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AN INVESTIGATION ON THE CAUSES OF COMMERCIAL BANK FAILURES IN ZIMBABWE (2003-2004) A CASE STUDY OF TRUST BANK

BY

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APPROVAL FORM

The undersigned certify that they read and recommend to the Bindura University of Science Education for acceptance, a dissertation entitled, An Investigation on the Causes of Commercial Bank Failures in Zimbabwe (2003-2004) a case study of Trust Bank. Submitted by Blissful Mamombe in partial fulfillment of the requirement of Bachelor of Commerce Honors Degree

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DECLARATION FORM

I, Blissful Mamombe declare that the research project herein is my own and has not been copied from any source without the acknowledgement of the source

SIGNED…………………………..

DATE………………………………..

DEDICATION

I dedicate this to Trust Bank Zimbabwe, employees for the support they gave me.

ACKNOWLEDGEMENT

I would like to acknowledge the contributions of a few people who were instrumental to the achievement of this project. Firstly, I would like to thank Mr. Manyani, my supervisor, for his helpful comments as well as his prompt reviews of my work. Secondly, I am appreciative to my family members and my College colleagues for the support they gave me. In addition, although it cannot be scientifically documented, I must acknowledge the Almighty God for taking me this far. To each, I wish to say thank you.

ABSTRACT

The study sought to investigate on the causes of commercial bank failures in Zimbabwe. The main objectives of the study was to show how malpractices in this sector have undermined bank's financial status in Zimbabwe and to establish the role of board members in ensuring ethical conduct and to recommend the proper procedures that should be followed to reduce the occurrence of commercial bank failures when using multicurrency., To establish the importance of good governance in commercial banks, This study also attempt to show that while mismanagement predominates, there are various other factors to be considered. The study adopted the case study research design, where questionnaire, interviews and documentary analysis were used as data gathering instruments on a sample of twenty one (30) employees selected, a non- probability sampling technique was used (judgmental sampling technique). The researcher used qualitative methods of collecting data. Data was presented using tables and graphs. The major findings of the study were, there is still a need to improve asset and liability management practices and bank capital functions to achieve maximum bank soundness.

List of Tables

Table 4.1 Analysis of response……………….……………………….…………………25
Table 4.2 Causes of Bank Failures…………………………..……….……………..…27
Table 4.3 Interviews...26
Table 4.4 Sectorial Analysis of Deposits and advances in banks…………………...…31

Acronyms

RBZ	Reserve Bank of Zimbabwe
ZABG	Zimbabwe allied banking group
ALM	Asset Liability Management
ZSE	Zimbabwe Stock Exchange
NPLs	Non Performing Loans
ALMCO	Asset Liability Management Committee
FD	fixed deposit

LIST OF FIGURES

FIGURE 4.1……………………..………........……………………………….26

FIGURE 4.2……………………..………...……………………………….29

FIGURE 4.3……………………..…………...……………………………….32

FIGURE 4.4……………………..……...…………………………………….33

Chapter I

1.0 Introduction

The chapter gives a background to the study, problem of the statement, research purpose, and objectives, significance of the study, its delimitations, as well as its limitations. It is the plat form of the preceding chapters 2, 3, 4 and 5. Chapter 2 is on literature review, chapter 3 on the methodology used, chapter 4 on data presentation and analysis and chapter 5 gives the summary, conclusions and recommendations of the whole study.

1.1 Background of study

A bank is said to have failed economically if the market value of its assets declines below the market value of its capital. Studies of bank failures tend to use country specific definitions of what constitutes a bank failure. In this study the banking system is classified as having failed if it underwent one of the following:

- Bank entered into liquidation
- Bank received liquidity support from RBZ
- Bank had authorisation revoked by the RBZ for reasons that could potentially be predicted from the balance sheet
- Extensive bank runs took place or the government enacted emergence measures such as deposit guarantees

This study focuses on commercial banks since the financial sector particularly the banking sector is virtually the back-born of any economy and most economic and social indicators are directly or indirectly influenced by the performance of the banking sector therefore I propose to investigate and evaluate the bank failures prior to the introduction of mult- currency in Zimbabwe and to establish the importance of effective risk management and adequate capital on bank survival and to recommend proper procedures which should be followed to reduce the occurrence of bank failures. In order for me to acquire adequate information for my primary

research I am going to distribute questioners to Trust Bank head office, the bank suffered profound liquidity problems after the monetary policy was availed on 18 December 2003. The bank was placed under the management of a curator on Thursday 23 September 2004 after various attempts to resuscitate it had failed. It owed the RBZ trillions of Zimbabwean dollars advanced to it under the troubled banks fund

The bank's challenges were the result of engaging in non banking activities; investing in fixed assets using short-term funds; over-reliance on wholesale deposits; inadequate risk management systems; under-capitalization; shortfalls on board and management oversight; as well as weak lending and credit risk management practices.

The bank collapsed under the weight of non-performing loan books owing to liberal lending policies. As a result it suffered huge asset and liability mismatches. The bank required shareholder capital injection to meet minimum capital level as at 31 October 2004 and also required the additional capital to meet 10% of Capital Adequacy Ratio (CAR), whereby CAR is the ratio of liquid assets to non-liquid asset. The bank required capital injection to restore normal operations. Old shareholders failed to inject these requirements, financial sector reforms have been necessitated by significant changes in the financial markets. The financial markets have became more volatile, increasingly complex and dynamic and this have caused most of commercial banks such as royal bank, trust bank and time bank to fail in the past prior to the introduction of multicurrency in Zimbabwe and this study will recommend proper procedures to be followed when using multicurrency in order to avoid commercial bank failure. Commercial bank failures also resulted in higher levels of domestic competition and heightened domestic private ownership of banks. As at 31 December 2001, there were 14 commercial banks This represents an increase in banking institutions as compared to the pre-liberalization period, and studies have not yet reviewed the impact of domestic private ownership of banks however this study will show the importance of effective risk management and adequate capital on bank survival, The institutional framework for risk management, prior to the use of multi currency was weak. The reform process was characterized by; poor sequencing of reforms; weak banking supervision: and the reforms did not address the need for adequate capital and safety and soundness issues.

1.2 Statement of the problem

Over the past years commercial banks have been experiencing a substantial increase in bank mal- practices, incidences such as money laundering, externalization of foreign currency, poor risk management, lack of internal control system, friction between board members and directors have been abundant. The ever rising of these bank malpractices and miss-management in the financial sector has inspired the researcher and spurred the researcher to investigate the causes of commercial bank failure in Zimbabwe. A case study of Trust bank will help the researcher to have a deeper insight into how these factors contribute to bank failures in Zimbabwe

1.3 Research Questions

1. To what extent do malpractices and poor risk management in this sector have undermined banks financial status in Zimbabwe?
2. What is the role of board members in ensuring ethical conduct in the running of a commercial bank?
3. Why is good governance important for banks?
4. To what extent do mismanagement contributes to commercial bank failure

1.4 Research objectives

The objectives of this research are to:

1. To show how malpractices in this sector have undermined bank's financial status in Zimbabwe
2. To establish the role of board members in ensuring ethical conduct and to recommend the proper procedures that should be followed to reduce the occurrence of commercial bank failures when using multicurrency.
3. To establish the importance of good corporate governance in commercial banks
4. This study will also attempt to show that while mismanagement predominates, there are various other factors to be considered.

1.5 Justification of the study

This study therefore could not have come in a better time as it intends to unearth some of the malpractices that have led to the collapse of the once highly esteemed banks in Zimbabwe. The causes of bank failures in Zimbabwe has increased significantly due to

poor macro-economic fundamentals and banks that survive under these conditions are those that are able to effectively manage risk and maintain adequate capital. Therefore in light of this it makes sense to spend time studying the subject matters

1.6 Significance of the Study

Despite their disturbing recurring patterns in Zimbabwe, bank failures have not received any significant academic analysis to date. Researches carried out to date have come up with no solid consensus as to the causes of bank failures in Zimbabwe. Therefore, the researcher believes that this research is going to make a significant contribution as to the reasons behind banking system failures in Zimbabwe. This research is meant to be of paramount importance to the following groups:

Bank managers

The recommendations of this study are set to broaden the knowledge base of bank managers, who have to manage the increased risks they are now facing,

Policy makers

To create a sound operating and supportive framework,

Regulators

To monitor the direction in which policy makers should go in order to enhance good banking practices.

The organization

The recommendations of this study were set to enlighten the importance of good coporate governance in a bank

This study also seeks to identify the risks that have been brought about by financial deregulation and evaluate how bank's risk management strategies have responded to this challenge. A related aim is to use this evaluation exercise in order to establish policies on how best to implement, operate and develop the most appropriate risk

management systems. The study also seeks to determine the key success factors for any player in commercial banking.

Thus the inquiries made will determine the main causes of bank failures to establish the importance of risk management and to examine the adequacy of the supervision role of the Reserve bank of Zimbabwe in line with best banking practices world wider and the promotion of good corporate governance.

1.7 Assumptions

The whole research will be carried out with the following assumptions:

1. The research was done in good faith that information collected is unbiased and is accurate.
2. The used research instruments or materials will provide information relevant to the study and truly represents the whole economy understudy.
3. All the required information is readily available and obtainable.

1.8 Delimitations of the study

The study focuses mainly on a two year period (2003-2004)

1.9 Limitations

Some challenges were faced during the course of this research.

- Data was not readily available at the Central Bank of Zimbabwe. The officers' cooperation was not satisfactory and the researcher spent some time before getting the data sought.
- The period of study might not be long enough to make policy prescriptions.
- Lack of adequate resources (financial and non financial) to carry out the research hence the researcher embarked on cheaper sources of information and affordable material.

1.9.1 Definition of terms

- **Investigations:** the condition of asserting facts or a detailed or careful examination
- **RBZ:** Reserve bank of Zimbabwe
- **Liquidation:** The process of selling collateral literal security in order to raise funds to pay the outstanding debt

1.9.2 Summary

The chapter gave a background to the study, problem of the statement, research purpose and objectives, significance of the study, its delimitations and limitations. It has become the platform of the preceding chapters 2-5.The rest of the study will be arranged as follows: Chapter 2 provides a review on both theoretical and empirical literature, chapter three discuses the methodology to be used, chapter four will present the outcome of the study, observations and analysis .chapter five will include conclusions, recommendations and suggestions for further study. References and appendices will end the paper.

Chapter II

Literature Review

2.0 Introduction

According to Bless (1995), literature review implies locating, studying and evaluating reports of related researches which is useful to upcoming researchers in locating the research gaps. This also helps on the conceptualization and delimitation of the study. More to say, the purpose of literature review is to give the researcher more ideas and approaches which may not have occurred to him or to her.

This chapter makes a review to literature from various authors. The literature review was made on the basis of the objectives of the researcher: causes of bank failures, it also outlines the theories underpinning the causes of bank failures. Related studies on the same subject matter will also be included. This is so as to help in evaluating or analyzing the causes of bank failures in Zimbabwe

2.1.0Theoretical review

2.1.1 Poor risk management procedures such as lending practice of banks

Hampel and Simonson (1999) argue that the effective credit administration reduces the risk of customer default. The competitive advantage of a bank is dependent on its capabilities to handle credit risk valuably. Bad loans cause bank failure. Palubinskas and stough (1999) note that the failures of a bank is mainly seen as a result of mismanagement because of bad lending decisions made with respect to wrong appraisal of credit status, or the repayment of non performing credits and excessive focus on giving loans to certain consumers

2.1.2 Systemic risk

Kaufman (1995) defines systemic risk as "the probability that cumulative losses will occur from an event that ignites a series of successive losses along a chain of institutions or markets comprising a system" Systemic risk is perceived to occur because all economic agents are interconnected. This interconnection provides a chain along which shocks to any one agent are transmitted to others. The personal or the institutional balance sheet of each agent includes assets that are either liabilities of other agents or whose values depend on the behavior of other agents. Likewise, the liabilities of each agent are the assets of others. If an agent suffers a decline a decline in the value of its assets, the value of its capital will decline. This will likely to reduce the spending behavior of the agent and thereby also the income and asset value of other agents, Moreover, if the loss in asset value were sufficiently large to exceed an agent's capital, it would cause the agent to default on its debt obligations. This, in turn, will reduce the values of assets on the balance sheet of the agent's creditors and ignite a chain reaction of reduced spending and defaults

Therefore because of their continuous lending to and borrowing from each other and their need to pay other banks for third-part transfers, banks tend to be more tightly financially interconnected with each other than are most other types of firms. Thus, banks are widely perceived to be particularly susceptible to systemic risk, and shocks at any one bank are viewed as likely to be quickly transmitted to other bank and so on down the chain of banks and beyond.

2.1.3 Asset and Liability Mismatches

According to Bratanovic (2000) Asset Liability Management involves maximizing the earnings potential and controlling risks of the bank and it also impacts on the financial stability and performance of the bank.

Bratanovic (2000) argued that asset liability mismatches causes bank failures, he also outlined the factors that led to asset liability management as volatile interest rates, inflation, recession, competition for funds and deregulation. The key elements that guide decisions in asset liability management include liquidity, interest rate sensitivity and pricing. The price of liquidity is a function of market conditions and the degree to which risk, including interest rate risk, is reflected in the bank's balance sheet.

On the other hand, bock (2000) identified the following risks, which affects the value of assets and liabilities, liquidity risks, credit risk, market risk and interest rate risk. Liquidity risk is one of the four types of risks that are generally regarded to have a profound effect on the value of assets and liabilities in a bank. For that reason, it must be measured, monitored and managed to keep banks in a sound financial position. Liquidity risk is also generated by the difference between the sizes of assets and liabilities and the discrepancies between their maturities. Credit risk is the risk of loss due to inability or unwillingness of a particular counterpart to meet the obligation when they fall due. Credit risk is a critical source of revenue for the banking book, but can also have a significant impact on the trading book if it is not managed properly.

Zimmermann (2001) argues that every financial institution undertaking maturity transformation should understand the significance of actively managing interest rate risk and measuring returns on risk-adjusted basis interest rates. Since interest rates are unstable, so are earnings. Interest rate risk presents also an opportunity for gains but excessive interest rate risk can pose a significant threat. As a result a bank should be protected from the effect of possible interest rate changes, failure to do this will contribute to bank failures.

2.1.4 Market Risk and Operational Risk

Market risk is the risk that adverse changes in the market value of a portfolio of financial instruments may result in losses to the bank. Operational risk is the risk of loss due to inadequate, or breakdowns in internal process, system and people as well as the effects of external events. Operational risk includes reputation risk and technological risk.

2.1.5 Legal Risk and Reputational risk

Legal risk is the risk that a transaction or a contract cannot be consummated because of some legal barrier, such as inadequate documentation, a regulatory prohibition on a specific counterpart, and non enforceability of contracts such as netting and collateral arrangements and bankruptcy. On the other hand reputational risk is the risk that the bank could lose its market share due to perception by market that the bank is not conducting its business in a sound manner

2.1.6 Bank Capital

If the bank capital is low there is high probability of failure. Goodhart(1998) also noted that as a bank's capital decreases, the higher its motivation for actions towards survival. This leads to more dangerous risk taking operation. Therefore, the risk of failure rises with the decline of equity. Goodhart (1998) also stated that adequate funds reduce risk taking while insufficient capital motivates banks to engage in activities towards survival at all costs. Greuning, (2000) concludes that insufficient bank capital is a major contributor of bank failure. They also noted that the basic reason for holding capital is to protect against both expected and unexpected losses. Thus capital is a risk bearing buffer. Without capital banks will fail at the first dollar of loss not covered by provision

2.1.7 Mismanagement

Management is a key to a successful business. Banking crisis mostly comes from the absence of good managerial decisions in management decision making. According to Spiegel (1996) competence and focus play a major role in banking. Plantalae and Platt (1987) also noted that, mismanagement especially excessive risk taking is the main cause of bank failure. On the other hand, White (1993) notes that even though bankers are accused of misconduct, it is difficult to prove that the negligence of management is the only cause of bank failure

2.1.8 Fraud and corruption

Smith and Walter (1997) and Fitchett (1996) state that fraud causes banks to fail as happened in the case of Bano Ambrosiano. Heffernan (1996) adds that corruption and fraud have been the general cause of many failed banks. White (1993) argues that bank failures are seen by many as to be caused by mismanagement, fraud and deregulation. According to White (1993) fraud is not the primary cause of the banking crisis, since bank failure were rampant in the 1930's when there was no fraud.

2.1.9 Rate of Return Mismatch

Another factor which is widely perceived to contributory to bank failure is the case of rate of return mismatch that occurs when banks borrow in foreign currency and lend in domestic currency, a transaction in which an unexpected depreciation of the domestic currency will be a threat to bank profitability. Although most countries have regulations that limit bank's open foreign currency position, these regulations are however, sometimes circumvented. Garber (1995) noted that in Mexico, adopted highly leverage foreign currency open position in 1994. Interestingly, the banks used complex derivative instruments that helped them to conceal the truth nature of their position from regulators.

2.2.0 Deregulation of banks

Hooks (1994) propounded that deregulation results in higher risk taking by banks and could lead to bank failure. Chu (1996) emphasizes that free banking encourages banks to engage in deceptive operations and over expansion, which makes bank fail. Kareken (1981) notes that deregulation are unsafe for banks. He explains that when banks have freedom

2.2.1Deteriorating economic factors

Hooks (1994) points out that deteriorating local economic conditions (for instance, inflation, interest rates and exchange rates) causes bank failures. Eisenbeis (1986) adds that microeconomic factors (for instance, adverse sudden adverse movements in a countries terms of trade and sharp fluctuations in world interest rates, real exchange rate and inflation rates) worsened by regulations that are imposed on banks result in a bank failure Goodhart also emphasized that interest rate fluctuations contribute to banking crisis.

2.2.2 Poor corporate governments

Susan Schmidt Bies 2004Current issues in corporate governance published a report which she purported that Boards of directors and senior management have the responsibility to establish effective Risk-management and assessment processes in banks and to integrate the results of those efforts into their strategic and operating planning processes so as to avoid bank failure. She also propounded that The Federal Reserve has made improvements in the reporting process for bank holding Companies (BHCs). All BHCs are now required to file the Y-9 financial reports electronically, thereby eliminating paper-copy reporting. In addition, similar to the Call Report modernization effort that has been undertaken on an interagency basis, the Federal Reserve will be implementing a process that more quickly validates the BHC Y-9 data so that the data are released faster to the public.

2.2.3 Liquidity challenges

In order to expand operations banks need adequate cash, and this can be found through many ways and it is these ways that are currently unavailable. Getting loans from other banks, foreign companies, the Central bank and deposits from individuals and institutions are possible ways to raise finance. Foreign currency is very scarce in the economy due to poor export performance and lack of international capital flows. Even solvent banks may not survive a run on deposits as they are also struggling to mobilise “less liquid assets to meet liquidity needs” Bonga (2010).

2.2.4 High Overhead Costs

According to Bonga (2010), due to the low-income generation ability of the banking institutions, their earnings cannot match the overhead costs they are facing, especially salaries and wages given that they are not operating at full capacity. The cost of paying workers salaries that are in line with the cost of living is too heavy for the banks as they are not operating at full capacity and level of profitability is low. Even if they opt for retrenchment, the packages to be given to the retrenched workforce will be a challenge.

2.2.5 Size

Size is used to capture the fact that larger banks are better placed than smaller banks in harnessing economies of scale in transactions to the plain effect that they will tend to enjoy a higher level of profits. Consequently, a positive relationship is expected between size and profits. Molyneux and Thornton (1992), Bikker and Hu (2002) and Goddard et al. (2004) find size has a positively related relationship to profitability.

2.3 Empirical Literature Review

2.3.1 Causes of banking crisis Detragiache (1997)

On the causes of banking crisis Detragiache (1997) used a Multivariate logit Model of likelihood of a banking crisis, based on macro, financial and institutional indicators, to investigate the causes of banking crisis. Detragiache identified 31 episodes between 1980 and 1994 as banking crisis. The explanatory variables used were GDP growth, terms of trade, interest rates, inflation, ratio of M2 to foreign reserves, ratio of credit growth to GDP, per capita GDP and index for “law and order” among others.

The study found weak evidence that adverse terms of trade shocks and rapid credit expansion increase the probability of a banking crisis, while the size of a fiscal deficit and the rate of depreciation of the exchange rate seemed to have an independent effect. In related findings, Arteta (2000) noted that the effects of the exchange rate on banking systems differ across specification. Detragiache's study also demonstrated that there is link between banking crisis and unfavorable economic conditions such as low GDP growth, high real interest rates and falling liquidity levels.

2.3.2 Bassel Committee (1999)

On the other hand, the bassel committee (1999) notes that the major causes of serious banking problems continues to be directly related to tax credit standards for borrowers and counter parties, poor portfolio risk management, or a lack of attention to changes in economic factors that affects borrowers. Loans are the largest and most obvious source of credit risk, other sources of credit risk exist throughout the activities of a bank including interbank transaction, trade financing, and derivative transactions.

The bassel committee therefore concluded that, credit risk of bank portfolio depends on both the internal and external factors. External factors concludes(the economy, equity prices, foreign exchange rates and interest rates, government policies) and internal factors (deficiencies in loan policies, slack credit concentration limits, poor lending limits, deficiencies in appraisal of borrower's financial position, excessive dependence on collaterals and inadequate risk pricing, absence of loan review mechanism)On the other hand studies on the causes of bank failures in Ghana (case study of Ghana co-operative bank limited) done by consistence Apea and Jemine Sezibera, have reviewed the following as the causes of Co-op) done by Consistence Apea and Jemine Sezibera, have revealed the following as the causes of Co-op's failure; persistent losses because of persistent losses, because of bad loans, asset and liability mismatches, ineffective credit management, bad loans(huge loans with bad quality),concentration of loans to a single borrower, declining deposit growth because of loss of confidence, failure to satisfy the capital adequacy ratio(CAR) of 6% required by the bank of Ghana, failure to satisfy the central bank's reserve obligation capital requirement, Co-op failed to meet the minimum funds obliged by Ghana banking law. The methodology they used was descriptive approach.

2.3.3 Cole and Gunther (1995)

In econometrically related studies, Cole and Gunther (1995) used econometric models to predict bank failure applying Mexican data for 1991-1995. Their studies primarily captured bank specific variables as explanatory variables and analyzed specifically the experiences of individual institutions. The variables used are interest rates, inflation and GDP growth. This made their results difficult to generalize because for many countries reliable bank specific data are rarely available on timely basis, if not at all

2.3.4 Causes of financial distress in local banks in Africa by Martin Brownbridge (March 1998)

Previous studies on the causes of bank failure have yielded consistent results. A study on the causes of financial distress in local banks in Africa by Martin Brownbridge (March 1998) found that the bank of Zambia (BOZ) closed three local banks in 1995, another local bank was closed in 1991 but was subsequently restructured and re opened, the bank of Uganda (BOU) closed down a small local bank in 1994. Their findings revealed that non-performing loans (NPLs) caused most of the bank failures, meaning that arrears affecting more than half the loan portfolio were typical of the failed banks. Many of the bad debts were attributed to moral hazard.

Most hazards contributed to the highly imprudent and in some cases fraudulent, lending strategies of many of the failed banks. A large share of their debts was attributed to insider loans, often unsecured, in high risk ventures such as real estate. Loan quality was further impaired because the local banks lacked the necessary skills to serve borrowers in this segment of the market where informational problems are at their most acute. Severe macroeconomic instability exacerbated the adverse incentives on borrowers. Several factors cited to have contributed to the moral hazard on bank owners to take excessive risks with depositors money includes, low level of bank capitalization, access to public sector deposits through the political connections of bank owners, excessive ownership concentration and regulatory forbearances the methodology used was a descriptive approach.

2.3.5Ingves (2003) banking system failures

Ingves (2003) argued that banking system failures can arise from macroeconomic causes that are external to the banking system such that even well run banks operating in a strong legal and regulatory framework can be overwhelmed by the effects of a poor macroeconomic environment. Ingves additionally noted that although bad banking play a significant role in bringing down a banking system, it could only persist in the absence of proper regulation and supervision (weak supervisory framework) and of adequate market discipline.

According to Ingves, weak supervisory frameworks may include allowing for concentrated lending, portfolio mismatches, inadequate loan valuation that overstate bank profits and capital valuation that overstate bank profits and capital and incompetent management.

2.3.6 English (1996)

English (1996) argued that banking sector problems might also result from successful stabilization, in countries with a history of high inflation tends to cause an overblown financial sector, as a financial intermediaries profit from the float on payments but when inflation is drastically reduced, banks faces one of their main sources revenue disappear, and generalized banking problem may follow. However English failed to acknowledge that business tends to underperform during periods of economic instability.

2.3.7 Chanakira (2004) The cause of the liquidity problems

On another note, Chanakira (2004) examined the cause of the liquidity problems that beset the systematic banking crisis of 2003 in Zimbabwe. He found that although the money market shortages that existed during the last quarter of 2003 catalyzed the 2003 system wide banking sector problems. The fact that some banks did not experience life threatening liquidity problems meant that there were bank specific problems that led to the solvency and liquidity defiencies. Chanakira (2004) agreed with the R B Z (March 2004) that the problems emanated from imprudent banking practices that expressed themselves through various managerial shortcomings and structural ownership weaknesses particularly indulging in non core banking activities, high prevalence of insider loans, imprudent credit risk management framework and trying disproportionately large sums of depositors' funds in speculative activities, deliberate utilization of local currency liquidity in purchasing foreign currency from the illegal foreign exchange markets and inadequate board oversight

2.3.8 Bratanovic Sonja (2000) management of financial risk in banking

Bratanovic Sonja (2000) in his research management of financial risk in banking on the World Bank suggests that all banks are influenced by economic changes and that if sound risk management is not practiced it can lead to bank failures and Krugman (1994), Founded that in the 1930s in the U.S, there was a wave of bank failures, which provided self-reinforcing as it led to runs on banks that otherwise might have survived. Therefore systematic risk plays an important role in bank failures

2.4.0 Romer (1993)

Claimed that looting was at the core of the savings and loan crisis in the US and Chilean banking crisis of late 1970s. Similarly, Honohan (1997) noted that fraud was at the center of the guinea financial crisis in 1985 were six main banks accounting for 95% of the system were closed on a single day. Another dramatic revelation of fraud was reported in the 1995 failure of the Barings Bank.

Consistent with these propositions, a review of international banking crisis experiences by Juan (1995) showed that multitudes of cases where the simplest explanation for a bank failure, was poor management.

2.4.1 Summary

The studies discussed above concludes that the causes of bank failure are; inadequate capital, fraud and corruption; asset and liability mismatches, imprudent risk management practices, deteriorating economic conditions and deregulation of banks.

Chapter III

Methodology

3.0 Introduction

This chapter outlines the research method used in carrying out the research. It gives an outline of the research design, research subjects, research instruments used, and data analysis and presentation.

3.1 Research Design

According to Earl R. Babbie (2002), a research design is used to structure the research, to show all the major parts of the research questions, in carrying out this study, the researcher opted for the non-experimental approach, the descriptive approach or qualitative research. A descriptive survey employs questionnaires and interviews to determine the opinions of, perceptions and preferences of those selected and targeted by the researcher. This was chosen because the design also accommodated the researcher's personal feelings, judgement and experiences and insights, as it did not depend on the scientific manipulation of empirical data. The design was also ideal as the study was aimed at establishing a deeper understanding of the problem as well as expunging the existence of multiple realities.

3.2 Population

Subjects are the participants used in the study, (Copper and Schindler 2000).The population chosen was selected randomly from the management employees at Trust Bank.

3.3 Sampling Technique

The researcher used non-probability sampling technique, which is judgmental. This sampling is whereby a desired number of sample units are selected deliberately in a

purpose so that only the important items representing the true characteristics of the population are included in the sample, (Shajahan 2005). Sampling method was used because of time constraints and the researcher was confident that the chosen sample is truly representative of the entire population. The researcher only saw that employees in the management board would give relevant information about the research topic as they are the one who can be directly affected and can have influence in the causes of bank failures. The sampling technique enabled the researcher to pick the sample which delivered the relevant information to satisfy the research objective and questions. However the sample selected would not represent the whole population and it would limit generalization of the findings.

3.4 Sources of information

According to Wegner T. (2003) the two main sources of information are primary and secondary data. The researcher made use of both of them. Primary data was obtained from questionnaires, and observation, where as secondary data was obtained from documentary analysis.

3.5 Primary data

It is data gathered at the point where it is generated. Such data is captured for the first time for a specific purpose in mind. It has many advantages to include. Data collection is immediate and high response rate is generally achieved. Its disadvantage is that it’s expensive to gather compared to secondary data.

3.6 Secondary data

It is data already gathered for some purposes and is available from both external and internal sources. The sources used were company documents, these were reports previously obtained from external auditors. There data is relatively inexpensive to gather and can be obtained in a very short space of time. Its disadvantage is that it may not relate in detail to the current research.

3.7 Research Instruments

New data was specifically collected for the research through field research. This comprises the use of;

3.7.1 Questionnaires

The questionnaires were divided into sections, that is section A and section B. Questions were designed for;

- management at trust bank (Line management, middle management and Top management)

The method was cheap convenient and it facilitated the obtaining of honest answers. Both open and closed types of questions were used. Closed types of questions were used due to the fact that they are easy to ask and analyze and they are convenient to process afterward. The major drawback is that they tend to favour the designer rather than the respondent. Open-ended ones on the other hand allows for a greater depth of response since they leave the respondent free to choose how to answer, they invite an opinion or personal information. Open ended questions are needed for more qualitative surveys explaining attitudes and motivations.

Mixing of the two types of questions eradicated the shortcomings of either of the two. Closed-ended questions, which restricted responses to "yes/no" types of questions, were used to make data collection easier and laborious. The type of design used in this study, the descriptive required that the sample be as useful and as purposeful as possible. Sampling is useful in that the responses of the selected few individual should be said to be representative of the whole population. The main advantage of sampling is that it is economical and less laborious and time consuming.

Given also the financial and time constraints on the study, Convenience sampling was used. This sampling procedure was chosen because it selects respondents on the basis of ease of access to information. The method is also useful in drawing conclusions about a larger group by studying a smaller representative sample. The sample was selected in such a way that it was taken to be a representative of a larger whole. This involved a number of decisions about:

- The sampling unit, that is, who is to be studied, who in the decision making process is to be interviewed

- The sample size that is, how many people to be interviewed
- Sampling procedure

Weakness: However, the questionnaire had a low response rate and to ensure that all questionnaires had a low response rate and to ensure that all questionnaires were returned the researcher made follow ups on all respondents.

3.7.2 Interviews

Personal and telephone interviews were used in this research. The research took note of face-to-face interviews, which were most versatile as a method of communication as they represented minimal level of bias. Face to face interviews proved very useful since the researcher got instant feedback. They also proved very handy as they provided the researcher with an opportunity to establish the accuracy of the information by counter asking the question in different ways. Interviews also provided an opportunity for the researcher to take note of gestures and body language, which provided to be very effective as more information was obtained through non-verbal communication.

3.7.3 Weakness -The major drawback is that, surveys of research on interviewing have concluded that despite its popularity, the interview is a costly, procedure.

3.8 Secondary data

The researcher also obtained more information from already published matter, in the form of published monetary policy, to substantiate the claim and basis assumptions of the research hypothesis. They were used because information was accessed easily as they did not require any assessment of the respondents as to the required information as in the case of face-to-face interviews

3.8.1 Justification: Because documents existed which were relevant to the research not analyzing them would leave a hole in my project. This was the only secondary method of collecting data; its main aim was to see if the external auditor's reports

have some information which is different from that which has been acquired from the instruments above. According to Wegner T (2003), it is a very cheap method of gathering data. Documentary analysis is advantageous in such a way that it provides the researcher with information about things that cannot otherwise be observed or about which the researcher was unaware. They may uncover events that took place before the research began and have endured across time. The documents can be checked and rechecked for reliability (are unobtrusive) and can be used without imposing on particular.

3.8.2 Weakness: However audit reports and policies were not have been written for the same purpose as the research and therefore conclusion will not usually be possible from the documentary analysis alone, that was why the researcher added a questionnaire and interviews as his research instruments

3.9 Data Collection Procedure

As said earlier data were collected using questionnaires, observations and documentary analysis using the targeted population of Trust Bank employees. The researcher issued questionnaires to those employees in the management board. With interviews, the researcher carryout interviews during the course of his attachment period; the researcher also analyzed the previous report.

3.9.1 Data Presentation and Analysis

In data analysis and interpretation, statistical principles like frequency, percentages and mean were mainly used. Tables and graphs were used in presentation of research findings which are laid out in Chapter four. Data analysis involved scrutiny and the tables and graphs to interpret the data.

3.9.2 Summary

This chapter outlined the research method used in carrying out the research. It gave an outline of the research design, method of estimation, models to be estimated and justification of variables used. The chapter paved the way for chapter 4 as this very

methodology is the one used for data presentation and analysis. Chapter four makes an analysis of the data and the data is presented in the form of tables.

Chapter IV

Data Presentation, Interpretation and Analysis

4.0 Introduction

This chapter presents an analysis of the findings of a research to investigate the causes of commercial bank failures in Zimbabwe. The author relied on a combination of research techniques in order to obtain sufficient relevant information that should enable an objective evaluation of the research problem. Among the techniques were questionnaires, interviews and a lot of desk research.

4.1.0 Analysis of Response Rate

Table 4.1

	Male	Female	Total
Line managers	6	5	11
Middle managers	5	4	9
Top managers	4	3	7

4.1.1 ANALYSIS BACKGROUND INFORMATION

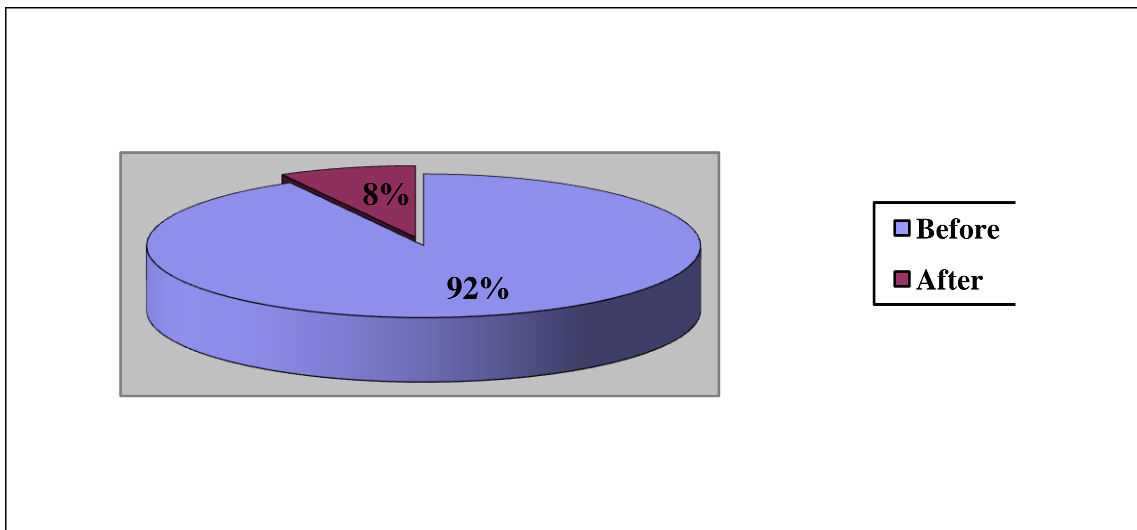


Fig4.1: background information

Source: raw data

The majority of the respondents were employed at Trust Bank before it was dissolved; this shows that 92% of the sample chosen has full knowledge about the causes of bank failures and it made the sample relevant to the topic as the respondents would all answer issues concerning bank failures in Zimbabwe

4.2.1 Interviews

Results from interviews

Table 4.2

	Planned	Held	Percentage
Personal	20	16	80%
Telephone	10	8	80%

The table above shows the interview response, interview questions which were asked were those that were not properly answered in the questionnaires that is to say those responses which were not clear

Findings on the causes of Bank Failures were summarized in the table 4.2 above

A total of 30 questionnaires were administered at Trust Bank head office. Respondents consisted of Top level management, middle management and line management. Twenty three (27) questionnaires were successfully completed and returned giving a response rate of 90%. This response rate was high enough to warranty validity and reliability of the research findings. In addition interviews were also done by the researcher. The information obtained from both sources, including questionnaires pointed to the following as the causes of bank failures in Zimbabwe during the period under study;

4.2 Causes of Bank Failure

Table 4.3

CAUSES	Frequency	%age
Credit risk	5	19%
Non Performing Loans	8	30%
Weak Banking Supervision	10	37%
Systemic Risk and Concentration Risk	4	15%
Poor Corporate Governance	8	30%
Foreign Exchange Risk and off balance Sheet Risk	4	15%
Bank runs	9	33%
Low Capital Levels	10	37%

Source: raw data.

4.2.2 Poor Corporate Governance

Corporate governance is the process by which corporations are made responsive to the rights and wishes of stakeholders. Thus corporate governance includes the process as adopted and developed by boards of directors to exercise powers delegated to them by owners, and the organizational rules they set for senior management in order to achieve organizational objectives.

Documentary analysis show that there may be some fraudulent actions being played by the management. The table shows that 30% of bank failures are caused by poor

corporate governance controlling shareholders-insiders- would want to maximize the return on their investment at the expense of smaller shareholders. During the period under study a number of weaknesses in the credit underwriting process have been identified. Risk management at the troubled institutions was undermined by; heavily emphasis on the provision of security as comfort prior to the providing of loan is a common practice at banks in Zimbabwe, although it is an imperfect practice. This was the case with Trust Bank generally, loans were not usually provided on the strength of security.

Collateralized lending reduces incentives for exerting corporate governance on the borrowing counter party. This is clearly apparent in the interbank market, where it is now practice to provide funds to other interbank trading counter parties against highly marketable securities, like treasury bills. In these situations, counter party credit risk assessment are not effectively executed, hence even inefficient banks are able to continue to fund their operations without having to bear the disciplinary effect of an accurately priced interbank loans. Although the bank would have managed its risk exposure by asking for security, its risk management function and techniques may never improve further, and other creditworthy counter parties without security are thoughtless rationed out of the credit market.

In Zimbabwe, credit risk management practices were compromised by corporate governance malpractices as evidenced by self-dealing, imprudent interest write-offs and poor provisioning at institutions such as Trust Bank. The separation of ownership from control in the modern banks also resulted in potential conflicts of interest between owners, other stakeholders, and their agents, and management at the above named institutions.

On connected lending, Kroszner and Straham (2001) investigate board connections and conflicts of interest in lending to non-financial firms and find that; conflicts of interest may generate pressures for special treatment of such borrowers, not normally justifiable on economic grounds. Examples of elements of looting connected lending and fraudulent behavior at both the managerial and employee levels includes; Funds amounting to Z$7 billion employee perpetrated fraud at Trust Bank.

4.2.3 Non-Performing Loans (NPLs)

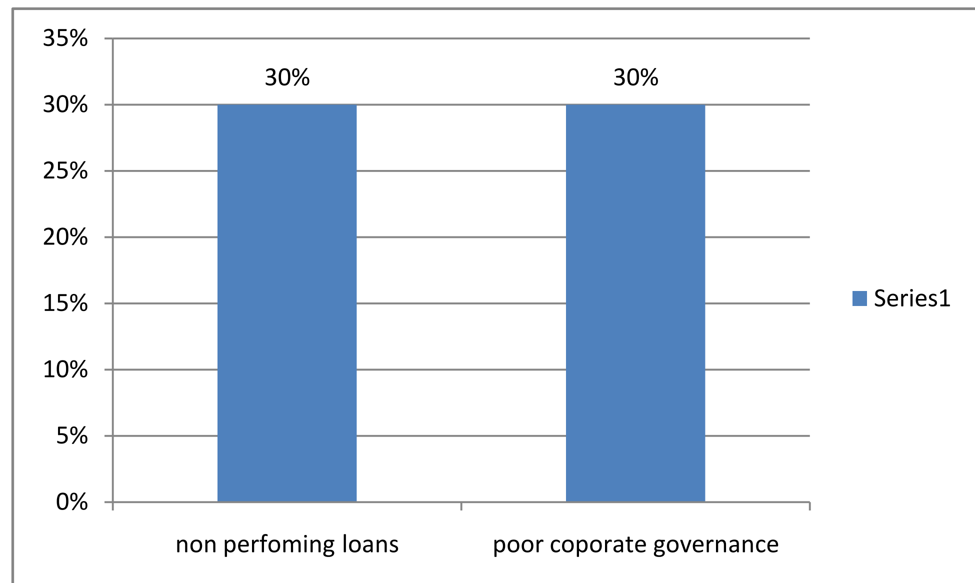


Figure4.2

Source: raw data

Findings on the causes of commercial bank failures were summarized in the chart above and represented in the form of a bar graph above. The results show the existence of poor corporate governance is at the centre of the problem of NPLs that is to say poor corporate governance and Non-Performing Loans (NPLs) they core exist. Most of the failed banks had substantial amount of loans advanced to their directors at concessionary rates. For instance At Trust bank, the due diligence report by Nedbank and MBCA revealed that the directors owed the bank billions of Zimbabwean dollars at that time through insider loans and again one of the Intermarket Banking cooperation directors owed the bank billions of Zimbabwean dollars through insider loans. Royal bank directors also defrauded the bank billions of Zimbabwean dollars through insider loans and this is also in line with what Martin Brownbridge(1998) said in his research when he said that a large share of debts of most failed banks are attributed to insider loans and mostly unsecured

4.2.4 Foreign Exchange Risk and off balance Sheet Risk

Findings reviewed that In Zimbabwe banks such as Trust Bank faced foreign exchange risk from on and off balance sheet exposures denominated in foreign currency. Such risks have arisen as a result of trading in foreign currencies, making foreign currency loans, buying foreign issued securities, issuing foreign currency denominated debt as a source of funds. Therefore, there is a need to measure and manage this type of risk in banks. This can be achieved through matching of the foreign assets and liabilities and the use of derivative instruments.

4.2.5 Systemic Risk and Concentration Risk

This is evident in the interbank market where banks borrow and lends from each other. In 2004, the fall of some institutions triggered a wave of bank failures.

On the other hand, concentrating liabilities in the same industry or sector is particularly as catastrophic loping poor credit rating. If the industry or sector performs badly then this will trigger bank runs. For instance, most banks had loans with other financial institutions as illustrated in table 2 below. This is indicated by a high percentage of deposits accepted from other financial institutions, which amounted to 44% and a corresponding 26% of loans advanced to other financial institutions in 2005. When the financial institution crumbled in 2004 it resulted in a wave of bank failures due to excessive asset concentrations.

Table 4. Sectorial Analysis of Deposits and advances in banks

Sector	% of deposits	% of loans
Banks	23%	20%
Other Financial	44%	26%
Mining companies	5%	4%
Industrial companies	7%	22%
Municipal &	9%	-
Other deposits /loans	12%	6%
Agriculture	0%	7%
Services	0%	11%
Construction	0%	4%

Source; RBZ monthly Publication, Jan 2005

4.2.6 Asset and liability Mismatches

Findings also reviewed that most banks participated in speculative activities against the backdrop of hyperinflation environment, which eroded their earnings and earning capacity, as was the case with IDH, Barbican Bank and RPD. As discussed above, most banks used depositors' funds (bank liabilities) to issue non-performing insider loans. They transformed short-term deposits into long term non -core illiquid assets. Hence, most failed banks were negatively gapped (liabilities were maturing before the assets).

For that reason the banks were prone to liquidity and interest rate risk. The subsequent increase in interest rates soon after the monetary policy threw most troubled banks into liquidity crisis. They failed to service the amounting interest payments.

This was caused by the fact that the interest received from the assets was outstripped by the interest payments due to the liability holders. This triggers the monetary authorities to place some of these banks under the management of the curator for a period of six months.

4.2.7 Low Capital Levels

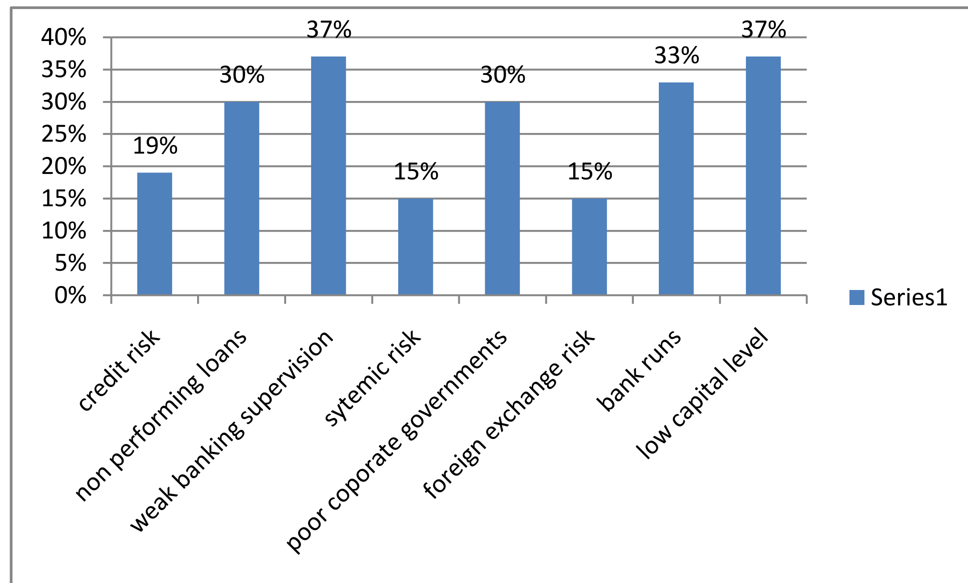


Figure 4.3

Source: raw data

Low capital levels were another factor that led to commercial bank failures in 2004, as illustrated above low capital level was one of the major causes of bank failures, the hyperinflation environment eroded banks' capital positions. All failed banks had negative capital base. The regulatory authorities also increased capital requirements of commercial banks in 2004 and there were forced to recapitalise to levels that will withstand future inflationary erosion and this was in line with what Goodhart(1998) propounded when he noted that as a bank's capital decreases, the higher its motivation for action towards survival and this leads to more dangerous risk taking operation.

The other factor that led to the depletion of capital at such banks as Trust Bank is that they assumed more risk in their balance sheets. This affected the computation of capital adequacy ratio as it impacts negatively on the value of the risk weighted assets. Thus risk reduction reduces the need for additional capital and according to Greuning, (2000) he noted that the basic reason for holding capital is to protect against both expected and unexpected losses

4.2.8 Bank runs

The findings highlighted that 33% of the respondents said that bank failures where mainly caused by bank runs,These occur when depositors walk and run to the affected bank to withdraw their funds Depositors at other banks, not subject to the same bad news, may also run on their banks as bank runs are viewed as contagious. In Zimbabwe, runs hit Trust Banking Corporation These are recorded significant reductions in deposit bases and market shares.

Consistent with Detragiache (1997), the findings show that low savings ratios are associated with banking sector fragility. In Zimbabwe, the commercially low interest rates discouraged savings. For instance, at Beverly Building Society, savings from clients decreased during the period under study while weak macroeconomic environment threatened credit quality at the institution.

4.2.9 Weak Banking Supervision

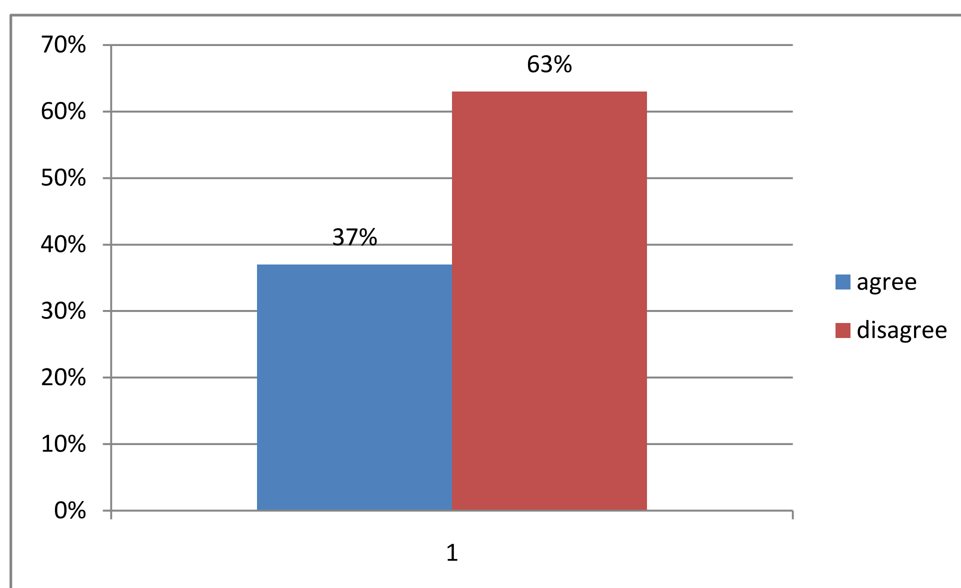


Figure 4.4

Source: raw data

Suggest that 37% of the respondents agree that weak banking supervisions also contributed to the bank failures that were witnessed in Zimbabwe the findings highlighted that 63% of the respondents said otherwise, the 37% that agreed that weak banking supervision contributed to bank failures proved and it's in line with what Ingves (2003) propounded when he noted that although bad banking play a significant role in bringing down a banking system, it could only persist in the absence of proper regulation and supervision (weak supervisory framework) and of adequate market discipline.

4.3 Conclusion

Therefore it is clear that risk management practices, poor corporate governance in commercial banks, play a pivotal role in ensuring bank survival as illustrated by the case of Trust Bank. It is therefore the researcher's assertion that the banks, which failed during the period under study lacked proper risk management practices as also highlighted in the problem statement. The following chapter will provide conclusion as well as recommendation on how to put to an end the causes of commercial bank failures

Chapter v

Summary, Conclusion and Recommendations

5.0 Introduction

The purpose of the study was to find out the causes of commercial bank failures and to recommend the proper procedures that should be followed to reduce the occurrence of commercial bank failures when using multicurrency. Data was collected from a representative sample of the bank's employees. This chapter reveals the findings from the research point of view as well as making recommendations

5.1 Summary of findings

Awakened by the findings and conclusion the following recommendations can be based on the findings and comments from participants in the research process can be made: There is still a need to improve asset and liability management practices and bank capital functions to achieve maximum bank soundness. The following recommendations seek only to address those matters, which the author suspects are the underlying causes of weak risk management at banks, or simply have not received sufficient attention by bank managers to date.

5.2 Internal Remedies

5.2.1 Corporate Governance and Risk Management

In the case of poor risk management techniques, the authorities must implement and enforce proper corporate governance standards and utilize better technology in financial management and in the credit granting process.

Banks should set up independent risk management departments that are empowered to monitor and make decisions on all risk matters. The reports of the risk management should cascade to the board of directors, or, the relevant board committee (such as board loan review committee, board credit committee and asset and liability management committee). The bank should adhere to the laid down procedures to avoid flourishing of insider loans, which may lead to NPLs.

Banks should also avoid underwriting risks than their balance sheet can support. This will result in untold financial debacles. Banks should reduce risk exposures, in order to avoid the chances of having to raise additional capital to support their risk taking activities.

5.2.2 Asset Liability Management Committee (ALMCO)

The banks should set up an Asset -Liability Management Committee (ALMCO), which should be responsible for identifying, measuring, managing, monitoring all the risks that affect the bank. The committee should comprise senior management employees and bank directors who possess the powers to manage risks in banks. The board of directors is ultimately responsible for ALM policy and the position of the bank and for defining what practices and levels of risks are acceptable.

5.2.3 The Roles of Board of Directors (in ALM)

The Board of Directors must provide oversight to ensure the bank operates in a safe and sound manner and risks to the institution are properly controlled. The board's responsibility should include; keeping informed, hiring and retaining competent management, and overseeing business performance of the institution. The Board of directors should also establish policies in major areas, holds management accountable for implementing and monitoring those policies, and should ensure that the risks to the institution are properly managed.

5.2.4 Loan Concentrations

The banks should avoid granting a loan, which is in excess of 10% of the bank capital to any party at any given time. This will also curtail non-performing insider loans

granted to the directors. The credit granting process should foster diversification in the loan book. The loans should be spread to all the sectors in the economy (such as mining, agriculture, transport, manufacturing, individuals, among others). Deposit mobilization should aim to spread deposits across all sectors of the economy. If possible banks should try to minimize deposits from the inter-bank market since they are expensive. This is because inter-bank loans are effectively priced as compared to other non-financial sectors.

5.2.5 Bank Mitigation and Risk Transfer

Banks can explore other avenues of risk mitigation like the use of derivative securities which results in risk transfer from one counter party to another. The derivatives the banks can use include interest rate derivatives like swaps, caps, options, collars, floors, and forward contracts.

5.2.6 Optimal Mix of Asset and Liability

Since the liability profile of banks is short -term, the banks should invest in short term financial assets such as Treasury Bills, Bankers acceptances and Repurchase agreements. A bank's funding is part of its risk management strategy. Banks should issue debt securities that reflect the underlying assets. Banks should however try to optimize the mix between floating and fixed rate debt securities. Non- callable fixed rate debt has a fixed interest payment. The debt service does not make earnings volatile because there is no uncertainty about payments that have to be made to service the debt. Examples of short term fixed debt securities include Negotiable Certificates of Deposits (NCDs) and Fixed Deposits (FD). The bank should have a flexible mix asset and liabilities, which facilitates easy switching from one mix to another in order to exploit market opportunities. The mix should foster effective asset transformation.

5.2.6 Effective Asset -Liability Pricing and Deposit Mobilization

Bank managers should price the assets and liabilities in order to maximize interest rate spread and increase the bank earnings. The pricing policy should aim at increasing the weighted average rate of return at the expense of the weighted average cost of capital. It should also take into account re-pricing periods. The policy should also price the inherent risk effectively.

5.2.7 Market Confidence and Bank Recapitalization

Banks should strive to maintain market confidence. High market confidence lowers the cost of funds since it lowers the overall risk profile of the bank. Good market confidence reduces the chances of bank runs. Depositors will withdraw their funds at the slightest hint of a bank developing poor financial conditions. In addition, banks should also stick to core business.

5.3 Public Policy Remedies

Since banking sector problems are associated with high fiscal deficits, high output growth and decline in terms of trade, low saving, high inflation, higher real interest rates, and all this increases the likelihood of a banking crisis. This suggests that the timing of their influence could be important the case of possibly high and uncertain interest rates due to high inflation make it difficult for banks to perform maturity transformation. Therefore, restrictive monetary policies that keep inflation at check are desirable. Design and implementation of effective stabilization programmes should also be accompanied by a careful evaluation of the Impact on the domestic banking system. Measures to strengthen the bank balance sheets and managerial incentives may also have to be taken into consideration.

To further mitigate the likelihood of systemic risk in banking and its severity if it does occur public policy can adopt the following measures;

- Policy can be directed at increasing macroeconomic stability and

avoiding first abrupt increases and then declines (bubbles) in asset values and defaults.

- Discretionary powers can be delegated to bank regulatory agencies to provide a safety net under banks to prevent both undue fire-sale losses from hurried asset sales by banks from affecting depositors and runs on the banking system into currency that exacerbate such losses.
- Policy can be directed at avoiding the pitfalls of excessively discretionary and other prudential policies and focus directly on the cause of both losses to depositors in bank insolvencies and depositor runs on banks, namely economic insolvency of banks with negative net worth. Such a policy would attempt to reduce, if not eliminate, both moral hazard behaviour by banks and agency problems by regulators by properly aligning the incentives of all parties in the same and appropriate direction.

Such remedies should reduce the probability of individual bank failure, the cost of failure to depositors, other bank customers, and the community, and, by reducing if not eliminating depositor losses and the need for depositors to run on their banks, also the likelihood of systemic risk.

5.3.1 Systemic Risk and Public Policy

Although banking may be more fragile than other industries, this does not imply a higher breakage or failure rate. Rather, greater fragility implies "handle with greater care," much as it does with glass and porcelain objects.

This suggests that bank instability is more a regulatory phenomenon than a market phenomenon. Although systemic risk may exist without government regulation, on net, the probability of instability occurring in banking and the intensity of any resulting damage are likely to be greatly increased by some government policies adopted in the name of preventing systemic risk.

Governments appear to face a trade off between two types of banking problems; potential systemic risk from the failure of one or more banks and non-systemic bank failures from excessive risk-taking and inadequate regulatory discipline.

Thus, governments appear to have a no-win choice. The best protection against widespread bank failures and systemic risk is macroeconomic policies that achieve stability and avoid price bubbles that leave banks highly vulnerable to failure. But since the success of such policies is highly questionable, backup prudential policy is desirable.

Therefore this research argues that it is possible to reduce the likelihood and costs of future bank failures as well as any resulting systemic problems without suffering the undesirable side effects of moral hazard and agency problems that plague many prudential policies. Therefore bank failures would be reduced but not eliminated.

5.3.2 Conclusions

The author concludes that imprudent asset-liability management practices, poor corporate governance; as evidenced by self dealing, imprudent interest write offs and poor provisioning, and low capital levels undermine banks' financial conditions and led to the bank failures that were witnessed in 2004. This was evidenced by the closure of more than 10 financial institutions in 2004.

At the centre of the financial problems as revealed by more than 70% of respondents in questionnaires, was the issue of poor asset in the form of insider non-performing loans. These loans were issued using short -term deposits. Low capital levels also compounded these problems, leading to rampant bank failures. Self-dealing by bank managers on the back of weak banking supervision also entails that risk management at the concerned banks was weak.

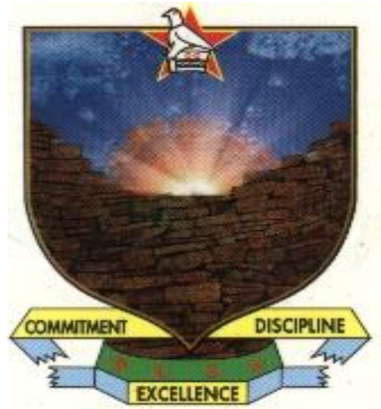
However, in Zimbabwe, asset liabilities management practices have improved over time since the beginning of 2005 owing to the lessons learnt from past bank failures, as well as the effects of strict supervisory oversight from the Reserve Bank of Zimbabwe.

5.3.3 Recommendations for further research

Due to time and financial constraints the researcher feels that the research was not exhaustive as far as empirical evidence is concerned. Studies that would capture all causes of bank failures in Zimbabwe are suggested for further studies. This would shed more light on the actual causes of bank failures and help come up with even more conclusive results. Further researchers can also use econometric models as methodologies since they are convenient, modern and fast. However in this research, these were not used due to the fact that the period under study was very short and hence a descriptive approach was considered very useful and appropriate.

Appendix

BINDURA UNIVERSITY OF SCIENCE EDUCATION



GENERAL QUESTIONNAIRE

I am a fourth year student from the Department Intelligence and security studies at Bindura State University In partial fulfilment of the requirements of the Bachelor Of Commerce Honours Degree in Financial Intelligence, I am hereby carrying out a research entitled; **An Investigation on the causes of commercial bank failures in Zimbabwe (2003-2004) A case study of Trust bank.**

I kindly ask you to complete the attached questionnaire and do also promise to keep your contributions private and confidential.

Your effort in assisting with your contributions will be greatly appreciated. Thank you,

Please complete this questionnaire by filling in the sections provided and ticking in the appropriate box.

SECTION A

Sex	Male	☐	Female	☐		
Position in management	Line	☐	Middle	☐	Top	☐
Experience in banking industry	1-2yrs	☐	3-5yrs	☐	6yrs+	☐
Qualifications	O'/A level	☐	Bcom,	☐	BA	☐
	Professor	☐	Bsc	☐	Msc	☐
	MBA	☐	PhDs	☐	Others	☐

SECTION B

1 .What in your view is the most important factors behind the banking systems failures in Zimbabwe?

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2. Notwithstanding the effect of the volatile environment, the banks performed differently under the same conditions. Why?

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3. Credit risk management practices at most failed banks were compromised by corporate governance malpractices as evidenced by self dealing, imprudent interest write-offs and poor provisioning. Do you agree to this view?

Yes ☐ No ☐

4. The issue of non-performing loans was at the heart of the financial problems that were witnessed in 2004. Do you agree?

Yes ☐ No ☐

5. Most of the failed banks had substantial amount of loans advanced to their directors at concessionary rates. Do you agree? Yes ☐ No ☐

6. Weak banking supervision also contributed to the bank failures that were witnessed in 2004. Do you agree?

Yes ☐ No ☐

7. What do you think led to the participation of banks in speculative activities during the period under study?

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8. What were the effects on bank liquidity (in general) of the subsequent increase in interest rates soon after the 2003 monetary policy?

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9. Some banks did not fail what you think were the reasons for them not failing

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10. During the period under study, as an organization did u experience any increase or decrease in deposits from clients Yes ☐ NO ☐

Give reasons

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11. To what extent did systemic risk contribute to bank failures in Zimbabwe?

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12. What can public policy do to further mitigate the likelihood of systemic risk in banking and its severity if it does occur?

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13. Which other policies has the central bank/ government pursued to mitigate banking crisis over the year?

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Are you happy with the policies Yes ☐ NO ☐

14. What other factors (if any) need to be addressed to improve the country's banking position? State and explain

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15. Do you think the formation of the Zimbabwe Allied Group ZABG was a positive move? Yes ☐ NO ☐

16. How have the various stakeholders of the economy received the formation of ZABG?

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17. How is the situation in the banking industries?

Improved ☐ the Same ☐ Worse ☐

18. Do you think the Reserve Bank of Zimbabwe (RBZ) is performing fully its function in the banking sector? Yes ☐ NO ☐

19. What do you think the future holds for Zimbabwe as far as the banking industry is concerned?

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20. General comments (if any)

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