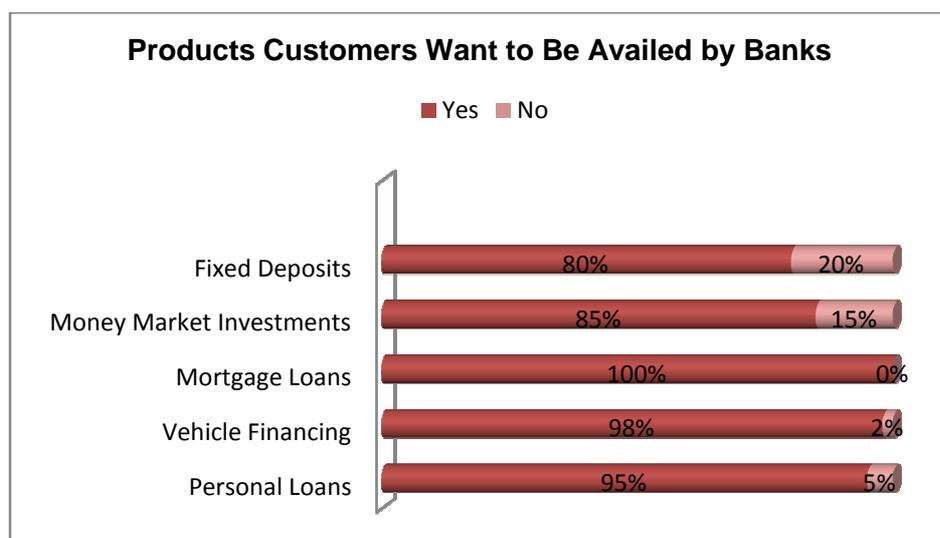


**Figure 4.17: Products required by respondents**

The product offering mentioned included fixed deposits, mortgage loans, vehicle financing, and vehicle financing. The study showed that 100% of the respondents viewed mortgage loans as the most important product and they would want the bank to offer this followed by vehicle finance where 98% of the respondents indicated they would want to access this facility from the bank. Personal loans had a response of 95% and this shows that customers want products that provide a better way of life for them. What is of note is that all categories showed high levels of requirement, indicating that the customers are highly expectant of what the banking sector should be doing.

### 4.4.4 Interest rates

Interest rates play an important role in depositors' decision making process as they expect to earn an attractive income on their deposits. On the other hand when customers borrow from the bank, they expect the lending rates to be manageable.

The researcher sought to find interest rates being charged and compared these with the respondents' expectations.
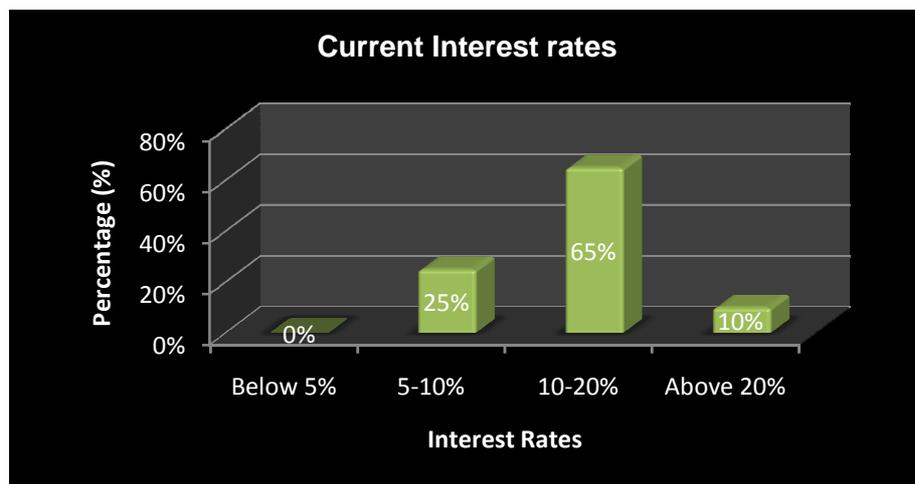


**Figure 4.18 Current interest rates**

Current interest rates are ranging between 10% and 20% according to information gathered from 65% of the respondents. These rates are way above international market levels which are determined by market forces and in need

regulated by relevant authorities. However the Zimbabwean economy is operating under different structural features where revenue for financial institutions is earned from bank charges which include interest. This results in the high interest rates being charged to customers. This level of high interest rates is an indication of liquidity shortages in the economy.
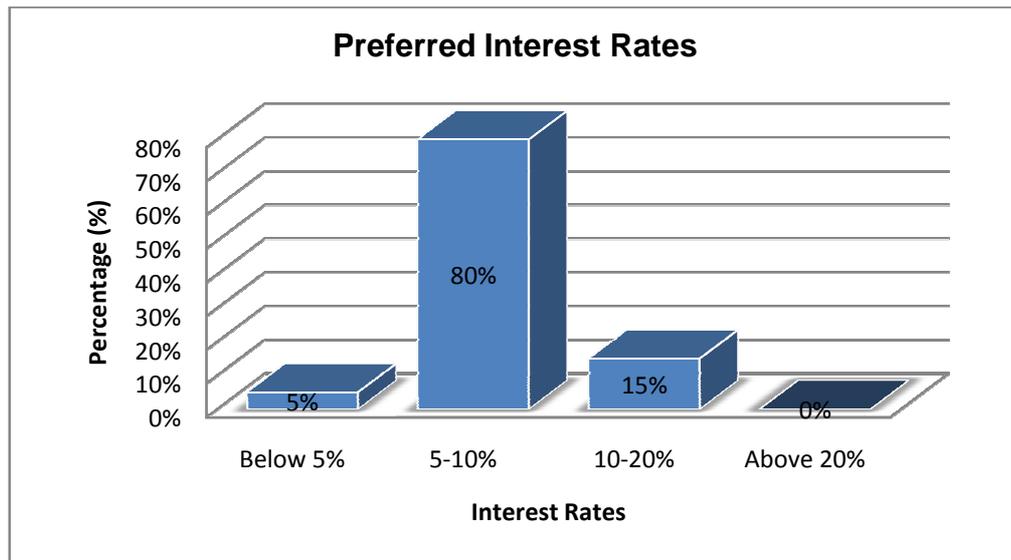


**Figure 4.19 Preferred Interest Rates**

The study established that 80% of the respondents preferred interest rates charged by the banks to fall between 5% and 10% while only 5% were of the view that 5% was their preferred rate of interest on any funds borrowed from the bank. Those who chose the 5% rates did not consider the current economic situation and the reality and instability relating to an inflationary environment. Currently the banks are charging between 10% and 20% which are considerably high as indicated by the 15% of respondents that indicated this as their preferred rate. There is thus a gap between what the customers are being charged.

The respondents also indicated areas where they thought pricing was unfair, and their responses are summarised in Figure 4.20.
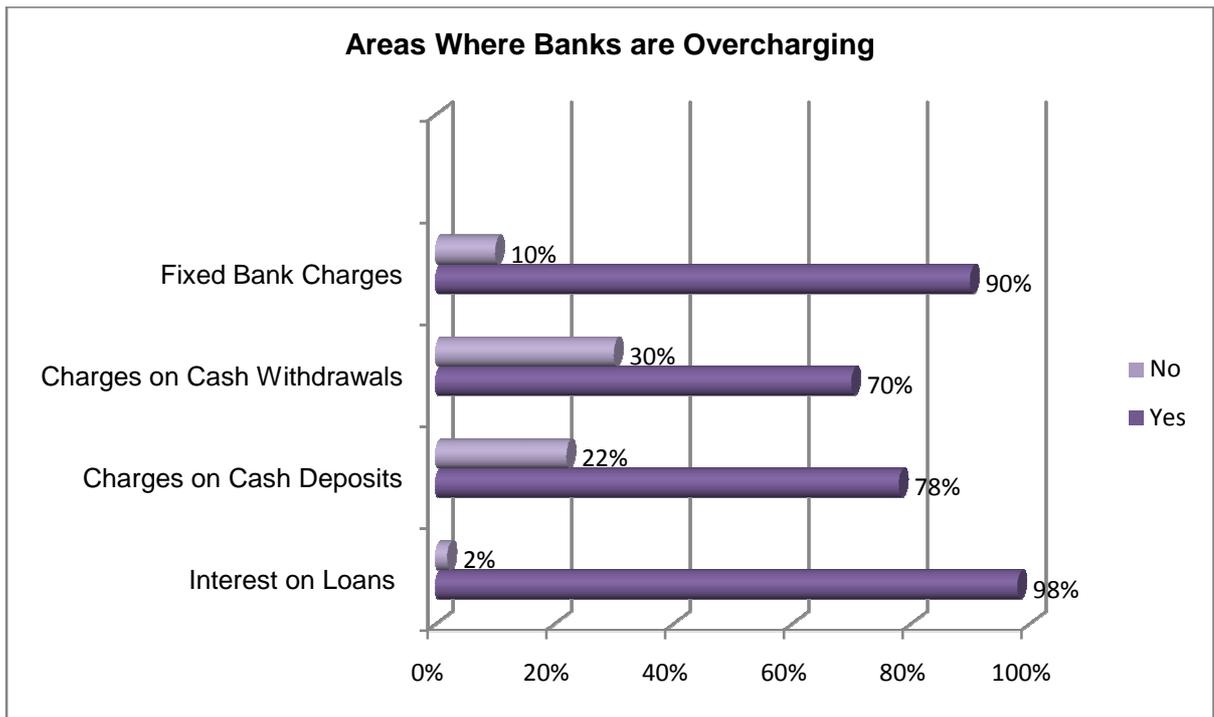
**Figure 4.20: Areas being overcharged by banks**

The majority of the respondents (98%) were of the opinion that banks were charging more than they should for loans while 90% felt fixed bank charges were too high. Most financial institutions are availing loans to depositors and as such this is the major revenue stream thus they seek to maximize on this. Rates were however deemed as not being competitive with international rates as they are by far out of the international range. The RBZ has intervened by providing guidelines for banks but the inclusion of charges like arrangement fees, management fees has ultimately increased these rates. What is significant is that respondents ranked all areas as being overcharged.

## 4.4.4 Factors influencing customers decisions in selecting a bank

Customers are attracted to banks by the products that are offered by banks and this influences their decision to do business with the financial institution.
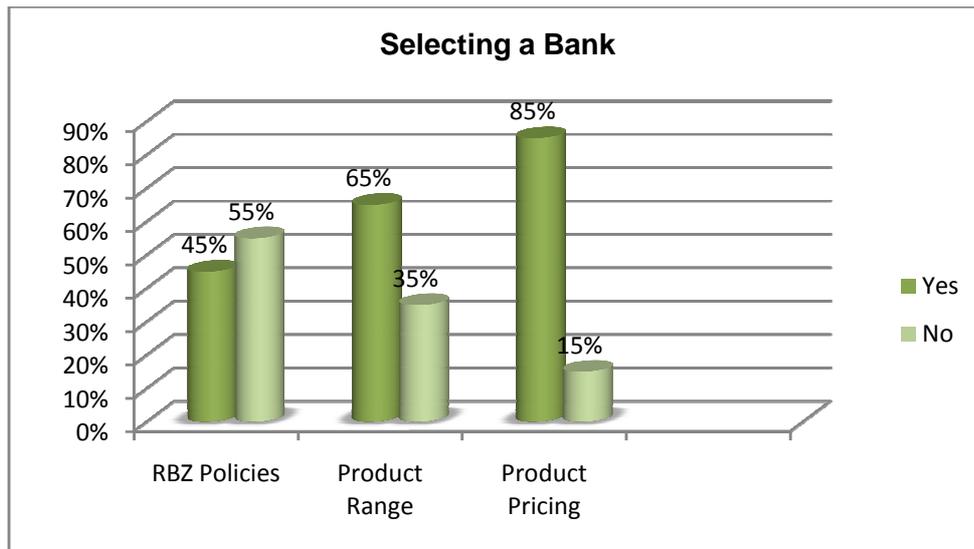
**Figure 4.21 Bank selection**

Most of the respondents (85%) agreed that the most important aspect when selecting a bank is product pricing, followed by product range at 65%. Pricing of products is very important to customers as it will determines how much disposable income will be available to them after they commit themselves to the banks products.

## 4.5 Staff views about the banking sector

This section reports on staff views about the banking sector. Some cross-case comparisons with the customers will be made at various stages of this discussion. While customers' views represented an outsider's view on the regulatory issues, staffs is expected to have more information about the banking sector dynamics.

## 4.5.1 Views about the Banking Act of Zimbabwe

The Banking Act of Zimbabwe is the instrument used by the Reserve Bank to regulate all financial institutions in the country.

The respondents were, asked what they thought about the adequacy of the Banking Act of Zimbabwe as a tool or guide for the supervision of financial institutions.

The study findings are depicted in Figure 4.22 below



**RBZ Act Adequacy for Supervision of Banks**

Yes  No

32%

68%
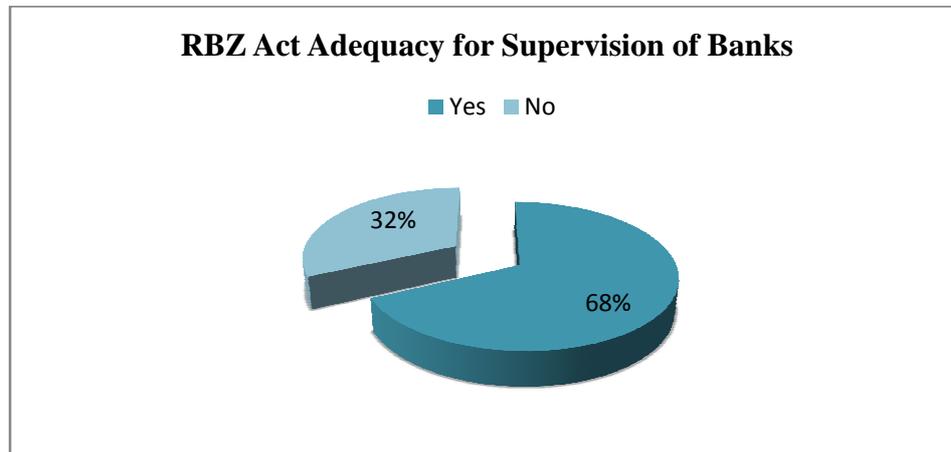
**Figure 4.22 RBZ Act adequacy for supervision of banks**

Of the respondents, 68% argued that the Reserve Bank regulatory framework was adequate for the supervision of banks. Respondents were familiar with the Reserve Bank Act and they know the responsibilities of the Reserve Bank with regards the supervision of banking institutions. The remaining 32% felt that regulatory framework was inadequate.

**4.5.2 Performance of the Reserve Bank of Zimbabwe**

The performance of the central bank has a bearing on the performance of the economy as a whole as any decisions or policies have a direct impact on operations across the economy.

Respondents were therefore asked to rate the Reserve Bank of Zimbabwe in controlling banks' activities. The findings are given in Fig 4.23
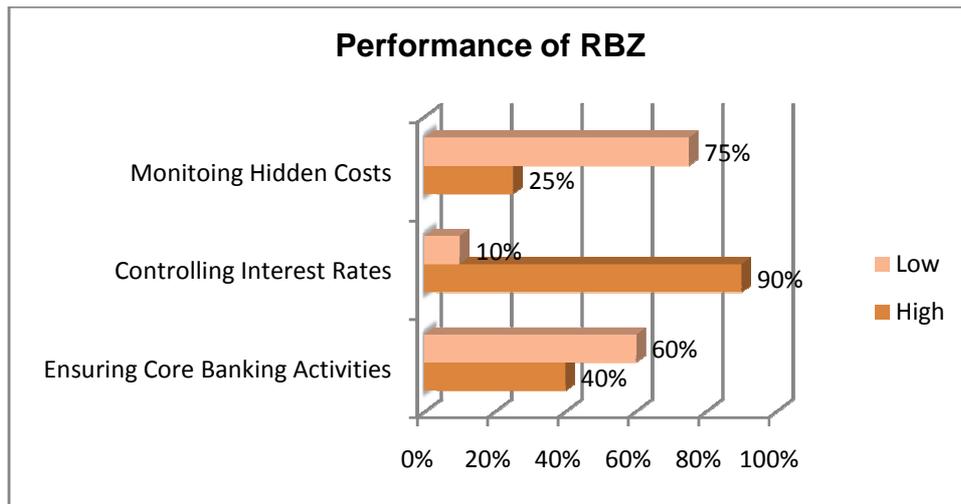
**Figure 4.23 Performance of RBZ**

The study established that 90% of the respondents maintained that the performance of RBZ on controlling interest rates was high while 75% argued that the RBZ rated low on monitoring hidden costs passed on to customers by the banks. Furthermore, 60% held that the RBZ rated low on ensuring core banking activities were adhered to by financial institutions. The above mentioned tasks for the Reserve bank are important and should be appreciated by bank customers to enable them to make informed decisions based on banking sector safety with regards depositor funds.

### 4.5.3 Capital requirements

Capital requirements are important for the protection of depositors funds in that should the financial institution fail, depositors will be protected to some extent and be able to recover some of their deposits.

The study therefore sought to establish if the capital levels set by the Reserve Bank are adequate to cover such eventualities.
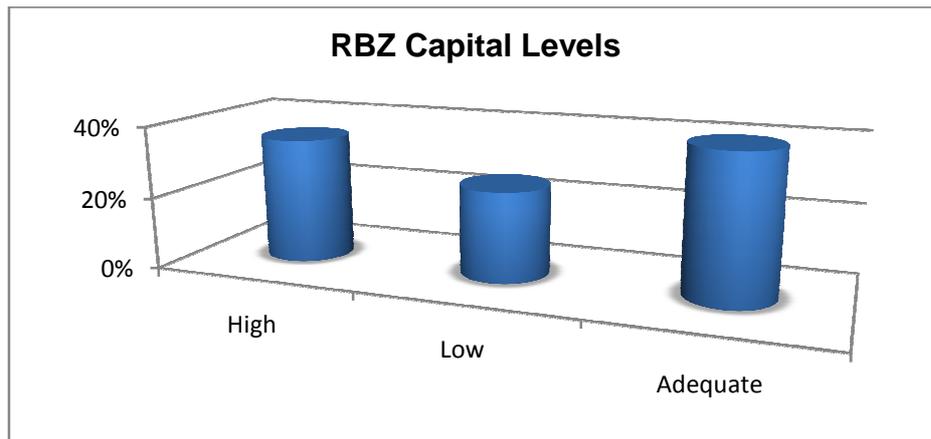
**Figure 4.24 RBZ capital levels**

The possible responses were high, low and adequate. The study noted that 40 % of the respondents viewed RBZ capital levels as adequate, while 25% indicated that the levels were low and 35% regarded the capital levels to be high. The responses were made at a time the RBZ had called for higher capital requirements from the operating banks with stringent measures being given to the banks that failed to raise the required capital.

## 4.5.4 Impact of capital requirements on bank performance

The ability of a financial institution to meet the capital requirements indicates that it has the capacity to run its operations smoothly as well boost customer confidence. Thus, the study proceeded to explore the impact the impact of capital levels on profitability, operations and confidence as reflected in figure 4.25.
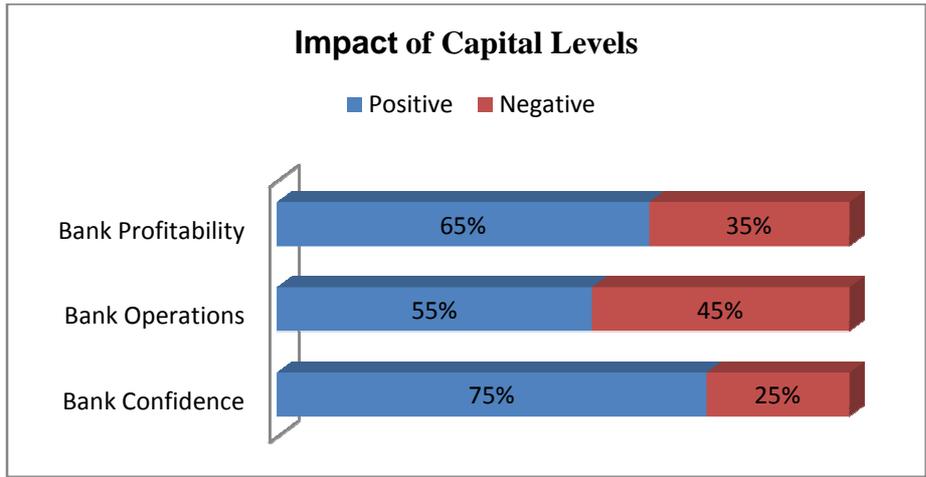
**Figure 4.25 Impacts of Capital Levels**

Of the participants, 65% were of the view that the impact of capital levels on bank profitability was positive while 55% of the respondents indicated that the impact on bank operations was positive. Of note is that bank confidence was regarded by most, 75% of the respondents as having been greatly impacted by the capital levels. Bank confidence was negatively affected by policies and huge losses suffered during the hyperinflation period.

## 4.5.4 Reserve Bank and protection of depositors' funds

Protection of depositors' funds involves ensuring that in the event of bank failure, there is recourse to depositors. The study sought to establish if the RBZ has put in place policies to this effect as the RBZ is expected to protect depositors' funds through its regulatory frameworks.
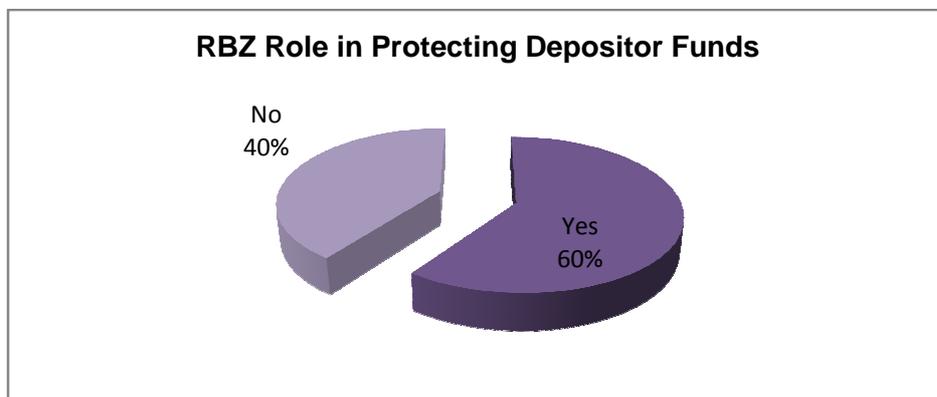


**Figure 4.26 RBZ Role in protecting depositor funds**

The study findings are that 60% of the respondents view RBZ as having helped to protect depositors' funds in the period under review. However, the remaining 40% of the respondents view the RBZ as not having helped protect depositors' funds. This study was carried out after a period when there were a number of banks that were 'troubled' and placed under curatorship while others were closed prior to the dollarization era and perhaps this the perception still prevailing in the minds of the respondents.

### 4.5.4 Reserve Bank on-site inspections

The Reserve bank of Zimbabwe regularly visits financial institutions to carry out inspections on bank operations, books and adherence to policy at the banks premises.
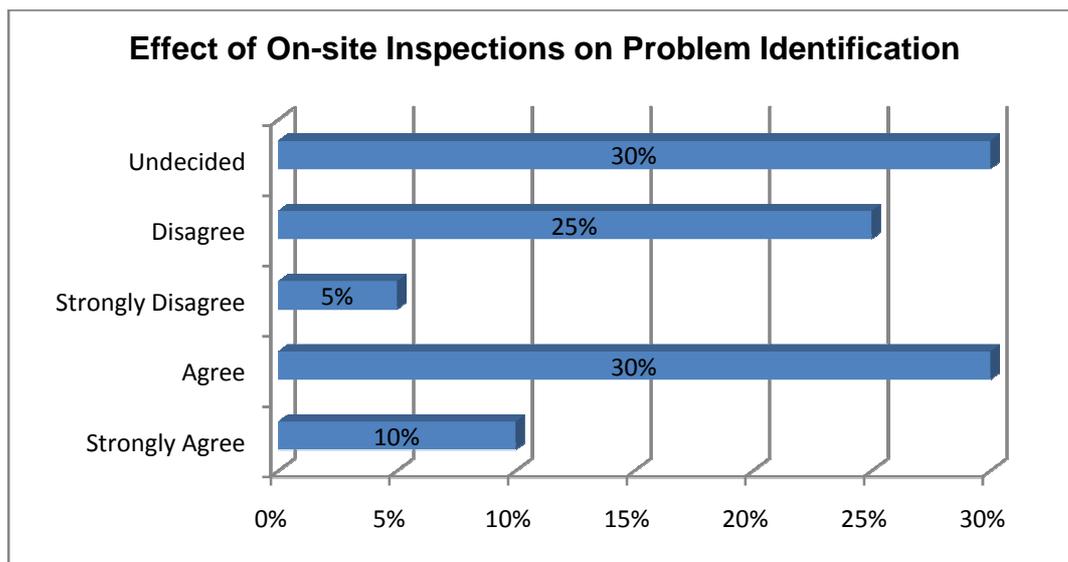


**Figure 4.27 Effect of on-site inspections on problem identification**

Of the respondents, 30% were undecided as to whether on site inspections had helped identify problem areas in the banks. Another 30% confirmed that the onsite inspections helped identify problem areas. A further 10% indicated that they strongly agreed that onsite inspections were effective in identifying institutional problems, while 5% strongly disagreed.

## 4.5.5 Effectiveness of Regulation on Financial Institutions



**Effectiveness of Bank Regulation**
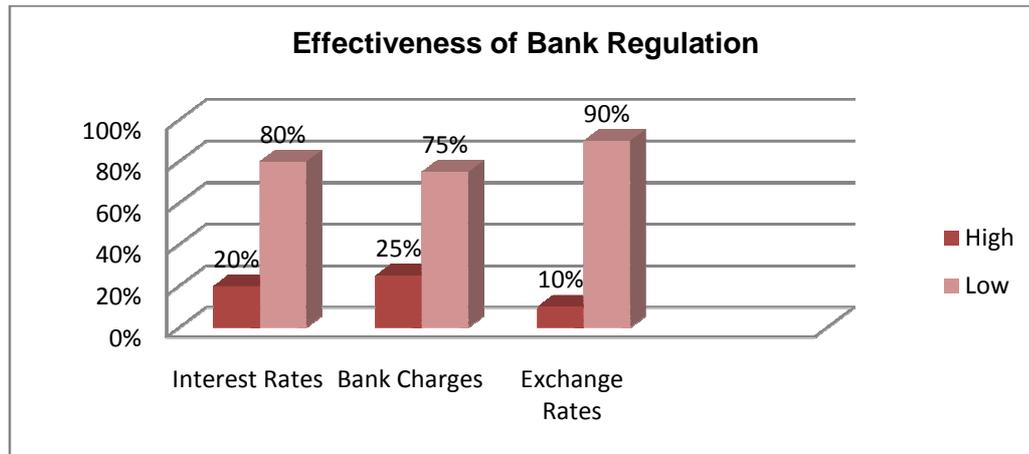
**Figure 4.28 Effectiveness of Bank regulation**

Bank regulation was viewed by the respondents as not being effective on exchange rates, bank charges and interest rates as indicated by 90% of the respondents  indicating that bank regulation was low on exchange rates, and 80% viewing the effectiveness as being low on interest rates while 75% indicated that the effectiveness was low on bank charges.

## 4.5.6 Reserve Bank influence on product offering

The central bank does not directly influence product offering by financial institutions but provides regulatory frameworks for any new products that the banks might want to introduce as was the recent case with mobile banking products and previously derivatives. This position leaves room for the banks to offer their customers products which are accepted by the customer and hence attract deposits from their customers.
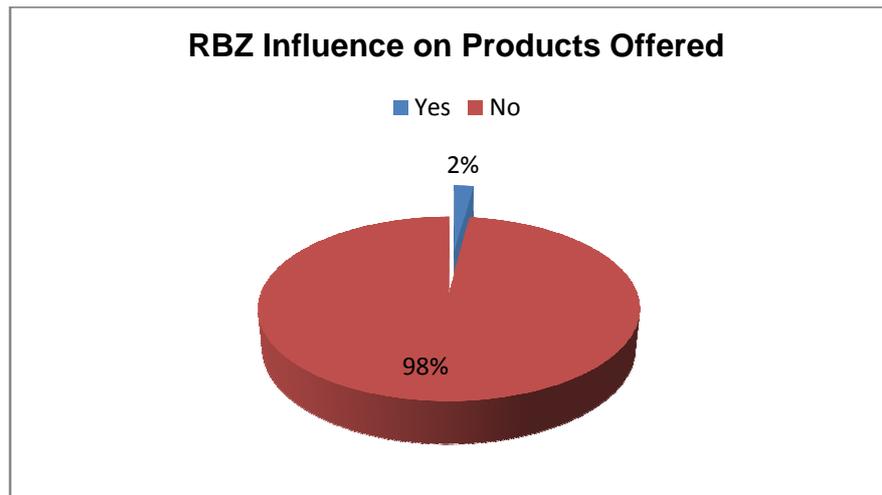
**Figure 4.29 RBZ influence on products offered**

The study revealed that 98% of the respondents indicated that RBZ did not influence the products that were offered to the customers by the banks.

## 4.5.6 Depositors' decisions and Reserve Bank Role

Depositors will base their decisions on a variety of reasons among which are RBZ policies, product range and pricing. The Reserve Bank policies are expected to encourage institutions to be innovative with products while ensuring that customers are not prejudiced.
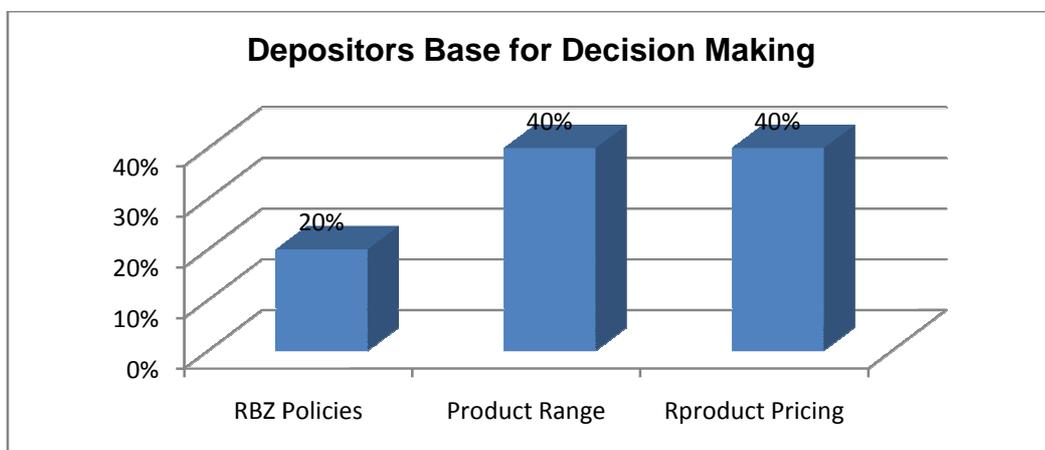


**Figure 4.30 Depositors' base for decision making**

Results from the study showed that 40% of the respondents consider product pricing and product range as being important for them when choosing a bank that they will do business with. The product price and range need to be attractive to the customers.

## 4.6 Summary

While financial institutions have the choice of deciding which products to offer their customers in order to attract deposits, the central bank has an important role of enforcing regulation and protecting customers from being unjustly penalised by banks. Participating respondents were of the view that financial institutions had a narrow product offering and would like to see banks expanding this in order to attract deposits. The study also revealed that while bank staff was more aware of the role of the Reserve bank with regard to effect of regulatory framework, the customers were not. The study indicates that regulatory framework is key to deposit mobilisation by financial institutions. Depositors expect their deposits to be safeguarded but the study revealed that the majority of participants felt that the reserve bank was not doing enough to protect their funds.

# CHAPTER 5

## CONCLUSION AND RECOMMENDATIONS

### 5.1 Introduction

This study evaluated the effect of the regulatory framework on deposit mobilization by Standard Chartered Bank Zimbabwe. The research explored the role played by the regulatory authorities in ensuring effective supervision of banks' operations. This evaluation was done by analysing the tools, scope, methods and policy framework of supervision. The purpose of this chapter is to summarise the major findings proffer some recommendations. The recommendations are evaluated using Johnson and Scholes, Suitability-Feasibility-Acceptability (SFA) framework. The chapter concludes with some suggestions for future research.

### 5.2 Summary of the major study findings

The major research findings are summarised below:

The supervisory and the regulatory functions of the Reserve Bank of Zimbabwe have not been effective in curbing distress in the Zimbabwean banking system. Rrespondents argued that RBZ's regulatory and supervisory activities had not increased depositors' confidence in the banking system. Depositors are not certain that they will have access to their funds given the liquidity challenges prevailing in the country and distress of small banks and lack of a proper recourse in the event of bank failures.

a)  The respondents also maintained that the supervisory and regulatory activities of the Reserve Bank of Zimbabwe have had a positive impact on the pricing of banks' products although they left the decision of product offerings to individual banks.

b)  Deposit rates and investments yields are very limited

**c)** Customer respondents argued that the banks' interest rate regime was too high given the rates that were being charged elsewhere the world over. Bank charges on accounts are high and as such are discouraging depositors from bringing money to financial institutions. Bank charges are high because this has become the major revenue stream for financial institutions as core business net interest income is not able to support the core expenses of the banks.

**d)** The bank's product offering was narrow and maintained that more is needed to expand the product offering by introducing mortgage finance and motor vehicle financing as these were ranked top of the list by respondents.

**e)** Capital levels were key in determining the banks' performance levels and giving the banking public some confidence that they were dealing with stable institutions.

## 5.3 Recommendations

Below are a succinct summary of the recommendations that can be drawn from the study findings:

.
**a)** It is recommended that the Reserve Bank of Zimbabwe improves its supervisory and regulatory role in order to give confidence to the market that is critical to any initiatives that target deposits.

**b)** RBZ should continue monitoring the banks' pricing models in order to ensure that customers are not being unjustly penalised by banks.

**c)** Raising the deposit rates and offering the banking public various investment options can also go a long way in attracting deposits. Thus, the regulatory framework should allow for innovation and fair returns on

investments in order enhance the level of financial intermediation in the country.

**d)** It is also recommended that banks reconsider their portfolio of product offering in order to entice more business with the surplus units. A narrow product focus has left customers less satisfied and hence finding no incentives to do business with banks.

**e)** Banks are encouraged to review their charges in order to make attractive for the public to transact through them. Thus, there is need for banks to realign their cost structures so that they can still survive given the possible decline that is associated with price reductions unless business volumes were to increase to offset the decline.

**f)** Capital levels and enterprise risk management frameworks should continue to be reviewed in order to ensure that banks comply with international banking standards that are critical to the restoration of confidence.

## 5.4 Evaluation of the recommendations

The recommendations have also been evaluated using the Suitability-Feasibility-Acceptability (SFA) framework developed by Johnson and Scholes in 1997.
Feasibility is a measure which focuses on whether an organisation has the resources to pursue strategic choices thus evaluating the internal capabilities of a company. Suitability establishes whether strategic choices are suitable and compatible within current and expected external environments. Acceptability focuses on the financial and stakeholder aspects of strategic choices. The financial aspect focuses on the return to risk profile of each alternative, while the stakeholder aspect focuses on the interaction between strategic choices and stakeholders' reaction to these, (Johnson and Scholes, 2010).

The key stakeholders in the study are the banks, customers and the regulator authority. Thus, the sustainability, feasibility and acceptance model will recognise the influence of these stakeholders on the adoption and effectiveness of the proposed recommendations.

The results of this evaluation are summarised in Table 5.1.

| Recommendation | Sustainability | Feasibility | Acceptability |
|---|---|---|---|
| RBZ to improve supervisory and regulatory. | ✓ | ✓ | ✓ |
| RBZ to continue monitoring the banks pricing models. | ✓ | ✓ | ✓ |
| Raising of deposit rates and offering the banking public various investments options. | x | x | ✓ |
| Banks to expand portfolio of product offering. | ✓ | ✓ | ✓ |
| Review of bank charges by financial institutions. | ✓ | ✓ | ✓ |
| Review of capital levels and enterprise risk management frameworks. | x | x | x |

The results of the evaluation indicate that most of the recommendations are sustainable, feasible and acceptable. However the current environment is not conducive to enforcing some of the recommendations such as review of capital levels as some institutions have to date failed to raise the set limits.

## 5.5 Areas for further study

Future research should focus deposit insurance schemes given their important role in protecting depositors in the event of a bank failure. Although the deposit protection fund exists, not much is known about its operations and the impact that it has made in enhancing market confidence.

## 5.6 Summary

The study explored the effect that the regulatory framework has on deposit mobilisation using a survey instrument administered to clients and staff of an international bank operating in Zimbabwe. The findings have pointed to the need for an enhanced regulatory framework in order to rebuild the lost confidence particularly on the back of a decade of economic turmoil that traumatised that general public. The study made some recommendations that will in a small way help in redressing low deposit mobilisation levels being experienced in the country. Further research is required in the area of depositor's protection fund.

## APPENDICES

# RESEARCH FOR A MASTERS IN BUSINESS ADMINISTRATION DEGREE

In partial fulfilment of the requirements of the University of Zimbabwe, Masters in Business Administration Degree, I propose to undertake a study on *"Impact of regulatory framework on deposit mobilisation by Standard Chartered Bank".*

I therefore kindly request you to objectively complete the attached questionnaire, which will take about fifteen minutes to complete.  Feel free to give your responses, as your input will be treated with utmost confidentiality.

I would be grateful if I could receive your completed responses by 30 June 2012

Thank you in advance

**Lynn Muchada**

**Cell : 0773657025**

# RESEARCH QUESTIONNAIRE FOR STAFF

**Section A**

**(Please tick the appropriate)**

**1. Gender**          Male ☐                    Female ☐

**2. Age**          15-30 ☐          31-45 ☐          46-60 ☐          60+☐

**3. Marital Status**          Married ☐          Widowed ☐     Divorced ☐     Single ☐

**4. Education**          O' Level ☐     A' Level ☐     Certificate ☐ Degree ☐

Other specify……………………………………………………

**5. Monthly income**          below $500 ☐  $501-$1,000 ☐  $1,001-$2,000 ☐ above $2,000☐

**6. Area of Residence**          Low density ☐          Medium density ☐          High  Density ☐

**7. Employment Position**     Managerial ☐          Non-Managerial ☐

**8.  How long have you been employed by the Bank?**

  Less than 1 year ☐          1 – 2 years ☐          3 – 4 years ☐          above  5  years ☐


**Section B**

8.  **Do you think that the Banking Act of Zimbabwe is adequate for the supervision of Financial Institutions in Zimbabwe?**
  Yes ☐                    No ☐

9.  **Rate the performance of the Reserve Bank of Zimbabwe in controlling banks' activities**

  9.1 Ensuring banks are doing their core business                    High ☐     Low ☐

  9.2  Controlling interest rates being charged by banks to customers          High  ☐     Low ☐

  9.3 Monitoring hidden costs being levied to customers' transactions     High ☐          Low ☐

10. **Rate the capital levels set by the Reserve Bank of Zimbabwe.**

High ☐          Low ☐          Adequate ☐

**Please explain,**

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11. **What impact have these had on :**

11.1  Bank confidence       Positive ☐                    Negative ☐
11.2  Bank Operations       Positive ☐                    Negative ☐
11.3  Bank profitability     Positive ☐          Negative ☐

12. **List the impact of Basel II on banking operations:**

12.1-------------------------------------------------------------------------

12.2-------------------------------------------------------------------------

12.3 ------------------------------------------------------------------------

13. **Has the Reserve Bank of Zimbabwe helped in protecting depositors' funds?**

Yes ☐                    No ☐

**Please explain**

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14. **Have the regular on-site inspection visits to banks helped in identifying problem areas in banks such as quality management, bank asset, capital funds, internal control, audit, information and account system.**

Strongly Agree        Agree          Strongly Disagree     Disagree
          Undecided

15. **How effective has the regulation on the pricing of bank products and services offered to customers been on :-**

15.1 Interest rates                 High ☐                    Low ☐

15.2 Bank Charges          High ☐          Low ☐

15.3 Exchange Rates        High ☐          Low ☐

**16. Has the Reserve Bank of Zimbabwe influenced the type of products offered to customers?**

Yes ☐          No ☐

**17. If answer to 16 above is yes, give examples.**

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**18. Do depositors base their decisions when selecting a bank on the Reserve Bank policies in place, product range or pricing of products? Tick appropriate.**

RBZ policies ☐      Product range ☐      Product Pricing ☐

*Thank you for completing this questionnaire and assisting me in my research.*

## RESEARCH FOR A MASTERS IN BUSINESS ADMINISTRATION DEGREE

In partial fulfillment of the requirements of the University of Zimbabwe, Master in Business Administration Degree, I propose to undertake a study on *"Impact of regulatory framework on deposit mobilisation by Standard Chartered Bank".*

I therefore kindly request you to objectively complete the attached questionnaire, which will take about fifteen minutes to complete.  Feel free to give your responses, as your input will be treated with utmost confidentiality.

I would be grateful if I could receive your completed responses by 30 June 2012

Thank you in advance

**Lynn Muchada**

**Cell : 0773657025**

# RESEARCH QUESTIONNAIRE FOR CUSTOMERS

**Section A**

**(Please tick the appropriate)**

**1. Gender**                 Male ☐                      Female ☐

**2. Age**                      15-30 ☐       31-45 ☐         46-60 ☐        60+☐

**3. Marital Status**      Married ☐       Widowed ☐    Divorced ☐    Single ☐

**4. Education**              O' Level ☐    A' Level ☐    Certificate ☐ Degree ☐

                                       Other
                    specify……………………………………………………

**5. Employment status**      Formally Employed ☐       Employed ☐       Self
Employed ☐

**6. Monthly income**          below $500 ☐  $501-$1,000 ☐  $1,001-$2,000 ☐ above
$2,000☐

**7. Area of Residence**       Low density ☐            Medium density ☐       High  Density
☐

**8.  How long have you been banking with Standard Chartered Bank?**

   Less than 1 year  ☐         1 – 2 years ☐            3 – 4 years ☐          above  5  years
☐

**10. What type of account do you hold?**     Individual ☐        SME ☐        Corporate ☐

**Section B**

**11.  Do you think that the banking sector was stable and reliable during the period 1980 – 1998?**
                Yes  ☐                No  ☐

**12.  Was the stability due to an effective supervisory function by the Reserve Bank of Zimbabwe?**
                Yes  ☐                No  ☐

**13.  Do you think the supervisory function of the Reserve Bank of Zimbabwe remained effective post dollarization i.e. after 2009?**
                Yes  ☐                No  ☐

**Section C**

**14.  Has the Reserve Bank of Zimbabwe been playing the critical role of protecting the depositors' funds since dollarization in 2009?**
                Yes  ☐                No  ☐

**Briefly explain,**

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15. **Do you think regulating banks encourages :**

   **5.1 Quality Services**              Yes ☐              No ☐

   **5.2 Efficiency**                    Yes ☐              No ☐

   **5.3 Bank Competitiveness**          Yes ☐              No ☐

   **Briefly explain,**

   --------------------------------------------------------------------------------------------

   --------------------------------------------------------------------------------------------

   --------------------------------------------------------------------------------------------

16. **Do you feel that the products currently offered by financial institutions are meeting all the needs of customers?**

   Yes ☐                    No ☐

17. **What products would you want to see being availed to you by banks?**

   7.1 Personal Loans              Yes ☐            No ☐

   7.2 Motor Vehicle Financing     Yes ☐            No ☐

   7.3 Mortgage Loans              Yes ☐            No ☐

   7.4 Money Market Investments    Yes ☐        No ☐

   7.5 Fixed Deposits              Yes ☐            No ☐

   7.6 Other _____

**Section D**

18. **What range of interest rates are you being charged by the bank for its products?**
   Below 5% ☐        5 – 10% ☐              10 – 20% ☐            above 20% ☐

19. **What rates would you think are reasonable given Zimbabwe's economic situation?**

Below 5% ☐ 5 – 10% ☐ 10 – 20% ☐ above 20% ☐

**Briefly explain your answer**

-------------------------------------------------------------------------------------------------

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-------------------------------------------------------------------------------------------------

20. **In which areas do you feel banks are over charging?**

20.1 Interest on Loans     Yes ☐     No ☐

20.2 Charges on Cash Deposits     Yes ☐     No ☐

20.3 Charges on Cash Withdrawals     Yes ☐     No ☐

20.4 Fixed Bank Charges     Yes ☐     No ☐

21. **Do you feel that the Reserve Bank of Zimbabwe is playing a critical role in the regulation of pricing of bank products and services offered to customers with regards to:-**

21.1 Interest rates     Yes ☐     No ☐     Partly ☐

21.2 Bank Charges     Yes ☐     No ☐     Partly ☐

21.3 Exchange Rates     Yes ☐     No ☐     Partly ☐

22. **What do depositors base their decisions when selecting a bank? Tick correct answer.**

RBZ policies ☐     Product range ☐     Product Pricing ☐

23. **What factors do you consider important when selecting a financial institution to bank with?**

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*Thank you for completing this questionnaire and assisting me in my research.*

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