Title

The Determinants of Bank Failure in Zimbabwe from 2009 – 2013.

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Dissertation submitted in partial fulfilment of the requirements for the Masters in Business Leadership (MBL) of Bindura University of Science Education. Faculty of Commerce.

Supervisor: Mr C. Masango
DEDICATION

This Thesis is dedicated to the late Mr Eric Bloch and my late mother, may her dear soul rest in eternal peace. I miss you Mummy.
DECLARATION

I declare that “The Determinants of Bank Failure in Zimbabwe from 2009 - 2013” is the author’s original work and has never been submitted by the author or anyone else for a degree at any university. The sources that were used or cited have been indicated and acknowledged through complete reference.

_____________________________  ______________________
Maria Kohli  Date

_____________________________
Supervisor’s Signature  Date

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Coordinators Signature  Date
ACKNOWLEDGEMENTS

My Supervisor, Mr. C. Masango for his guidance

My employer

My kids
ABSTRACT

The study’s aim was to explore the determinants of bank failure during the period 2009 to 2013. The study sought to establish the relationship that exists between bank failure, minimum capital requirements, asset quality, managerial effectiveness, earnings, and liquidity. Using the CAMELS Model in analyzing the relationship that exists between these elements four indicators were used. Namely the minimum capital levels, non performing loans, minimum regulatory compliance standards set by the regulator, profit levels and loans to deposit ratio. (16) Banks were selected using the judgmental sampling method. In the study (21) key informants were interviewed. The study revealed that minimum capital requirement levels had an effect on bank performance in Zimbabwe during 2009 to 2013. The study sought to establish the quality of assets in Zimbabwean banks with the hope of analyzing how non performing loans affected the soundness of banks in Zimbabwe. It was the aim of the study as well to establish how the effect of low earnings and low liquidity affected bank performance in Zimbabwe. It was found out that there is a symbiotic relationship between bank failure and the four elements of the CAMELS Model used in this study. It was found out that minimum capital requirement levels, asset quality, managerial effectiveness, earnings and liquidity had a negative impact on the performance of banks that failed in Zimbabwe during the period 2009 to 2013. Recommendation for future study is a longitudinal study on the effect of minimum capital requirement on Micro Finance Institutions in Zimbabwe.

Keywords: Bank Failure, Minimum Capital Requirements, Asset Quality, Management, Earnings, Liquidity
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CHAPTER 1: INTRODUCTION

1.0 Introduction
The chapter will give an introduction to the subject matter and act as a guide to the whole thesis. The subject of bank failure in Zimbabwe will be briefly introduced and the history of financial institutions in Zimbabwe. Background to the study will then be followed by a discussion of the problem. Justification of the research as well as definition of problems will encompass the research objectives as well as the research questions. The limitations and delimitations of the study will also be looked into in this chapter. The chapter on conclusion will be done after the outlining of the whole thesis.

1.1 Overview
According to a report by Deloitte (2013), Zimbabwe’s banking sector was made up of (22) financial institutions at the attainment of independence in 1980. The number of banks grew following the deregularization of the banking sector. However, most of the banks that were formed during the period after independence failed due to poor corporate governance issues and lack of experience in banking. The highest number of bank closures was recorded in 2004 as most banks faced liquidity challenges coupled with poor management principles. The macroeconomic environment had an effect on the economy which was affected by high inflation of about 89, 7% until the adoption of the multicurrency in February, 2009. Introduction of multicurrency ushered in a sense of hope as inflation decreased to about -3% in March, 2009.

1.2 The Banking History of Zimbabwe
The deregularization of the banking sector by the government in 1995 resulted in the erosion of monopoly enjoyed by the foreign owned financial institutions. New players into the industry in the form of young black entrepreneur took up the challenge to compete in the banking industry. This saw the establishment of one of the first indigenous banks in Zimbabwe. Kingdom Bank which was licensed in 1995. This marked an improvement in the service delivery and access to banking services of some of the people in Zimbabwe who had limited access to the banking facilities which were a privy of the few working classes.
The emergence of the black entrepreneur resulted in intense competition for customers with the already established banks. However, the problem of bank failure was more pronounced during the year 2004 when (9) banks were placed under curatorship (Deloitte, 2013). A significant number of banks faced challenges resulting in failure. According to Gonzalez-Hermosillo (1999) bank failure can be identified with three scenarios.

One of the characteristics is that the bank would have been temporarily shut down or having received bailout from the government and lastly the bank temporarily suspends service. Stoica (2009) describes bank failure as a sad scenario where the bank will be unable to meet its obligations to the depositors and creditors.

In Zimbabwe Banks had to change their models to suit the environment in order for them to survive. Given the circumstances, the affected banks were not able to trade out their difficulties let alone grow their capital from organic sources. Some banks failed to generate income to fund their operations and resorted to illegal money and not transacting in line with the provisions of the Banking Act thereby acting in violation of the law. Indications are that the problem of bank failure recently emerged again after year 2009 with the introduction of the minimum capital requirements for all Financial Institutions in Zimbabwe (Business Reporter, 21 July 2012).

Capitalization is important as it improves the soundness of banks hence the need to introduce minimum capital levels as a way to protect depositors (RBZ Monetary Policy Statement, 2009). Minimum capital requirements were introduced by the Central Bank in September, 2009 hence some banks found it to be difficult to meet the regulatory requirement. However, Diamond and Rajah (2000) believes that the effects of bank failures can be minimized by increasing capital levels on an environment which is free from the environmental effects like political instability. The sentiment is not shared by Mehran (2009) although concurring with the effect of capital levels on bank failure, argues that increasing capital levels achieves the same results even in an unstable environment.

Currently Zimbabwe boasts of total of (21) operational Financial Institutions. The number excludes one bank Trust Bank that failed towards the end of this study as the total number initially stood at (22) banks when the study commenced. Bank failure in Zimbabwe could be
attributed to globalization and liberalization of the economy. According to Okeahalam (1998) increased competition has the effect of causing banks to fail. This is attributed to easy entry into the market or industry where barriers to entry are few. The Zimbabwe banking sector was liberalized around 1995 to allow the indigenous entrepreneur to participate in the economy.

The result was the emergency of banks such as Kingdom Bank which was the first locally owned bank to break the barrier that had existed for years. The entry into the banking sector by the indigenous young entrepreneurs was a welcome move. As a result an improvement was realized in service delivery to some Zimbabweans who had failed to access the banking facilities. The beginning of a new era into the economic history of Zimbabwe had started. This created increased competition for banks to be innovative in order to adapt to changes in the market. However, the lack of a strategic fit between the available resources resulted in most banks failing during the period under review.

1.3 Background to the Study

On the onset Zimbabwe’s socio-economic and political crisis in 2000 had serious ramifications to the banking sector. The banking sector faced challenges that had constrained the public to assess money in time and desired amounts. Non-performing loans and lack of good corporate governance were blamed for failure of banks (Deloitte, 2013). The banking sector has been facing challenges for more than a decade and this has affected the ordinary people as they could not access their funds. High levels of non-performing loans and poor corporate structures were dominant.

Due to the intense competition several banks faced challenges which were compounded by the socio-political as well as the economic factors. Some of the banks that closed are CFX, IBC, Interfin, Genesis, National Discount House of Zimbabwe, Royal, Barbican and Trust Bank failed during the period 2009-2013. Failure of these banks affects the integrity of banks and the trust bestowed on the banking system as a whole. What makes the situation unfavourable is that all of the affected banks are indigenous. The trust on the banking system has been eroded, more so for the indigenous banks since banks play an intermediary role which is integral in any given society.
The importance of banks to commerce and trade cannot be over emphasized as the banks’ instability has the potential to affect the stability of any economy. A brief highlight of the banking trend during the period under review is indicated below:

Table 1.1: List Financial Institutions Zimbabwe Highlights

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<td>132</td>
<td>172</td>
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Source: (author’s own compilation from secondary data)

Table 1.1 shows a trend or a pattern that had been happening since January 2009 to January 2013. The above analysis indicates a steady decline in the number of banks in Zimbabwe from (28) in 2009 to (22) by year ending 2013. The situation could have been caused by the political-socio-economic factors in the country.

1.3.1 Political Environment
The Government of National Unity came into existence in 2009 and during the period under review some foreign owned banks were unsure as to the policies that were to be introduced by the inclusive government. Economic sanctions that have been imposed on Zimbabwe could have had a negative impact on the banking sector. Considering the formal channels of borrowing had been limited, the World Bank and International Monetary Fund were not accessible to Zimbabwe. Zimbabwe is ranked 137 out of 148 countries in terms of risk (World Bank, 2013).
This affected one of the key functions of the Central Bank of being the lender of the last resort hence could not effectively carry out its role of directing the economy effectively.

1.3.2 Economic Environment

Open market which promotes efficiency and reduces shortages of locally produced goods and consumables was realized after the introduction of multicurrency. Strategic partnerships of companies that have not been given an opportunity were involved in banking and this has given rise to high levels of competition in the banking sector. In an effort to lower the interest rates in the market the Central bank signed a Memorandum of Understanding with all banks in Zimbabwe (RBZ Monetary Statement, 2013). Lending rates were to remain below 12.5%. Even though multicurrency was introduced in 2009 liquidity challenges continued to haunt the economy although inflation has decreased. According to the 2013 Monetary Policy Statement inflation was reported to be 2.91%. People keep their money away from the formal banking systems as the interest rates are high due to lack of capital. High lending rates discourage borrowing and the manufacturing sector cannot access money for production.

One of the functions of the regulator is to ensure market and financial stability through safe and sound systems. According to Cox (1989) it is the function of the Central Bank to ensure that the economy performs well. In an endeavour to improve the soundness of banks minimum capital requirements were introduced. The aim was to minimize the effect of liquidity challenges that was affecting the economy at the time and to protect the depositors who had suffered during the period prior to 2009. The capital requirements were effective on 30 September, 2009. The capital levels were in phases so as to give banks adequate time to raise the capital which helps in strengthening the financial sector stability in Zimbabwe. Berger and Bouwman (2009), notes that capital is an important key lever for competition in banks where customers are scarce.

This was done behind the backdrop of the banking crisis that happened before the dollarization of the economy where cash withdrawal limits were set and long queues were experienced in all the banks. During the period the public preferred to transact in cash and local investments were greatly affected by the state of affairs at the time. Inflation was as high as 89.7 % in 2008 but, dropped to minus 3% by March 2009 after the adoption of the multi-currency which was stable.
unlike the Zimbabwean dollar that was constantly changing value by the day. Although an improvement was realised in the economy the social conditions deteriorated.

1.3.3 Socio- Cultural Environment
Zimbabwe’s unemployment rate is estimated to be around 94% and this problem is not unique to Zimbabwe. During the period under review due to economic challenges, some people migrated to regional countries in search of employment. Cross border trading increased as people needed to supplement their incomes. The emigration of skilled labour increased resulting in a negative impact on the banks and their ability to generate income.

The prevalence of the Acquired Immune Deficiency Syndrome (A.I.D.S) affected the able bodied people as a result a new problem of child household headed families emerged in Zimbabwe. This generation did not have sustainable income and generally health and infrastructure facilities did not improve. The situation created a wide gap between the poor and the rich.

The challenge Zimbabwe faces of poverty and poor infrastructure is not specific her alone but is a problem found in the whole of Africa. Globalization presented its fair share of problems which had a negative impact on the Zimbabwean market. This was mainly due to the cross cultural pollination, the erosion of the social fabric and structure of Zimbabwean culture coupled with the advancement of technology that had an effect on the traditional banking systems of Zimbabwe.

1.3.4 Technological Environment
Technology is believed to have an effect on the operations of a bank and hence determine bank failure (Young and Kowalik, 2011). Technology plays an important role in banking. According to Kufandirimbwa (2013) mobile money is competing with traditional means of banking in Zimbabwe where Mobile Network Operators are introducing more efficient banking solutions to the unbanked society. According to the (Sunday Mail of 27 October, 2013) it is estimated that more than 11.2 million, or 76 % of the local population do not have access to formal financial service. During the years under review technology had a massive impact on the banking sector as electronic banking was introduced.
The competitive environment forced some banks to upgrade their systems to be in line with the global trends. Furthermore banks were forced to spend more on information technology as there is an interaction of systems and networks within the banking sector like Zimswitch that required the adoption of more efficient information technology solutions to meet the customer needs.

The use of information technology in banks has both negative and positive effects, as electronic banking is less costly than employing a bank teller. Technology is known to have the advantage of producing reports instantly and self-enquiry service. Remote banking, anytime banking, telebanking and electronic banking is attainable. However, decreased human interactions leads to lack of personal touch between the bank and its customers since banking products are opaque.

A growing trend in the use of internet banking, point of sale and automated machines installed around the banks improves the customer’s access to their savings. The convenience brought by mobile money transfers results in the financial inclusion of the unbanked society in Zimbabwe. The use of cell phones for withdrawing and depositing money makes banking services affordable hence people shun the traditional banking system.

1.3.5 Legal Environment

During the period under review a lot of changes occurred in the legal environment namely the adoption of the New Constitution of Zimbabwe and the passing of the indigenization and Empowerment Bill as law in 2013 and 2010 respectively. The Indigenization law compulsorily requires the cession of 51% ownership to indigenous Zimbabweans. The effect of such actions in the banking industry is described by Hooks (1994), as having the likelihood of increasing the risk of the banking failure that in turn affects capital inflows which are important for the growth of an economy more so in banking. Government policies if not explained have the effect of scaring away investors. However, although the bill has not been implemented, investors are not certain of its effect on their investments as the Reserve Bank Act has not been amended to include indigenization of banks.

1.4 Research Problem

The collapse of banks in Zimbabwe results in levels of confidence and trust dropping among depositors. This affects the national savings and individual banks which in turn, affects the
entire national economy, hence the need to study the banking crisis in Zimbabwe. The question of low confidence in the Zimbabwe’s banking sector remains a critical ingredient of the sustenance of the Zimbabwe economy. Hence, capital is needed now than before. Lack of capital leaves the banks vulnerable to the highly competitive environment, due to the banks limited support from depositors. The problem affecting Zimbabwean banks could be undercapitalization, liquidity, recurrent losses, poor board and management oversight.

A supervisory model that has been adopted by most Central Banks will be used to assess and evaluate the effects of minimum capital requirement, quality of assets, managerial effectiveness, low earnings and high liquidity levels during the period under study. Therefore there is need to investigate how the model which is qualitative can be used to analyze the problem of bank failure in Zimbabwe since 2009 to date. The financial crisis of 2009 caused liquidity problems on the market and in the banking sector which eventually affected both industry and customers.

Despite the collapse of the banks most people do not understand the causes of the financial crisis during the period of 2009 to date. Although, some customers lost their savings no one has made an effort to create awareness and educate the public on the problem of bank failure. Depositors suffer psychologically when they are unable to access their savings as and when need arises. Lack of information on how the financial crisis started has remained a mystery and has resulted in some depositors not bestowing their trust in the banking system ever again. The problem of banks failing has a negative psychological effect. Banks are failing despite the assurance by the regulator of improved systems of predicting bank failure. The effects of failure have ripple effects on the entire nation hence the need for an understanding and appreciation of the topic. Unsuspecting customer have continued to use the financial institutions that have a potential to fail. Information and the reasons for the banks’ collapse are not made readily available hence the demise.

Some people continue to transact with banks that indicates signs of financial stress. The subsequent failure of banks that faced challenges earlier before has resulted in levels of confidence and trust dropping among depositors who are uncomfortable in using the formal banking services. Lack of national savings in individual banks in turn affects the national economy hence the need to build back the eroded confidence in the banking system once again.
1.4.1 Research Questions

**Primary Question**: Could bank failure been avoided in Zimbabwe?

- What was the effect of the minimum capital requirements on banks?
- How does poor asset quality affect banks performance?
- What effect does management quality affect banks efficiency?
- What is the effect of low earnings to the soundness of the bank?
- How does liquidity impact on profitability of banks?

1.4.2 Research Objectives

The thesis aims at enriching the understanding of how banks failed in Zimbabwe and the reasons of their failure during the period of 2009 to 2013.

- Investigate the effects of minimum capital requirement levels on bank.
- Assess the effects of quality of assets in banks performance
- Assess the effectiveness of management in banks.
- Ascertain the effect of low earnings on bank performance.
- Assess the effect of liquidity on banks in Zimbabwe.

1.5 Justification of the Study

Credibility and trust are the key ingredients in the banking sector and this researcher had followed with interest the developments that are happening in the Zimbabwean Banking sector.

**Table 1.2 A List of Financially Challenged Institutions from 2009 – 2013**

<table>
<thead>
<tr>
<th>Item</th>
<th>Name of Bank</th>
<th>Year of closure</th>
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<tr>
<td>1</td>
<td>Trust Bank</td>
<td>2013</td>
</tr>
<tr>
<td>2</td>
<td>Barbican Bank</td>
<td>2012</td>
</tr>
<tr>
<td>3</td>
<td>Interfin Bank</td>
<td>2012</td>
</tr>
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<td>4</td>
<td>Genesis Investment Bank</td>
<td>2012</td>
</tr>
<tr>
<td>5</td>
<td>Royal Bank</td>
<td>2012</td>
</tr>
<tr>
<td>6</td>
<td>CFX</td>
<td>2010</td>
</tr>
<tr>
<td>7</td>
<td>National Discount House of Zimbabwe</td>
<td>2009</td>
</tr>
</tbody>
</table>

*Source: (author’s compilation from secondary data)*
The development in the financial sectors clearly indicates that there is a problem of bank failure in Zimbabwe as indicated in the above statistical table. The effects on all stakeholders mainly customers, suppliers, employees and shareholders has provoked this researcher to explore and find out what has contributed to banking failure in Zimbabwe.

The problem of bank failure affects the banking sector through liquidity challenges. Liquidity has the potential to reduce earnings and capital levels of a bank and this results in low confidence in the market. The national savings are affected and the national economy suffers. Corruption levels increase giving rise to illegal money lending ventures that charges exorbitant interest rates. Some depositors keep their money away from the banking system thereby reducing the money in circulation.

The problem occurred during the period of 2009 to 2013 in the banking sector. The depositors benefits from the information as they will have an appreciation of the banking system and how the deposits assist in the stability of the economy as well as instil confidence in banking systems once more. Banks will benefit since deposits are the life line of any bank’s earnings and their profit levels improves. The regulator benefits by using the information to craft policies and procedures to enhance supervision. It is important to fix the problem so as to build and restore the confidence level of use of the banks by customers. The impact of the problem has on business and customers’ is the increased risk of keeping large volumes of money at home away from the banking system, thereby risk losing it to thieves. It affects the money in circulation and customers cannot access borrowing facilities from the bank as there is no money. Even the depositors are unable to access their savings when the need arise.

Business suffers as there is no money to purchase raw materials for further production so as to generate income to pay employees. Business is unable to meet the client’s deadline for orders resulting in loss of revenue and company goodwill. Low morale and loss of man hours is experienced as employees spend most of their time trying to access their salaries in the banks facing viability challenges.
1.5.1 Neglect by Other Researchers
Banking failure has been studied in developed countries (Calomaris, 2007) and in Ghana, (Apea and Sezibera, 2002), (Gono, 2006) and in Africa (Manganhele, 2010). However there is need to delve on the area to find out the reasons for bank failure during the period under study. Most studies give emphasis on the forecasting methods of bank failure which they use in the comparison and ranking of banks (Prasad and Ravinder, 2012). There is need to understand how the factors of this model can be used in the Zimbabwean context to analyse bank failure.

1.5.2 Practical and Theoretical Importance of the Research
The research is expected to be an eye opener for bankers to take challenges of bank failure as an opportunity to prepare for the environmental changes in the market and be able to turn crisis into an opportunity to learn. The study will assist in the planning by the Central Bank on the policies that combat bank failure. The customers benefit through revitalizing of the lost confidence in the banking system.

1.5.3 Benefits of Research
The banking industry will benefit greatly from this research as it will help particularly bankers with information which will provide a useful insight for them on the importance of an appreciation of the banking environment as a key lever for success. It helps in reducing the domino effect and bank run by customers. The Central Bank as the regulator will benefit by crafting policies and strategies that combats bank failure. The customer’s confidence in the use of the banking systems will be enhanced hence will use the formal channels of banking. The academia will gain incremental knowledge through an insight into banking failure experiences in Zimbabwe. The economy will benefit as money in circulation increases.

1.6 Delimitations of the Study
The thesis will mainly focus on the (8) financial institutions that failed during the period 2009 to 2013 and (7) Commercial banks (2) Merchant banks in Zimbabwe. The study will not cover financial challenges in Asset Management and Micro Finance Institutions.
1.7 Limitations of the Study
The researcher will not get any financial assistance from any other source funding will be done from the researcher’s personal savings. Most of the data will be from desk research and no travelling will be done outside Harare. Some Senior Managers of banks that have closed, under curatorship or liquidation might not co-operate for in depth interviews hence secondary data will be invaluable in this research.

1.8 Thesis Outline
The thesis is divided into five chapters. The first chapter is the introduction and background to the study. The second chapter on literature review is followed by chapter three which focuses on research methodology. The fourth chapter concentrates on research findings. On Chapter five conclusions and recommendations from the study will be highlighted.
CHAPTER 2: LITERATURE REVIEW

2.0 Chapter Introduction
In this chapter review of related literature from scholars and intellectuals on the topic of bank failure will be analysed with a brief description of the banking crisis in Zimbabwe. Literature will mainly focus on the function and the role of the Central Bank in bank failures. Literature on the effect of minimum capital levels on bank performance and the quality of assets mainly focusing on non-performing loans. Literature on the role of management in bank failure will be analyzed with the aim of identifying a link between poor performances of a bank with the quality of management. The effects of low earnings and poor liquidity in banks will be analyzed to find out how they contribute to bank failure.

2.1 Introduction
Cooper (1988) defines literature review as a knowledge that is shared by word of mouth and is used to compare and contrast data presented in either form. Literature review helps in analysis and clarity of events and symbols at a better perspective. It can therefore be used to describe, summarize, evaluate, clarify or integrate the content of primary reports.

2.2 Bank Failure Conceptual Framework
Bank failure occurs when a bank is unable to deliver services to its customers. This can be as a result of weak governance structures which results in the bank not able to meet its obligation to the depositor. The hardships faced by the customer results in mistrust and loss of confidence on the banking system. It is believed that most bank failures are man-made. Poor systems and lack of internal control mechanisms results in a bank failing. However, failure in banks is blamed on the poor economy even though at times the internal systems of control are weak. Depositors may sometimes not be able to access their savings on time. According to Gonzales Hermosillo (1999) banks have a moral and legal obligation to the depositor and the shareholder.

The shareholders and the depositors are sometimes affected when a regulator is forced to stop the operations of a bank due to a number of reasons. At times a bank is given financial assistance by the government or its operations can be temporarily closed (Clomaris, 2007). It is not only depositors who need to be protected but the shareholders interest are also affected by the bank
failures. Describing bank failures in theory and history, Clomaris (2007) states that bank failure in U.S banks during the great depression was mainly due to government safety nets that assured banks of financial assistance during difficult times. The assumption is that bailouts have a negative impact on bank performance.

2.3 Shift in Focus towards Bank Failure

Four basic reasons have been highlighted for the growing interest in bank failure. Studies indicates that since the first global financial crisis of 2008 the attention on bank failures and their causes have been of interest. Mainly this has been attributed to the restoration of eroded confidence to the financial sector and the reduction of bank failure cost. According to Clomaris, Hubbard and Stock (1987) the failure of banks affects the financial stability of a country. The other reason is that of the need to come up with innovative policies, processes and procedures for effective bank supervision to enable regulators to effectively deal with the problem of bank failures and to limit the cost of bank failure since failure cannot be completely prevented. The last reason is that of the need to effectively deal with fragile banks. This can be done through timely interventions through the use of early detection signs, periodic bank examinations and alternative resolution measures (Basel Committee, 2002).

2.4 Role of the Central Bank in Zimbabwe

One of the functions of the Central Bank is to ensure financial stability of the banking sector through constant supervision and surveillance of banks. Another role of the Central Bank is to ensure compliance to laid down processes and procedures by the banks. It is important to monitor and control the banks as the banks can take advantage of the depositor who is normally vulnerable due to lack of information on banking. Some banks may want to deviate from the set standards and it is the duty of the Central Bank who is the regulator to enforce the law.

2.4.1 Financial Stability

Besides financial stability the regulator remains the focal point in the performance of the economy as it is the duty of the Central Banks to control and monitor the effects of the economy through the policies and procedures in the Monetary Policy Statement so as to ensure market stability. Being the regulator in the financial sector the Central Bank formulates, implements and
monitors policies so as to fight inflation. This acts as a guide to the country as the performance of banks is important in the stability of the country because of its intermediary role. Besides monitoring the banks the regulator sets rules and regulations and reviews them from time to time to ensure that the rules and regulations are in line with the needs of the macro and micro environment. Gonzalez Hermosillo (1999) found out that macro-economic issues can influence bank failure and that there is need to monitor their impact regularly.

2.4.2 Provision of Guidance
The main reason is that of strategic direction and focus. The major role of the Central Bank is to promote financial stability through the setting up of minimum capital levels for banks. This is done in order to ensure depositors protection. It is evident that depositors can be taken advantage of by the banking system, hence the need to ensure the banks are adequately capitalized. According to Cox, (1989) one of the main function of the Central Bank is ensuring a sound banking system achieved through timely and regular supervision of banks.

2.4.3 Supervision of Banks
Gonzalez Hermosillo (1999) emphasized on the importance of the Central Bank’s role of ensuring compliance through regular checks on-site and off-site examinations. In support Fungacova, Ariss and Weill (2013) believes that it is the duty of the regulator to prevent bank failures through monitoring of weak banks. Constant monitoring prevents bank failures as anomalies are noted on time and are corrected. Evidence has it that lax in supervision has contributed to the global financial crisis in the past ten years, hence the adoption of the formation of the Basel Committee by Central Banks that constantly review strategies and the determinants.

2.5 Determinants of Bank Failure
i. The financial institution was recapitalized by the Central Bank or an Agency specifically created to tackle a crisis and/or required a liquidity injection from the monetary Authority.

ii. The financial institution’s operations were temporarily suspended (frozen) by the Government.

iii. The Government closed the financial institution.
iv. The financial institution was absorbed or acquired by another financial institution (Gonzalez Hermosillo, 1999).

2.5.1 Effects of Bank Runs
Caprio and Klingebiel (1996, 1999) as cited by Marco (2004) defines banking crisis as ‘a situation in which significant group of financial institutions have liabilities exceeding the market value of their assets, leading to runs and other portfolio shifts, collapse of some financial firms and government intervention’. Diamond and Dybvig (1983) asserts that bank runs, deposit insurance and liquidity define bank failures. He identifies the problem as a game between depositors and the bank which arise as a result of customers wanting to take their money all at the same time this puts a burden on the banks to meet its obligation to the depositor. Kaufman (1988) discusses the effects of bank failure and its resultant effects of bank runs and the contagion effect of bank failure as caused by the behaviour of depositors who panic and in turn affects healthy banks. Some depositors act on such actions and withdraw their money from banks. This causes the problem of a bank run by customers and panic withdrawals as witnessed in Romania (Stoica, 2009). A bank run is a situation whereby customers want to withdraw their money at the same time for fear of not accessing their money. The effect of bank runs are that clients and depositor’s fear and panic may affect other viable banks through the domino effect.

Schwartz (1963) cited by (Calomaris, 2007) believes that fear and panic determined bank failures especially in the United States bank crisis of 1930. The situation can be addressed by timely interventions by the government so as to reduce the cost of bank failure or at times prevent the failure as it has negative effects on the economy. (Ali, 2007) notes that bank failure is an economic moral hazard which has the potential to disrupt bank services thereby derailing the economy.

2.5.2 High Levels of Non-Performing Loans
Chikoko et al (2012) places the problem of bank failure in Zimbabwe on non-performing loans which she believes had a negative impact on the performance of Commercial Banks. The
researcher concludes that the economic environment had a negative effect on 15 Commercial Banks used in the study.

The investigation reveals that banks did not offer the right products to customers whilst at the same time failing to follow proper procedures and processes. Thus the researcher propounds that in a way this contributed to bank failure in Zimbabwe especially among Commercial Banks which had witnessed a number of challenges for the period 2009 to 2012. Chikoko et al (2012) notes the introduction of multicurrency in Zimbabwe further worsened the situation as the economy had not stabilized.

2.5.3 High Minimum Capital Requirement Levels

However, Mbizi (2012) although he agrees with Chikoko (2012) believes that poor policies and procedures may not have contributed much to bank failure in some Commercial banks in Zimbabwe, the researcher argues that the minimum capital requirements set by the Central Bank might have had an effect on the performance of some of Commercial banks in Zimbabwe. The researcher notes that capitalization has a greater bearing and is a determinant of bank failure as some banks could not make it beyond 2012 due to the effects of the regulatory requirement which did not consider risk involved hence low earnings and poor asset quality contributed to bank failure. However, Gonzalez Hermosillo (1999) encourages the use of capital levels as a method of screening banks. In support of Mbizi and Gonzalez Hermosillo (2012, 1999). Demyanyk and Hasan (2009) agrees to the need of maintaining healthy levels of capital, earnings and asset quality so as to alleviate the incidence of bank failure.

Diamond and Rajan (2000) believes the effect of bank failure can be minimized if capital is available for the banks to compete effectively and efficiently in the market especially during financial distress. A study conducted by the Comptroller of Currency in United States (1998) on an analysis of 171 banks found out that the majority of banks fail not due to lack of capital but due to poor governance structures and inadequate management principles.

2.5.4 Weak Supervision

Constant supervision supported with stronger regulation coupled with a sound monitory policy
was revealed to been the reason why Romania was spared from the banking crisis that affected the entire Europe during 2007 to 2008 (Stoica, 2009). The study concludes that bank failures are caused by lack of supervision, weak supervision and poor strategies. Barr, Lawrence and Thomas (1992) examines banks by using data models concludes that management is a major determinant in bank failures. Banking supervision is important in stabilizing the sector in order to minimize bank crisis.

2.5.5 Adoption of another Currency

The adoption of another currency can negatively impact the economy of a country. According to Nelson et al (2011) the Greece Crisis was a direct result of the adoption of the Euro. In the Euro zone the problem of one country had a ripple effect on other countries’ economy using the same currency. The global financial crisis of 2007 to 2009 in Europe affected the provision of financial services the world over. A study carried out on the Greece crisis by Nelson et al (2011) revealed that the adoption of the Euro in Greece in 2001 resulted in the loss of investor confidence. According to Marco cited by Stoica (2009) a bank is considered to have failed when it gets assistance from other sources other than its own and temporarily stops operations. This situation is described by Ferri (2001) and Gonzalez-Hermosillo (1999) as undesirable as these are signs of failure. The investigation reveals the three indicators postulated by Gonzalez –Hermosillo (1999) which shows that the bank would have failed if it lacks the capacity to sustain its operations.

2.5.6 Undercapitalization

Bank failures sometimes occur because of undercapitalization of a bank. Capital is important for the daily operations of a bank. Banks have high operational costs in the form of salaries, maintenance of new branches and sometimes rental costs. If capital levels are low the bank may end up using depositors’ funds to finance its operations. The situation is caused by the fact that the bank can no longer sustain its operations and lacks the ability to absorb losses due to low capital levels. Undercapitalization of banks is not a new phenomenon as it occurred in Romania and Ghana (Stoica, 2009, Apea and Sezibera, 2009). One of the reason depositors keep money in banks is for investment purposes. They trust that the bank monitors the investment with professionalism (Diamond and Rajan 2000). Hence bank failure results in loss of trust and confidence by the depositors on the entire banking system.
2.5.7 Lack of financial Support

Makoni (2011) believes that undercapitalization of banks led to depositors flight that eventually worsened the liquidity positions of banks in Zimbabwe especially indigenous banks. He believes that foreign owned banks fared better as compared to indigenous owned banks as the banks have better governance structures and financial support from parent banks unlike the indigenous banks which failed. The situation results in the bank failing to meet its obligation to its depositors who need their money on time. (Calomaris and Gorton, 1991) in support of Makoni reiterates that the pressure presented by the depositors has serious ramifications on the bank’s operation, hence banks fail. The situation can cause panic and pandemonium in the banking sector and sometimes can result in bank runs. Stoica (2009) established that deterioration in bank’s capital position was the chief cause of bank failure in Romania. According to Stoica (2009) heavy expenditures against banks’ assets can contribute to the failure of a bank.

2.5.8 High Levels of Non-Performing Loans

Non-performing loans can determine bank failure if they are high. Empirical evidence reveals that there is a co-relation between failure of a bank and non performing loans. Non-performing loans have a negative effect on the efficiency and performance of the bank. This affects the bank’s performance as loans are a major component of a bank’s asset (Sounders and Cornett, 2005). High levels of non-performing loans come as a result of excessive lending and poor processes and procedures on the bank’s management, (Chikoko et al, 2012).

2.5.9 Poor Loan Evaluation Methods

Loans which are granted on weak appraisals and related party are known to be non-performing. This is caused by poor origination and credit risk management which is normally poor. Stoica (2009) asserts that bank failure is as a result of improper credit evaluation methods used by the banks on non-performing loans. Evaluation is an important aspect of assessing the quality of the borrower when issuing out a loan. There is need to monitor and control the loans process so as to improve bank efficiency. Non-performing loans affects the traditional role of banks Di Krivoy (2000) agrees, that poor selection of a borrower and non-performing loans contribute to bank failures.
2.5.10 Negative Effects of the Macro and Micro environment

Internal and external environmental forces have a negative influence on the bank failure. Stoica (2009) believes, that macro-economic environment if complimented by banking sector reforms and a good legislative framework can improve the situation through banking supervision. Reforms are important in the banking sector as depositors funds are protected through changes in banking procedures and processes. The effectiveness and efficiency of the regulator is more important in countering the effects of the macro-economic challenges. According to Fungacova, Ariss and Weill (2013) argues, that a regulator can face a challenge in identifying banks likely to fail. There is need to correctly monitor and control macro-economic factors that results in bank failure (Gonzalez Hermosillo, 1999). Macro-economic factors like Gross Domestic Product, growth, the size of the bank affects the operation of banks. According to Rajan and Dhal (2003) banks in India were affected by macro-economic factors and bank specific factors. Stoica (2009) notes, that macro-economic shock indeed causes bank failures as noted in Romania. The same view is supported by Apea and Sezibera (2009) affirms, that deteriorating economic factors caused bank failure in Ghana.

2.5.11 Poor Risk Management

Poor risk management policies and poor management of information can also determine bank failure. Information is a powerful tool if in the right hands but can also be an equally dangerous tool if mismanaged. The importance of the correct use of information in managing bank crisis cannot be over emphasized. Information has a cost element in banks if it is not used wisely. This can result in loss of customer goodwill and loss of business. The banking sector relies heavily on the use of information to manage and analyse the capital and money markets. Good management of information systems prevents bank failure as the bank will react to the market needs in time. (De Krivoy, 2000) believes that reports and financial statements should be done automatically in order to reduce manual intervention so as to prevent data corruption and manipulation.

2.5.12 Poor Corporate Governance

Ongore and Kusa (2013) emphasize the importance of a good board and management in banks as they affect the soundness of the bank. The research concludes that ineffective management reduces the profitability of banks in Kenya and hence the quality of management and board is an
important determinant of bank failure. The board is important in banks where they safeguard the interests of the shareholders by providing an oversight role. The board is mandated by shareholders to safeguard their interest as well as increase the return on investment through set objectives. The board ensures that there is separation of powers between management and ownership of a bank. This improves good corporate governance in banks as a way of preventing bank failure and abuse of depositor’s funds. Consolidated supervision and international rating promotes corporate governance. A well balanced board represents the interest of the shareholders by promoting transparency, accountability, responsibility. This can only be achieved through the engagement of external auditors (Apea and Sezibera, 2009).

2.5.13 Inability to identify cost drivers
Cost is an integral part of a banking system hence there is need to identify the costs that affects earnings. Costs should be minimized by banks and there is need to improve on the efficiencies of the system so as to cut on operational costs. Stoica (2009) believes that the problem of uneven allocation of operational costs in banking contributes to bank failures.

2.5.14 Lack of rules and regulations
The importance of law to the banking sector is that it protects the right of the depositors who are vulnerable due to lack of information and information asymmetry. Information asymmetry affects the depositor as the banker is in a position to get privileged information which the depositor does not have access to. Due to the nature of banking products and opaqueness of the products there is need for the processes and procedures to be adhered to. The other importance of the procedures and guidelines is that bankers can be prosecuted if violations of the law are proved. Laws and regulations are enforceable by law as the Banking Act spells out the guidelines for each particular country. Some banks do not adhere to the act hence Basel (2004) calls for the formulation of strategies to counter bank failures globally. Improvement of banking operations is attained through the use of procedures. This can be done as a way to uphold the moral and legal obligation to the depositor by the banks who needs to concentrate on the core business of offering banking solutions for the development of the economy. Banking is essential for the stability of a country’s economy (Kingdom Financial Holdings Report 2004, Llewellyn, 1998).
Banks stabilizes the economy of a country (Carrigan, 1982). Monitoring is important to avoid bank failures hence the need to do so through legal frameworks.

2.5.15 Government Policies
Government policies can have a negative effect on the economy and bank efficiency as noted by De Krivoy (2000) who attributes poor government policies were the direct cause of bank failure in Venezuela. Politics and business should be separated to enhance supervision. A government can set a ceiling on interest rates which may have negative effect, (De Krivoy, 2000). The situation may result in unsound banks paying higher interest rates in comparison to those that were sound. However, it is important to note that sometimes banks may end up charging exorbitant rates hence the need for the government to intervene. Goodhart et al cited by Apea and Sezibera (2002) notes that some banks fail due to lending which has political affiliations.

The location, size, reputation and ownership of a bank determine its stability. Banks in remote areas were observed to be more likely to fail than those in the urban centres. Conclusions in Ukraine were that in lucrative locations there were more customers, the banks had access to information and access to decision makers which gave them an advantage over those in the remote locations (Poprua and Oksana, 2001).

2.6 The CAMELS Model
The CAMEL is as abbreviation standing in for Capital adequacy, Asset quality, Management, Earnings and Liquidity. The model is used in most Central Banks as a way to identify measure and monitor the performance of banks. Prasad and Ravinder (2012) on the analyses and effects of the Capital Adequacy, Quality of Assets, Management Quality, Earnings, Liquidity and sensitivity to Market to banks in India reveals that banks are important to any society and are pivotal to the performance of any economy. Hence banks have the ability to affect the micro and macro environment as indicated by 35 Banks which were sampled in India and its benefits.

2.6.1 Evaluation Tool
The CAMELS Model is a performance evaluation tool used in banks to evaluate performance. The model can also be used to determine the efficiency of the bank in resource utilization. Performance is important in banks hence the need for the bank to be viable. In the banking sector
there is intense competition hence the need to cut down on costs in order to remain competitive and relevant in the market. The model can assist the bank in identifying an element within the model that has the potential to cause the bank to fail. According to Olweny and Shipo (2011) a bank can identify an element within the model that has the potential to cause bank failure. In a study of banks in Kenya the researcher concludes that poor asset quality was the major cause of bank failure. The regulator the world over adopted the use of model as it is easy to understand and the method is qualitative hence its increased use in monitoring performance of the banks by the regulator (Misra and Aspal (2013).

2.6.2 Risk Management
The model can also be used to ascertain the financial capabilities of the bank and its ability to manage risk in relation to the risk appetite of the bank. The model can also be used for ranking of banks in terms of performance. Nurazi and Evans (2005) notes the importance of the CAMEL’s Model in identifying weaknesses in systems and procedures which can be quickly corrected hence reduce the cost of bank failure. The model helps in mitigating against liquidity, compliance, market and legal risk.

2.6.3 Ranking of Banks
Misra and Aspal (2013) concludes that the Camels’ Model is an effective method to rank banks according to their performance. The researcher used the model to rank banks in India and was able to determine the top and worst performers in the sample. Comparison of similarities and differences can be done using the model. Jutar and Surender (2005) examines the effect of banking in Islamic and convectional banks in relation to the use of information technology. Findings were that there was a difference in the two banks. The Islamic banks were found to be affected by cost whilst convectional banks were affected by liquidity.

2.6.4 Improves Financial Stability
The model is largely used in determining market and financial stability. Since one of the major functions of the banks is to provide an intermediary role. The role of banks important as it is the function of the banks to maintain and uphold financial stability through ethical conduct. Ali (2007) investigates bank failures in Turkey, the study shows that bank failures have a cost...
element not only to the individual but, to the entire nation as a whole as policies are derailed and describes the situation as an economic hazard. The gravity of loss caused by bank failure is felt in the financial instability as banks are interconnected (Allen and Gale 2000).

2.6.5 Prediction of Bank Failure
Prediction of bank failure is an important aspect of not only the regulator but also the bank. The bank must ensure that it sets processes and plans to guard against failure. The model can help the bank predict failure in time thereby take corrective action. Nurazi and Evans (2005) admits that the model predicted the failure of banks in Bangladesh correctly. Individual components of the model can be identified and singled out as the source of the problem. Correction of an anomaly can be done on time through the identification of weaknesses in the system.

2.6.6 Helps in Forecasting
Normally the model is used to identify any deviations from the set standards. Usually there is a set standard measure that is acceptable for each component of the model. The Model can be used for comparison of banks with different working cultures, (Jutar and Surender, 2005)

2.7 Bank Failure and Capital Requirements

2.7.1 Role of Minimum Capital Requirements
Secure investments are realised through capitalization depositors prefer to invest in a bank which is sound. According to Oledejo and Oladipupo (2011) adequate capital levels do not only provide security for investment but also the depositor confidence. As such Craig and Hardee (2007) also agrees with Mbizi (2012) that the depositor’s interest is a major priority for the banking sector. Hence the regulator has a responsibility to protect the depositor regardless of size of investment.

Losses are a threat to the survival of banks and capitalization can give management ample time to correct the situation if the capital levels are adequate. Increase in capital level ensures that banks absorb losses thereby preventing bank failure which has a ripple effect on the economy of the country and avoids the contagion effect (Gonzalez Hermosillo, 1999). An improved capital base helps the bank in creating confidence in the banking sector this eliminates the loss of confidence not only for the bank but improves the reputation of the regulator because depositors
fear losing their savings through insolvency (Morrison and White 2000).

2.7.2 Promotes Efficiency

Efficiency is promoted through maintenance of high levels of capitals. Screening and audit is attainable by the regulator to minimize the problem of adverse selection and moral hazard (Morrison and White, 2000). Capital improves investor confidence in the banking sector. Moral hazard is the increase in risk by banks after getting protection. The advantages of high capital levels are that it can be used to supplement poor auditing systems and improve stability (Adegbaju and Olokoyo, 2008). Improvement of performance and efficiency is realised in a peaceful environment conducive to growth. Lemo cited by Adegbaju and Olokoyo (2008) mentions that through capitalization economic development is achieved. When capital levels are low depositors are vulnerable and they risk suffering losses. The depositors’ security is enhanced as the risk of failure is shifted towards the capital hence the need to maintain sustainable capital levels by banks at all times (Rochet, 1992).

Mbizi (2012) on a study of capitalization of commercial banks in Zimbabwe with emphasis on capitalization and performance finds the existence of a symbiotic relationship between capital levels and bank performance. Oledejo and Oladipupo (2011) agrees that this relationship improves the performance of the financial sector. However, the need for a stable political environment is not highlighted by Mbizi (2012) as a requirement for capitalization to take place.

2.7.3 Reduces Moral Hazard

Moral hazard which is a problem with high risk entities is minimized by increasing capital levels. The major reason a shareholder invests is to create value and wealth. Through capitalization their value is enhanced. Depositors and shareholders money is protected. Few powerful investors do not make decisions without consulting minority shareholders and guarantees the minority shareholder’s interest to be protected. Mbizi (2012) concludes that risk levels, capital levels and performance of banks cannot be separated. Mbizi (2012) concurs with Adegbaju and Olokoyo (2008) that corporate governance structures are lacking in banks. However, he notes that other issues like asset quality and operating costs of a bank are important as well. Morrison and White (2000) support this argument and notes that capitalization is important as it can be used as an
audit tool by the regulator to manage the risk. Hence capital requirements are a good regulator and an auditor for incompetent bankers (Berger, 2000). However, Morrison and White (2001) believe that capital alone may not attain the desired results without effective supervision.

### 2.7.4 Promotes Stability

Jacome and Nier (2012) asserts that stability in the financial sector is enhanced when there is maintenance of high levels of capital. This is revealed in the study by Mbizi (2012) who notes that in the case of Zimbabwe depositors are given a higher priority as compared to reserves. In Nigeria the reforms in the banking sector resulted in improved revenue and the strengthening of the banking sector. In spite of all the benefits of capitalization it was noted that corporate governance and inefficiencies still existed (Adegbaju and Olokoyo, 2008). Corruption and mistrust is a common factor that hampers development of the banking sector. Olokoyo (2013) reveals that a stable political environment is essential for recapitalization to take place. Lemo (2005) although in agreement with Olokoyo (2013) notes proper monitoring is needed for the bank’s capitalization to take place in order to avoid the prejudice of shareholders. Despite the drawback he concludes that capitalization promotes good corporate governance through supervision of banks which should be complimented by a good and conducive environment.

### 2.7.5 Mergers and Acquisitions

Mergers and acquisitions are an important source of raising capital (Noiseux, 2002) and are an important measure to prevent banks from failing. Mergers results in the injection of fresh capital to boost the financial position of a bank. Bank failure can be avoided through acquisitions and mergers. A study carried out in Canadian Banks in regard to capitalization by Noiseux (2002) observes that Canadian banks avoided closure of banks through mergers and acquisitions. Hoshi (2008) comparing the capitalization of Japan and America which came as a result of banking crisis notes that some banks were under reporting their capital shortages. According to Hoshi (2008) recapitalization’s success depends on the macro-economic environment which has to be to be conducive.
2.8 Bank Failure and Asset Quality

2.8.1 Definition of Non-Performing Loans

Non-performing loans have been defined by Van Greuning and Bratavonic (2003) as advances by a financial institution to which income is not expected of a principal. According to The Global Economy.Com the World Bank defines a non performing loan as an amount in relation to the overall loans which is attained by the division of the total of loans.

Definition of a non-performing loan varies with the situation. A non-performing loan is any amount that is outstanding and there is no possibility of attaining an interest and principal. Loans are an important asset of a bank and if not managed well can lead to bank failure. Loans that are unpaid for a period exceeding ninety days or more are referred to as non-performing loans (Alton and Hazen, 2001). Bexley and Nenniger (2012) concurs that any loan which goes for ninety days without being paid qualifies to be referred to as a non performing loan. In agreement, Caprio and Klingebiel (1996) agrees that any outstanding amount which goes beyond ninety days without generating an income, interest and principal qualifies to be regarded as non a performing loan. Guy (2011) is of the opinion that it is only those loans in arrears that can be grouped as non-performing loans.

Kofi (2012 agrees that for a loan to be regarded as a non performing loan it should have exceeded ninety days and indications are that the loan should have remained outstanding such that it is in violation of the terms and conditions of the contract. However, Peterson and Wadman (2004) defines non-performing loans as those loans in default that the bank may not be able to get any profit from.

2.8.2 Effects of Non-Performing Loans

2.8.2.1 Causes Bank Failure

performing loans indeed cause bank failures, as the loans are an essential element of the bank’s assets. Barr and Siems (1992) shares the same sentiment that non-performing loans are related to bank crisis. Non-performing loans impact on the bank’s earnings and capital. Guy and Krusner (2002) notes that the ability of non-performing loans of causing bank failure cannot be ruled out as the loans are an integral part of a bank asset. Problem loans and cost efficiency can be used to predict non-performing loans and bank failure in banks. This was revealed in a study done by Berger (1997) where he analysed problem loans and cost efficiency in Commercial Banks.

2.8.2 Affects stability of the economy
Ahadian (2010) analyses the effects of non-performing loans on the stability of the economy and notes that non-performing loans can affect the GDP and serious measures have to be taken to manage and examine risk so as to reduce the impact of non-performing loans on the economy. This assertion is supported by an empirical study conducted on seventy five countries by Beck, Jakubik and Piloiu (2013), by use of novel data panel discovered that non-performing loan affects the performance of the economy differently depending on the policies of a country. Non-performing loans were high on countries with monitored exchanges rates. They were also high on those countries dealing in stocks where it was identified that non-performing loans affects the economy. Noted is the ability of the variation in economic conditions as a contributor of non-performing loans.

In a research conducted by Rajan and Dhal (2003) in which an analysis of Indian Banks was done using the regression analysis method it was found out that economic variables such as (Gross Domestic Product, maturity, size of the bank, credit terms and orientation) and the rate of non-performing loans affects the economy. This clearly shows the importance of managing non-performing loans as they affect the stability of a country and leads to bank failure.

2.8.3 Reduces Banks’ Earnings
Mastani (1996) on a study to assess the factors that increase non-performance loans emphasises the need to thoroughly manage and supervise the entire loan process in order to minimize the negative effects of non-performing loans on banks’ efficiency. He notes that the process of loan monitoring should start right from the beginning of the process and should gradually follow the
process through, so as to identify any likelihood of the loan presenting a problem. Emphasis is put on the need for the bank to carry out monitoring and evaluation of the loans even when they have been issued out to ensure compliance. This assertion is important in mitigating against non-performing loans as problems can be detected early by the bank and loan processing can be withheld.

Abddlahian (1996) analyses the need to improve on policies and procedures adopted when issuing out loans so as to minimize the effects of non-performing loans in banks. Noted is the ability of the economic changes which can increase the levels of non-performing loans. Haneef et al (2002) agrees that lack of control mechanisms results in the increase of non-performing loans in the banking sector and can reduce profits of a bank. Ahadian (2010), Mastani (1999) and Abddlahian (1996) concurs that risk identification processes and procedures need to be improved so as to reduce non-performing loans in Indian Banks. Noted is the lack of risk management frameworks that affects the efficiency of banks. Haneef et al (2012) maintains that profits for banks can be eroded if non-performing loans are not monitored. Chikoko, et al (2012) agrees to the notion that some banks have poor risk management practices that encourage the growth of non-performing loans.

2.8.4 Reduces Shareholders Equity

Basel (2000) describes a risk as the likelihood or potential that a borrower or counterpart might not pay. Risks are viewed as a threat in banks as they are associated with bank failure (Sinkey, 1992 and Rose, 1999). Hence the need to enhance control mechanisms in banks to avoid shareholders from being prejudiced (Jamaat and Asgari, 2010). This clearly reveals the problem of risk management in banks and the need to improve the checks and balances for banks to remain sustainable. Risks can affect shareholders earnings According to Khemraj and Pasha (2009) notes the ability of the exchange rate of being affected by non-performing loans especially when currency appreciates in value.

2.8.5 Reduces Capital

Keeton and Morris (1987) on an exploration of 2470 insured Commercial Banks in America during period 1979 to 1985 shows the changes in loan losses experienced in banks were directly
linked to non-performing loans. The same effect was noted in Zimbabwe, Chikoko et al (2012) on an analysis of commercial credit processes in 15 Commercial Banks for the period 2009 to 2012 finds that banks were using poor credit analysis processes, wrong products offerings to clients which was compounded by the economic environment that changed to the use of multicurrency.

Greenwalt (1991) discovers that commercial banks that took a higher risk have a higher probability of increased losses. Noted is a relationship between loan loss rate and internal factors like (high interest rates, lending excessively and volatile funds) findings were that a high rate of defaulters is registered when high interest rates are charged and where excessive lending is experienced. A bank’s performance is affected by the non-performing loans. On examining banks in Argentina during the period 1993 to 1996 Barcoff et al (2002) notes that non-performing loan are affected by bank specific and macro-economic factors. This assertion supports Mbizi (2012) who finds that different banks have different exposure to risks depending on the functions of the bank.

On an investigation of non-performing loans in Central, Eastern and South Eastern Europe (CESEE), conclusion was made to the effect that macroeconomic conditions and bank specific factors are closely related to the levels of non-performing loans (Klein, 2013). It is important to manage non-performing loans and ensuring that mitigants are put in place as noted by Karim (2010) finds out that non-performing loans affects output in banks and output is reduced when non-performing loans are high (Karim, 2010). The conclusion supports the notion that asset quality is an important determinant of bank failure as a bank’s performance is affected by the number of loans. It should be noted that correct valuation of assets is important if non-performing loans are to be contained. Non-performing loans in National Commercial Banks and Developments Financial Institutions in Bangladesh indicates that poor enforcement of law and debt recovery measure increases the problem of non-performing loans in Bangladesh banks although a decrease was noted after year 2000 (Adhikary, 2013).

2.8.6 Increases the Cost of Banking

Li, Hu and Liu (2008) in an empirical study comparing the effects of non-performing loans in public and private Taiwan banks concludes that public banks spent more effort in reducing non-performing loans as compared to those in the private banks. Also noted was that provided the
banks operate on the production frontier banks established after deregulation need two and half times resources to reduce non-performing loans and that the banks could increase technical efficiency by 34.57%. According to Sinkey (1992) and Rose (1999) there are five risks that are linked to non-performing loans and have the power to reduce the shareholders earnings (Jamaat and Asgari 2010).

Another study to determine the levels of non-performing loans in a bank in Malaysia during 1997 to 1998 crisis, indicates a decline in the levels of non-performing loans and a less volatile rate of change in non-performing loan ratio as from 1998. It was also noted that there was a decline in total non-performing loans (NPL) after 1999 indicating improved prudential practices on NPL were adhered to. An investigation reveals that the bank is able to lower the levels of NPL but is unable to dispose of NPLS acquired. According to Nishimura et al (2001) non-performing loans in Japan were as a direct result of the bubble period experienced in Japan. Morton (2003:1) identifies causes of non-performing loans as “policies that are not effective; acceptance of risks without limitations to bankroll and wrong function indicator”

**2.9 Bank Failure and Managerial Effectiveness**

Managerial effectiveness in banks is enshrined in the virtues of corporate governance which upholds the integrity of stewardship. The board and senior management is entrusted with safeguarding the interests of the shareholders. Sir Adrian Cadbury (2002) defines corporate governance as an interaction of the society, economy and the company objectives. The aim is ensure a symbiotic relationship exists among the various elements that share a common goal.

Banks because of the nature of the products and services they offer are unique in their product opaqueness. Hence, it was seen prudent to protect both the shareholder and the other publics including the depositor. The functions of the board and senior management in a bank is to craft strategies and implements plans of action, leading the organization in an ethical manner with due respect to the law of the land. Banks fail due to an ineffective board and senior management.

**2.9.1 Regular Meetings**

Adams and Mehran (2008) believes that the boards are unique as they have access to confidential information that is not known by other people. However on the study of performances, board
structures and their determinants in banking industry, Adams (2008) concludes that banks’ regulatory framework are the same as other firms. This gives the board an advantage over other types of board. The board and senior management should hold regular meeting in order for them to craft strategies and policies for the proper implementation of plans of action. It is the function of the regulator to ensure that these meeting are held regularly. Failure to hold meetings results in the board and senior management being ineffective.

It is important for the regulator to continuously monitor the activities of the board and senior management since the board of a banking institution has ultimate responsibility for ensuring that adequate and effective systems of internal control are established and maintained. Senior management is also responsible for implementing strategies approved by the board. A competent board set a tone from the top and inculcates a culture of tolerance and acceptance.

2.9.2 Proper Board Composition
Berger (2012), examines different indicators for board effectiveness among them education, age and sex. The study concludes that a board with educated people is ready to accept change and is progressive. Poor board and management oversight may lead to bank failure in banking institutions as the board’s composition is important. An independent board is made up of non-executive directors who should outnumber the executive members. This is done in order to promote transparency and accountability. The non-executive directors bring in expert knowledge that is invaluable to the bank hence the number of non-executive members should have sufficient numbers to make decisions without being compromised or influenced by the executive directors.

It is in line with good corporate governance structures that the non-executive directors should be independent and any conflict of interest is noted so as not to interfere with the prudential delivery of service (Levine, 2004).

2.9.3 Separation of Chairmanship role
Separation of ownership and control is important in banks as it discourages corruption of the system and processes. Owner managed structures have a problem of causing bank failure through
high levels of non-performing loans and are believed to have a higher probability in terms of failure. The problem of owner managers is that they feel they are not accountable to anyone. Abuse of power and resources are some of the challenges that owner managed banks face. However, not all owner managed shareholdings contribute to bank failure and ownership structure is vital for corporate governance to be functional (Shleifer and Vishny, 1997).

2.9.4 Compliance to Risk Management Frameworks
What constitutes good management in banks is the ability of the senior managers to lead. The board and management must be competent. An effective board should be able to adequately lead the organization so as to achieve the aims and objectives of the bank in line with the objectives with due respect to the law of the land and the environment. There is need to manage risk from one central point as noted by Santomero (1997).

It is the role of the board and senior management to ensure that committees are formed in line with good corporate governance practice. The purpose of the subcommittee is to guide the bank in an effective and efficient manner in promoting transparency. According to Kein (2004) it is the sole responsibility of the board to ensure that transparency and accountability is promoted through the appointment of adhoc committees that are mandated to review policies and procedures in line with the banks risk appetite. There are committees whose functions are important to promoting of governance like the loans Audit, Loans and Compliance committees that reviews the loan application by senior management and put a ceiling on borrowings. The audit committee is important in that the committee identifies risk and ensure effective control mechanisms are put in place. Banks offer special service to the customers and hence are they are unique. Heffernan (1996) propounds that banks are different from any other institutions due to the nature of services they provide which has special attributes of being an intermediary and enforcer of compliance by the regulator.

An ineffective board and senior management’s performance is measured by the adherence to the laws and regulations. One of the duties of the board is to ensure that bad loan applications are minimized through the appointment of a loans committee.
2.10 Bank Failure and low Earnings
Profitability is the main reason why banks are in business and earnings rating indicate the level of profits for a bank. The bank realizes its profit though sources like income and arrangement fees. Interest on loans and bank charges also bring income to a bank.

According to Prasad and Ravinder (2012) there are three important ratios that can determine the performance of a bank. These are operating profit over working capital and they show the profit levels over a year. The other important ratio is the percentage growth in net profit.

The level of earnings for a bank depends on the number of clients as well as the source of income made through interest on income and arrangement fees which are realised through loans. If the number of clients reduces the bank will make a loss and this affects its profit levels. This can lead to bank failure.

Deterioration in assets can lead to bank failure. According to Gopalan (2010) earnings level can act as an indicator of bank failure. Earnings are the first component of the CAMELS Model to indicate signs of bank failure. It is noted that a reduction in earnings leads to bank failure. Berger (2009) agrees that this relationship between earnings and capital is proved to exit. The level of earnings affects the level of income.

2.11 Bank Failure and Low Liquidity
According to Lartey et al (2013) argues that there is a symbiotic relationship between liquidity and profitability of a bank. This was revealed after a study of banks in Ghana. Liquidity in banks is a major problem and liquidity is caused by defective balance sheets and undercapitalization, high levels of fixed assets, absence of liquid assets and poor earnings performance. Illiquid market reduces confidence of depositors, thus resulting in even lower deposits (Apea and Sezibera, 2002).

However, Bourke (1989) as cited by Lartey (2013) indicates that there is a symbiotic relationship between liquidity and profitability of banks. Banks may fail to mobilize funds due to low confidence in the market. This affects the bank and increases liquidity ratio and failure to pay outstanding bills and operating expenses. The result of an illiquid market is that depositors may
hold onto their savings which affects the intermediary role played by banks in the economy of a country.
CHAPTER 3: METHODOLOGY

3.0 Chapter Introduction
The chapter will highlight the methodology used in gathering data, the research paradigm and the research will adopt a qualitative paradigm instead of the quantitative paradigm, the research design and sampling which use judgmental sampling will be analyzed.

3.1 Definition
Methodology is defined as how the researcher investigates that which is to be known. In this research only the qualitative approach was used. Creswell (1994) defines qualitative research as way of understanding a problem based on a total depiction of the interpretation of the world unlike in quantitative paradigm where an analysis is focused on testing of theory based on numbers.

Turner (1994) asserts that the behaviour of the subject matter can be monitored through the observation method. However, the quantitative method utilizes figures and the results can be generalized across the board and replication is possible. Guba and Lincolin (1994) on comparing the two methods supports the data collection using constructivism as opposed to positivism where the respondent is close to the data hence can make some conclusion which can be useful in the research. The use of qualitative is more economical as compared to the quantitative method which is expensive. Furthermore in qualitative research, it is a way of discovery where the researcher wants to understand a situation through a description of the events (Patton, 1990).

Words and action are the key aspects that the researcher uses in coming up with a trend which is useful for the research. The researcher is able to interact and interpret the action of the subjects. Unlike in the positivism method, measurements of causal relationship between variables are analyzed.

Instruments for data collection differ in that in quantitative data collection methods are through the use of questionnaire whilst in depth interviews and observations are used for qualitative research although a questionnaire can also be used.
3.2 Research Philosophy
The research is based on the qualitative approach which is an inductive approach where theory is
developed on the analysis of data (Saunders et al, 2007).

3.3 Research Design
Patton (1990) describes research design as a general perspective and a way of breaking down the
complexity of the world. On the other hand Henning et al (2004) defines a paradigm as a theory
and sometimes it is called a supposition. According to Kuhn (1962), asserts that a paradigm is an
abstract which is shared by a group of researchers which provide a model of analyzing a particular
problem.

Research design is defined by Burns and Grove (2003) as the blue print for conducting a study
with maximum control over factors that may interfere with the validity of the findings.

The research adopted the survey/descriptive method because of the type of questions that might
require some clarity on the part of the respondent. Descriptive method provides a natural set up.
The survey was cross sectional and the information of bank failure was collected from the
population at one point in time. The research data collection was for a particular period hence the
use of published secondary data and questions relating to the past events in order to overcome the
problem. Unstructured interviews were used to improve on reliability and validity of data so as to
attain a better result as only one method of data collection that is the qualitative method was not
enough to come up with a conclusive result.

3.4 Population
Saunders et al (2007) believes that a population requires the enumeration of all units. Punch (2009)
defines population as the target group, usually large, about whom the researcher wants to develop
knowledge of, but can not be studied directly and as a result a sample is taken from the population.
In the study the population comprises of twenty eight (28) financial institutions in Zimbabwe as at
3.5 Population Size

The population is made up of (28) banks in Zimbabwe as at January, 2009. The population was carefully chosen in order to purposely include all the banks that had collapsed during the period under review.

3.6 Sampling Size

Holloway and Wheeler (2002) as cited by Malhota argue that there is no need for a sample in a qualitative research and as there is no principle in coming up with a sample size. The purpose of a sample is selecting a portion which is representative of the entire population. The main reason is that costs are reduced. Hence conclusions can be drawn from the sample. However, larger samples are appropriate so as to reduce the error margin.

The sampling size was made up of (8) banks that had failed (8) banks operational, and included within the sample are (2) Merchant banks. The researcher used a total of (16) banks which she believes is a figures large enough to come up with a conclusive answer as to be representative of the both the operational and closed banks in Zimbabwe. All the Building societies and Savings Bank were not included in the sample. The reason was that the researcher used her own judgement in coming up with a sample which the researcher felt attained the intended objective of exploring the problem of bank failure. The researcher notes that the problem of bank failure has been common with commercial and merchant banks hence the use of judgment in purposively identifying those banks that had failed and the operational banks.

The researcher’s respondents consisted of (9) Senior Bank Managers, (4) Bank Examiners (2) Curators, (2) Independent Economic Analysts. According to Gay (1996), it is not feasible to include the total population of interest, hence the reason to choose a sample which is representative of the entire population. The Senior Bank Managers were chosen on the bases that they are the custodians of the banks and failure of the bank rests upon them as they are answerable to the directors.

The inclusion of Senior Bank Managers, Bank Examiners, Curators and Independent Economic Analyst is for the reason that each one of them has different traits, and have different
levels of experiences, qualifications, knowledge as well as expertise in banking operations. Hence the researcher used the judgment method.

The inclusion of the bank examiners was mainly to the fact that they are the ones who supervises the banks and as such they have knowledge and understanding as to the extent of the challenges the banks face that results in failures. Due to the nature of their duties and responsibilities they are better placed and their knowledge is valuable for this research. Once a bank faces challenges it is placed under the custodian of a curator and as such the curator’s understanding and experience was valuable for the research. Senior Managers from the selected banks were used in the research to get an understanding of how they view bank failures in relation to their roles and responsibilities.

3.6 Sampling methods
There are basically two main sampling methods the researcher selected from. According to Gay (1996) these are probability and non-probability sampling method. In probability sampling all elements stands an equal chance of being selected whilst on non-probability sampling there is a chance of bias as it is not possible to know the probability of any member of population being nominated. There are three methods which are commonly used for the non-probability sampling which are convenience, judgment and quota sampling.

On probability sampling methods there are three commonly used sampling methods which are simple random, stratified, cluster, and systematic. The other method that could have been used is the haphazard sampling method which is a non-probabilistic method. The method is a convenience sampling method which has the advantage of selecting samples arbitrary.

Only one sampling method was used in this study namely the judgmental. The method was used mainly because the researcher used her own judgment and expertise to select the banks which have been showing signs of stress among the population. Moreover, the researcher also included among the sample foreign owned banks which have appeared to functioning well. To come up with a balanced view, some of the locally owned banks were also used as part of the sample. This helped the researcher to come up with possible respondents list which was randomly picked within the banking industry based on the knowledge and purpose of the study.
3.6.1 Judgmental Sampling

According to Gay (1996) judgmental is sometimes referred to as purposive sampling and is the selection of a sample that is understood to represent a particular population. This is based upon the researcher’s professional decision to select a representative sample. However, the sampling method is subject to bias.

Judgment sampling technique was used for the purpose of this study because few people have expertise in the area of banking and finance hence the need to use the experts. The use of judgmental technique had the advantage that information was received from highly regarded members of the banking community who had knowledge of the banking sector. The other reason was that there were few people who are experts in banking operations. Although the method is believed to be biased it improved the validity and the reliability of the results. Kalton (1983) cited by Gay (1996) argues that the method is subject to bias.

3.6.2 Advantages of Judgemental Sampling

(Patton, 2002) as cited by Sanders (2009) believe that judgemental sampling is most suitable for a small sample which can be used on unusual cases. The main advantage is that the method is non probabilistic hence allows the researcher freedom to select a sample that will attain the intended objective. The selection of the sample is based on the researcher’s experience and knowledge of the subject matter under study.

In the selection of the bank sample the researcher used the judgemental method as she had information and the knowledge of the banks that had faced challenges. The researcher used her own judgment in coming up with a sample which was premised on the understanding and knowledge of the banking industry challenges.
Table 3.1: The Banks Sample

<table>
<thead>
<tr>
<th>Item</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Banc ABC</td>
</tr>
<tr>
<td>2</td>
<td>Stanbic Bank</td>
</tr>
<tr>
<td>3</td>
<td>Met Bank</td>
</tr>
<tr>
<td>4</td>
<td>Interfin</td>
</tr>
<tr>
<td>5</td>
<td>MBCA</td>
</tr>
<tr>
<td>6</td>
<td>TN Bank</td>
</tr>
<tr>
<td>7</td>
<td>ZABG/Allied Bank</td>
</tr>
<tr>
<td>8</td>
<td>Premier/Ecobank</td>
</tr>
<tr>
<td>9</td>
<td>Trust Bank</td>
</tr>
<tr>
<td>10</td>
<td>Royal Bank</td>
</tr>
<tr>
<td>11</td>
<td>Barbican Bank</td>
</tr>
<tr>
<td>12</td>
<td>Tetrad Investment Bank</td>
</tr>
<tr>
<td>13</td>
<td>Genesis Investment Bank</td>
</tr>
<tr>
<td>14</td>
<td>ReNaissance/Capital Bank</td>
</tr>
<tr>
<td>15</td>
<td>Discount House of Zimbabwe</td>
</tr>
<tr>
<td>16</td>
<td>CFX</td>
</tr>
</tbody>
</table>

Source: author’s compilation

Although the judgment method was seen to be weak in that only a few experts were included as respondents as there are not a sizable number of experts in banking and this had a potential to present a biased outcome. It had the advantage of getting the best responses from the experts.

3.7 Research Instruments

The researcher used both primary and secondary methods of gathering data. For primary data in depth interviews were used whilst source documents were used for secondary data.

3.7.1 Testing of interview questions

Pretesting was done on one member of each group of respondents to check the usability of the interview questions and whether the intended objective could be attained. Some questions were
vague hence the need to redo the questions with the aid of the bank examiners who have experience in the field of banking as well as the nature of questions that are normally used on site examinations. The advantage of pre testing the questions on the interview guide assisted in detecting mistakes before the interview guide was used in the study. This resulted in the improvement of the interview guide. Face to face interviews were done with bank examiners who assisted in the designing of the guide.

3.7.2 Administration of the interview
Total of (21) interviews were conducted with Senior Bank Managers, Bank Examiners, Bank Economists, Curators and Independents Economist.

3.8 Interviews
Face to face interviews complimented secondary data inorder to cover up the gap created by insufficient information on secondary data. Kvale (1983) asserts that interviews are designed to gather data which can be used to describe the world. Senior Bank Managers, Bank Examiners and Bank Economists were grouped together as Regulators, Independent Economists and the Curators were targeted by this instrument. The advantage of using semistructured questions in interviews was that the method enabled the respondents to answer freely and with no interruptions. This enabled the researcher to get more information on the subject matter and to keep the interview in line with the objective of the study. Semi structured interviews seen to be effective in gathering primary data as most Senior Bank Managers and regulators are usually busy hence cannot commit time to completing questionnaires which needs more time to complete. This enabled the researcher to seek clarity on the certain answers on secondary data which were not clear. Additional areas of interest to the topic of bank failure were added up to the list as the researcher had overlooked them.

The taking of notes was done by the researcher as extra information had to be included in the findings and analysis of data. An insight into the issues of banking and finance were explored for the benefit of the research and the researcher who is a security practitioner. Open ended questions were used in order to encourage the respondents to talk freely Gray (1987) as cited by Kvale (1983).

Justification of use of interview is:-
• They promote interaction between the respondent and the researcher through communication on one on one basis.
• Usually body language aids the researcher in coming up with the analysis of the findings which is not possible with questionnaires.
• Interviews enabled the researcher to seek clarity on matters that were obtained from respondents especially in relation to the questions that were raised in the questionnaires.
• It was possible to make follow up on unclear questions.
• This was seen as an opportune time to build up an understanding and common ground between the respondents and the researcher.
• Interviews enabled the researcher to state the aims of the enquiry for the respondents to appreciate.
• All the outstanding matters were clarified with the respondents.
• Interviews were seen to be inexpensive as invaluable data was collected.
• Telephone interviews were also used especially when the pretesting of questionnaires was done.

3.9 In depth Interview

In depth interview is a method of collecting qualitative data from a group of people so as to understand the inner feeling and aspirations of the interviewee (Boyce, 2006). These are usually used in exploratory research where the subject under study is new and the researcher needs to get an understanding of the topic.

The in depth interviews are conducted on an investigation of any subject matter that needs clarity and explanation. The interviews have a tendency to bring out the truth unlike other data collection methods which can be misleading. In order to maintain confidentiality of participants and improve on validity respondents were interviewed separately. The strategy helped in getting confidential information about the banks that had failed. Some people may not be comfortable in giving their views in open discussion hence the separation of the respondents was necessary.
3.10 Challenges Faced
The major problem faced was with the design of the first interview guide which most financial institutions were reluctant to answer citing confidentiality and sensitivity of information. A second more general interview guide was developed which was used for the purpose of this study. Secondary data was used to cover up the gap of information that could not be attained from primary data as some respondents were not comfortable talking about their organizations due to the codes of ethics that calls for confidentiality. Arrangements for interviews were sometimes made outside normal working hours or by telephone.

3.11 Desk Research
Source of secondary data was Reserve Bank of Zimbabwe Annual Reports which are for public consumption, newspapers, journals and data from other sources. This data was inexpensive to the researcher and it helped to improve the quality and validity of the research. However, the data had to be screened thoroughly. At the Zimbabwe Stock Exchange data about the performance of banks was collected as some of the sample banks are listed on Zimbabwe Stock Exchange. At the Central Bank data in relation to the capitalization levels of the banks was gathered through journals. Some of the data was attained from online sources like the internet and the sample banks websites. The information was on profitability and statements of income which are published twice yearly in the national press as a way of improving corporate governance.

3.12 Data Analysis and Presentation
It is a process of analytically analysing data in order to explain, demonstrate, condense and evaluate the data. A data analysis will be done manually and will be presented in thematic form. Descriptive statistics will be used for the purpose of this study to describe basic features of the data. Summaries will be provided through the graphs, pie charts and tables.
CHAPTER 4: RESEARCH FINDINGS

4.0 Chapter Introduction
In this chapter the researcher will present the findings of data gathered from primary sources which are mainly unstructured interviews. The data was analyzed according to the respondent’s position as well as their role in the financial services sector. The same questions were presented to all the respondents based on five themes of Minimum Capital Requirements, Quality of Assets, Managerial Effectiveness, Earning and Liquidity. Secondary data was used to support the primary data sources.

According to Corbin and Strauss (2008) data analysis is an important and crucial process that requires the researcher to identify, name and label data for easy analysis. Analysis is done so as to identify similar traits in the data that can be used to make comparisons from other data gathered for the same objective. For the purposes of this research the researcher came up with five themes that assists in the grouping of data. The method provides rich data for analysis. However, although this study is about bank failure which is normally presented using quantitative method, the researcher adopted the qualitative method in this research although there are instances when data will be presented in figures to assist in data presentation and clarity.

4.1 Interviews Success Rate
Out of the (21) interviews expected to be conducted by the researcher a 100% response rate was attained for the total sample of the population. The population was made up of 21 respondents who were made up of (8) Regulators, (2) Independent Economic Analysts, (2) Curators and (9) Senior Bank Managers from both the Commercial and Merchant Banks.

The high success rate for the interviews was as a result of the methodology used by the researcher who resorted to the use of telephone interviews on most respondents. However, face to face interviews were conducted on some of the respondents. Furthermore, the telephone enabled the researcher to cover a wider geographical area as compared to face to face. The advantage of the use of in depth interviews is that the method is qualitative and is desirable for use when the researcher wants to explore the inner feelings of and experiences of the interviewee (2006, Boyce).
The success rate is indicated below:

### Table 4.1: Total Respondents Sample (21)

<table>
<thead>
<tr>
<th>Profiles</th>
<th>Target Respondents</th>
<th>Successful Interviews</th>
<th>Rate of Response as a Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Bankers</td>
<td>9</td>
<td>9</td>
<td>100%</td>
</tr>
<tr>
<td>Regulators</td>
<td>8</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>Independent Economic Analysts</td>
<td>2</td>
<td>2</td>
<td>100%</td>
</tr>
<tr>
<td>Curators</td>
<td>2</td>
<td>2</td>
<td>100%</td>
</tr>
</tbody>
</table>

The analysis of Table 4.1 results above indicates a large pool of respondents with knowledge about the Banking Industry and this is complimented by the use of Independent Economic Analyst and the Curators who are directly involved in the management of challenged banks.

### Table 4.2: Respondents Experience

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Years</th>
<th>Frequency</th>
<th>Experience as a %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0-4 years</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>2</td>
<td>5-10 years</td>
<td>11</td>
<td>52%</td>
</tr>
<tr>
<td>3</td>
<td>11-15 years</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>4</td>
<td>16 and above years</td>
<td>5</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The result in Table 4.2 above indicates that the majority of the respondents have more than 5 years’ experience in banking. This clearly shows that above half of the respondents have the necessary experience to adequately respond to the questions on risk analysis of the financial institutions that have failed. Their qualifications and experiences coupled with knowledge of bank products was noted to be invaluable.
The majority of the interviewees were Senior Bank Managers who represent a total of 42% of all the respondents. The Bank Examiners who have been categorized as regulators had the second largest sample size of 28%. Two Bank Economists who fall under regulators constitutes the other 10% whilst the remaining 20% is shared equally between the Independent Economic Analysts and the Curators.

4.2 Qualifications

![Fig 1: Qualifications of Respondents](image-url)
From the above diagram it is clear that 90% of the respondents hold a minimum qualification of a degree whilst 10% have a professional qualification. This is an indication that the respondents are experts in banking and finance. They articulate and are conversant with risk management principles and issues affecting the industry. The same can be said about the Independent Economic Analysts and the Curators.

4.3 Minimum Capital Requirements

On whether bank failure was as a result of the inability to raise the minimum capital requirements 60% of the responses supports the claim that the minimum capital requirement caused banks to fail. However, 40% did not support the claim as evidenced in Fig 2 as indicated below:

![Fig 2: Minimum Capital Requirements Causing Bank Failure](image)

The Bankers and the Regulator did support the notion that bank failure is as a result of the inability of banks to raise the minimum capital levels. Indications are that by 31 December, 2013 31% of banks had failed to meet the deadline of US $25 million. Although 69% had met the December 31, deadline. The secondary data presented by the regulator on the status of failed banks (5) out of (7) of the banks that were closed during the period under review had failed to raise the capital levels.
Genesis, Royal, Barbican and Interfin had failed to raise the minimum levels. Although, Trust, Genesis, Royal and Interfin had managed to raise the initial minimum capital requirement of US$6.250 million as at 30 September, 2009 they failed to raise US$12.5 million set as at 01 January, 2011. Barbican failed to raise the initial amount of US$6.250 million and Royal Bank was noted to be undercapitalized to the tune of US$1.85 million, (RBZ Press Statement 2012).

**Table 4.4: Minimum Capital Requirements as an Indicator of Bank Failure as at 30/09/09 to 30/06/11 for Banks in Zimbabwe.**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Capital in (US$) as at Nov 2009</th>
<th>Minimum Capital Required (US$) 30.09.09</th>
<th>Declare Core Capital 30 June 2011(US$)</th>
<th>Required Minimum Capital (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commercial Banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banc ABC</td>
<td>16,627,431.53</td>
<td>6,250m</td>
<td>30,090,587.02</td>
<td>12.5m</td>
</tr>
<tr>
<td>Stanbic</td>
<td>11,147,162.00</td>
<td>6,250m</td>
<td>31,040,475.28</td>
<td>12.5m</td>
</tr>
<tr>
<td>Met Bank</td>
<td>10,987,666.35</td>
<td>6,250m</td>
<td>18,210,304.00</td>
<td>12.5m</td>
</tr>
<tr>
<td>MBCA</td>
<td>8,337,783.25</td>
<td>6,250m</td>
<td>16,648,731.90</td>
<td>12.5m</td>
</tr>
<tr>
<td>TN</td>
<td>6,269,150.23</td>
<td>6,250m</td>
<td>13,676,775.81</td>
<td>12.5m</td>
</tr>
<tr>
<td>Allied</td>
<td></td>
<td></td>
<td>(14,391,244.48)</td>
<td>12.5m</td>
</tr>
<tr>
<td>Premier/Ecobank</td>
<td>8,301,558.65</td>
<td>5,m</td>
<td>8,716,234.79</td>
<td>12.5m</td>
</tr>
<tr>
<td>Trust</td>
<td></td>
<td></td>
<td>13,409,981.91</td>
<td>12.5m</td>
</tr>
<tr>
<td>Royal</td>
<td></td>
<td></td>
<td>1,006,460.48</td>
<td>12.5m</td>
</tr>
<tr>
<td>Barbican</td>
<td></td>
<td></td>
<td>12.5m</td>
<td></td>
</tr>
<tr>
<td>CFX</td>
<td>8,928,087.00</td>
<td>6,250m</td>
<td>12.5m</td>
<td></td>
</tr>
<tr>
<td><strong>Merchant Banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tetrad</td>
<td>8,555,783.36</td>
<td>5,m</td>
<td>10,812,345.74</td>
<td>10m</td>
</tr>
<tr>
<td>Genesis</td>
<td>5,000,689.56</td>
<td>5,m</td>
<td>(525,537.11)</td>
<td>10m</td>
</tr>
<tr>
<td>Renaissance</td>
<td>5,169,556.18</td>
<td>5,m</td>
<td>18,253,27.77</td>
<td>10m</td>
</tr>
<tr>
<td>Interfin</td>
<td>5,231,021.08</td>
<td>5,m</td>
<td>18,253,27.77</td>
<td>10m</td>
</tr>
</tbody>
</table>

*Source: (RBZ MPS 2010 &2011)*
The sample on the table 4.4 reveals that in 2009 none of the banks from the sample failed to meet the minimum capital levels as at September 2009. However on June, 2011 (7) banks failed to meet the deadline to have complied with the requirement of US$12, 5 million for Commercial Banks and the Merchant Banks had to pay US$10 million. The total was made up of (5) Commercial Banks and (2) Merchant Banks. The banks that failed to raise the money are Allied/ZABG Bank with US$ (14,391,244.48) million, Premier/Ecobank had US$8, 716,234.79 million, Royal with US$1, 006,460.00 million, Barbican and CFX had no balance as at 30 June 2011. Renaissance and Genesis Bank all Merchant Banks failed to meet the minimum capital levels. It is shown from the data that Genesis Investment Bank had a negative net capital of US $(525,537.11). All the Banks that failed to meet the minimum capital requirement levels had a core capital which was under the levels set by the regulator

Table 4.5: Non Compliance to Capitalization as an indicator of bank failure Dec 2013

<table>
<thead>
<tr>
<th>Item</th>
<th>Institution</th>
<th>Level of Capitalization in US$ Dec 2013</th>
<th>Capital Required US$ Dec 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commercial Banks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Banc ABC</td>
<td>38.42 million</td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>2</td>
<td>Stanbic</td>
<td>45.62 million</td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>3</td>
<td>Metropolitan Bank (Met Bank)</td>
<td>17.70 million</td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>4</td>
<td>Interfin (curatorship 2012)</td>
<td></td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>5</td>
<td>MBCA</td>
<td>27.14 million</td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>6</td>
<td>TN Bank</td>
<td>26.90 million</td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>7</td>
<td>ZABG/Allied</td>
<td>15.80 million</td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>8</td>
<td>Premier/Ecobank</td>
<td>28.18 million</td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>9</td>
<td>Trust (closed 2013)</td>
<td></td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>10</td>
<td>Royal (closed 2012)</td>
<td></td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>11</td>
<td>Barbican (closed 2012)</td>
<td></td>
<td>25,000,000.00</td>
</tr>
<tr>
<td>12</td>
<td>CFX (2009)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Merchant Banks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Tetrad</td>
<td>25.19 million</td>
<td>20,000,000.00</td>
</tr>
<tr>
<td>2</td>
<td>Genesis(closed 2012)</td>
<td></td>
<td>20,000,000.00</td>
</tr>
</tbody>
</table>
A closer analysis of Table 4.5 above although not supported by some of the primary data from interviews indicates that there were (5) banks that had not complied with the RBZ minimum capital requirement levels as at 2013 of US$ 25 000 000.00. The banks are Metbank US$ 17.70 million, Interfin, Allied US$15.80 million, Genesis, and ReNaissance US$ 7.5 million. 60% of the totals were Commercial Banks whilst 40% of the banks were Merchant Banks.

An analysis from the above Table 4.5 indicates that although some banks managed to raise the minimum capital requirement levels set by the regulator, the majority of the banks found it difficult to do so. Indications are that the banks that were most affected were locally owned and locally controlled. This clearly supports the responses attained from primary data where some respondents indicated that foreign owned banks had better governance structures and that the banks received financial backing from their parent banks when need arises. This is not the case with locally owned banks who struggle to meet the minimum capital requirement levels as they lack the financial support. This is clearly revealed by the fact that none of the foreign owned banks in the sample failed to meet the minimum capital levels. The banks that are foreign owned are Stanbic bank which is a subsidiary of Standard Bank International and is 100% foreign owned, MBCA and Banc ABC.

Table 4.5 also reveals that (6) banks managed to meet the minimum requirement levels before the due date and (3) banks failed to meet the deadline of December, 2013. (7) Banks were closed before December, 2013. It is clear that there were banks struggling to meet the capitalization levels. These are Metropolitan Bank, ZABG/Allied and Renaissance/Capital as of 31 December, 2013. Whilst on the other hand banks like Stanbic bank and Banc ABC, Ecobank and MBCA fared well with amounts of US$45.62 million, US$38.42million and US$27.14 million. This supports the view that they are all foreign owned and hence receives financial backing from the parent banks when need arises.

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Capital</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Renaissance/Capital</td>
<td></td>
<td>7.5 million</td>
</tr>
<tr>
<td></td>
<td>Discount House of Zimbabwe</td>
<td></td>
<td>20,000,000.00</td>
</tr>
</tbody>
</table>

*Source: compiled by author from secondary data*
4.4 Capital as a Determinant of Bank Failure

The responses on whether capital was a determinant of bank failure during 2009 to 2013.

Fig 3: Response to Capital as a Determinant of Bank Failure

It indicates that capital was a determinant of bank failure. 90% of the responses agreed although 10% disagreed. This is supported by secondary data as Interfin was reported to have had a negative capital of US$ (-92, 9) million upon its closure (Business Reporter, 17 June 2012)

The Curators and the Independent Economic analysts did agree that capital was a determinant of bank failure, they however pointed out that although capital had a significant impact on the operations of the banks during 2009 to 2013 there were other contributing factors like lack of capital inflows that affected businesses in Zimbabwe. An Independent Economic Analyst bemoaned lack of investment as being caused by government policies as he notes ‘Zimbabwe’s financial problems over the period needed inflows to all the businesses affected by the economic downturn since 2000, but government policies prevented investors from making the needed commitments’. Asked to clarify further the respondent cited the government policy of
indigenization of banks that scares away potential investors. It was evident that the uncertainty brought about by the law and the effects to the investors was not known. The Curator in support mentioned that the economic environment as well as government policies had a role to play in some bank failure during the period 2009-2013.

During probing it was learnt that the Curators and the Independent Economic Analysts were certain that capital was a major determinant of bank failure as the banking industry faced serious liquidity challenges. It was noted that banks needed liquid capital more than ever before, especially during 2009 as the country adopted the multicurrency regime. In support of the Senior Bank Managers who noted the importance of capital as a key factor in all the sectors of the economy including banking, emphasis was made on the role capital plays in banks ‘*Capital was vitally important, but inflows of capital depend upon investor confidence, unfortunately, all investors expressed lack of confidence in Zimbabwe*’ This notion is also shared by the regulator who notes that sound capital instils confidence, as an investor expects a return on investment. Commenting on the importance of capital in the banking sector one regulator maintained that a large capital outlay acts as a buffer in times of financial challenges hence cushions the bank against losses.

During the course of the interview it was observed that the introduction of the multicurrency affected the capital levels of banks thereby incapacitated banks’ ability to underwrite huge businesses. However one Senior Bank Manager revealed that although capital was an important determinant of bank failure during the period under review it was however, the regulatory oversight that was compromised as most Senior Regulators were heavily borrowed from the banks they were supervising, thereby compromising their role of monitoring the banks. Emphasizing the role played by capital, almost 90% of the senior bank managers interviewed from commercial banks admitted that if enough capital was available during the time under review some banks could not have failed as operational losses could have been absorbed. On further inquiry, the bankers revealed that most of the banks’ capital went to zero after dollarization save for fixed assets like buildings which were not easy to liquidate.

It was concluded that corporate governance had a role to play in the failure of banks coupled
with poor credit policies and weak procedures in banks ‘capital was one of the contributing factors to the bank failure, but other factors like poor credit policies and procedures, market dynamics, insider loans, poor corporate governance and poor risk management systems had an effect greater than capital’. Probed on how some banks survived during the same period when confidence was believed to be low. Most respondents indicated that foreign owned banks were financially stable as compared to the indigenous banks that had no parent company to help in times of need.

4.4.1 CAMELS Model

The CAMELS Model is a bank supervisory tool that help in analyzing the bank’s profitability and the model was used to test its applicability in determining bank failure using the current minimum requirement level of US$ 25 000 000, 00 as at December, 31, 2013. The data on the table will be used to analyze all the components of the model that is Capital adequacy, quality of assets, earnings and liquidity. The computation will help in understanding how bank failure can be determined using the Model. According to the International Best Standards non-performing loans should constitute not more than 5% of the total loan book. Another measure that is to be analyzed through the use of primary data is that of loan to deposit ration which should be below 25% of the entire deposits of the financial institution.

Table 4.6: Minimum Capital requirement levels as an Indicator of Bank Failure as at 31 December, 2013 in US $.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Net Capital as at Dec 2013</th>
<th>Minimum Capital at 2013</th>
<th>NPLs &lt;5%</th>
<th>Profits or (loss) in US $</th>
<th>Liquidity Ratio &lt; 25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank A</td>
<td>84,238,536.02</td>
<td>25,000,000.00</td>
<td>14,31%</td>
<td>14,051,231.14</td>
<td>36,02%</td>
</tr>
<tr>
<td>Bank B</td>
<td>8,741.373.09</td>
<td>25,000,000.00</td>
<td>53,75%</td>
<td>(7,813,860.19)</td>
<td>19,64%</td>
</tr>
<tr>
<td>Bank C</td>
<td>39,685.322</td>
<td>25,000,000.00</td>
<td>8,09%</td>
<td>939,916.00</td>
<td>59,21%</td>
</tr>
<tr>
<td>Bank D</td>
<td>(233,562.86)</td>
<td>25,000,000.00</td>
<td>98,50%</td>
<td>(10,252,514.39)</td>
<td>0,86%</td>
</tr>
<tr>
<td>Bank E</td>
<td>32,707,659.00</td>
<td>25,000,000.00</td>
<td>2,73%</td>
<td>3,990,910.00</td>
<td>74,54%</td>
</tr>
<tr>
<td>Bank F</td>
<td>49,973,871,32</td>
<td>25,000,000.00</td>
<td>43,97%</td>
<td>1,492,005.91</td>
<td>25,78%</td>
</tr>
<tr>
<td>Bank G</td>
<td>68,057,120,27</td>
<td>25,000,000.00</td>
<td>7,74%</td>
<td>18,310,465.10</td>
<td>49,95%</td>
</tr>
<tr>
<td>Bank H</td>
<td>63,412,984.71</td>
<td>25,000,000.00</td>
<td>12,99%</td>
<td>(41,549,483.16)</td>
<td>62,82%</td>
</tr>
<tr>
<td>Bank I</td>
<td>17,013,497.62</td>
<td>25,000,000.00</td>
<td>36,36%</td>
<td>(21,134,164.49)</td>
<td>14,60%</td>
</tr>
</tbody>
</table>
Tabulation compiled using primary data clearly shows that as at 31 December, 2013 there were only (6) banks that had managed to meet the deadline for the minimum capital requirements as set by the regulator. This figure represents a 60% of the entire population. The remainder which is represented by 40% is made up of banks that failed to meet the December 31 deadline. Further analysis shows that 80% of those on the upper half representing Commercial Banks did meet the set date. However, if closely analyzed the data reveals a pattern that indicates that the banks in second lower strata might have faced some challenges in coming up with the set capital levels. This is indicated by the fact that none of the banks had enough capital at hand before the due date. This could also reveal some hidden pattern as to the size and nature of the risk the bank is exposed to which might need further analysis.

Bank K, L and D have the highest chances of failing. Indications are that the most vulnerable bank is Bank K with a net negative capital of US$ (21,740,988.00), Bank L US$ (6,415,733.22) and Bank D US$ (233,562.86). It is evident that all the banks had a negative net income and have not met the minimum capital requirement level of US$25million as at December, 2013.

4.4.2 Importance of Mergers and Acquisitions
On the claim that some banks during 2009 to 2013 failed to merge or acquire shareholding partners so as to raise the minimum capital requirements. The diagram below shows the responses to the importance of Mergers and Acquisitions in any economy.
Fig 4: Importance of Mergers and Acquisitions

To gain an insight into the reasons why some mergers failed to come to fruition even though promises were bright, interviewees revealed that weak balance sheets scared away the potential partners. Mergers could have eased the situation by delaying the collapse of some banks that failed to raise the minimum capital levels. However, it was noted that distrust among partners did prevent mergers to take off. Most Senior Bank Managers noted that generally fear by the executives to lose power and to be diluted prevented mergers. Some of the reasons identified on the question of mergers were that of banks seriously undercapitalized, hence could not attract partners to contribute the much needed capital. It was found out that the competitive environment left smaller banks vulnerable as they could not compete aggressively against big and well established banks.

It was noted that different, diverse business cultures as well as different strategic focus affected the smaller banks from getting business partners. The majority of the Regulators admitted that ‘some banks were run like tuck shops’. Hence the involvement of a partner would have met challenges especially from owner managed banks who did not want to merge with other banks. It came out clearly that most banks did not look for partners until the situation was bad. One regulator likened the situation to ‘hen and egg situation’ where one does not understand which should come first the merger or problem.
4.4.3 Quality of Assets

On the question of the right asset quality measure that is acceptable to prevent bank failure

It was found out that 5% is the acceptable asset quality measure for banks in line with the International Best Practice. Asset quality is an important measure that can be used to determine the performance of the bank, hence the need to have the right measure and the right quality. Curators, regulators and Senior Bank Managers revealed that non-performing loans should not exceed 5% of the total loan book. The 5% threshold was noted to be the right asset quality measure in banks globally as set by the Best International Practice. It was observed that non-performing loans causes bank failure, hence the regulators believed that asset quality should have been monitored closely during the period 2009 to 2013. This was noted by 63% of the regulators who mentioned that 5% has been adopted internationally as the standard by the Basel Committee. Basel Committee is a group of Central Banks that promotes the good governance of banks through regular review of systems and procedures for Central Banks to enhance supervision. 5% was supported by, both the independent economic analysts and some senior bank managers. Correct and proper valuation of the assets was found to be important to avoid the increase in non-performing loans. This was supported in the presentation of the Monetary
Policy where non-performing loans to total loans Ratio had deteriorated to 15.92% in the banking sector for the year ending 2013 (RBZ, Monetary Policy 2014)

**Table 4.7: Asset Quality measure in regional countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Zambia</th>
<th>Tanzania</th>
<th>Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset quality</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Source: author’s compilation*

Generally, above half of the interviewees indicated that the acceptable levels of asset quality should be 5% and it should act as the guideline for asset quality measure in financial institutions. Senior Bank Managers supported the 5% threshold which leads to the reduction of non-performing loans in banks.

Non-performing loans were noted to be behind most bank failures in Zimbabwe as the respondents recommended the eradication of non-performing loans through stress testing and a reduction of insider loans. Interviewees were asked as to the reason why banks in Zimbabwe fail despite adopting Basel International Standards. It was indicated that most banks that failed during the period under review had non-performing loans that went up as high as 24% against performing loans of about 2, 2% as highlighted by one respondent during the interview who cited the Renaissance Scandal of 2011.

All the banks closed during the period under review indicates that they had high levels of non-performing loans. Royal Bank was reported to have US$ 146,916.91 insider and non-performing loans. Non-performing loans are reported to be an important indicator of bank failure. High levels of non-performing loans can have the potential to bring down a bank. Interfin was reported to have had non-performing loans amounting to US$60 million and US$44, 342 million insider loans as at June 8, 2012 (Business Reporter, 17 June, 2012).

According to the RBZ Monetary Policy Statement (2014) insider loans had a total of US$175, 3million and of this figure which constituted 66% amounting to US$117, 4 million were non-performing loans. It was also revealed that most Commercial Banks had the highest average non performing loans of 15.34% as at 31 December 2013. The secondary data supports results of data
compilation for the year 2013 which indicates that some banks had non performing ratios of 98.50% which is far above the recommended 5% loans to total loan ratio recommended by the Best International Practice Standard. The data when compared to the non-performing loans percentage of ReNaissance bank of 24%. It is evident that the banks had faced financial challenges as the bank’s loan book was even higher than the net capital. The concentration of the non-performing loans is skewed on the Commercial Bank which is supported by the secondary data that Commercial Banks had the highest average of non-performing loans from the entire banking sector.

Table 4.8: Non performing loans as an indicator of Bank failure

<table>
<thead>
<tr>
<th>Institution</th>
<th>Net Capital as at Dec 2013</th>
<th>Minimum Capital at 2013</th>
<th>NPLs &lt;5%</th>
<th>Profits or (loss) in $USD</th>
<th>Liquidity Ratio &lt; 25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank A</td>
<td>84,238.536.02</td>
<td>25.000.000.00</td>
<td>14,31%</td>
<td>14,051,231.14</td>
<td>36,02%</td>
</tr>
<tr>
<td>Bank B</td>
<td>8,741.373.09</td>
<td>25.000.000.00</td>
<td>53,75%</td>
<td>(7,813,860.19)</td>
<td>19,64%</td>
</tr>
<tr>
<td>Bank C</td>
<td>39,685.322</td>
<td>25.000.000.00</td>
<td>8,09%</td>
<td>939,916.00</td>
<td>59,21%</td>
</tr>
<tr>
<td>Bank D</td>
<td>(233,562.86)</td>
<td>25.000.000.00</td>
<td>98,50%</td>
<td>(10,252,514.39)</td>
<td>0,86%</td>
</tr>
<tr>
<td>Bank E</td>
<td>32,707,659.00</td>
<td>25.000.000.00</td>
<td>2,73%</td>
<td>3,990,910.00</td>
<td>74,54%</td>
</tr>
<tr>
<td>Bank F</td>
<td>49,973,871,32</td>
<td>25.000.000.00</td>
<td>43,97%</td>
<td>1,492,005.91</td>
<td>25,78%</td>
</tr>
<tr>
<td>Bank G</td>
<td>68,057,120.27</td>
<td>25.000.000.00</td>
<td>7,74%</td>
<td>18,310,465.10</td>
<td>49,95%</td>
</tr>
<tr>
<td>Bank H</td>
<td>63,412,984.71</td>
<td>25.000.000.00</td>
<td>12,99%</td>
<td>(41,549,483.16)</td>
<td>62,82%</td>
</tr>
<tr>
<td>Bank I</td>
<td>17,013,497.62</td>
<td>25.000.000.00</td>
<td>36,36%</td>
<td>(21,134,164.49)</td>
<td>14,60%</td>
</tr>
<tr>
<td>Bank K</td>
<td>(21,740,988.02)</td>
<td>25.000.000.00</td>
<td>93,15%</td>
<td>(14,128,652.45)</td>
<td>5,71%</td>
</tr>
<tr>
<td>Bank L</td>
<td>(6,415,733.22)</td>
<td>25.000.000.00</td>
<td>96,99%</td>
<td>(11,287,464,70)</td>
<td>1,51%</td>
</tr>
</tbody>
</table>

Source: author’s own compilation

Computations done by the researcher supports the findings from secondary data that a high non-performing loan ratio can be used to determine bank failure. Asset quality forms the most risk asset of the bank. Data indicates an important trend for the asset quality which is a key indicator as a percentage or threshold for the non-performing loans. According to the
International Best Practice non-performing loans should not constitute more than 5% of the total loan book size. A figure above 5% has been noted to affect the viability and efficiency of the bank. Hence the need to monitor and maintain non-performing loans at the required levels.

An analysis indicates that most of the banks had non-performing loan percentages far above 5%. Investigations have revealed that asset quality is the first indicator that shows that the bank is facing challenges. The sample indicates that Bank E was the only bank that had an asset quality measurement that was below 5%. This clearly represents a 10% percentage point of compliance by the banks. 90% are not compliant hence they do not meet the International Best Practice Standards which shows that they are not in compliant with the regulation. The asset quality is ranging from as low as 2, 73% to as high as 98.50% which is clearly a huge margin. Although there are a few banks that are slightly above 5% the effect and the impact of such actions by the banks is negligible as compared to those whose non-performing loans are as high as 98.50%. High non-performing assets causes the bank to face serious liquidity challenges as indicated.

An analysis of individual banks using the asset quality measure clearly indicates that the banks with poor asset quality, non performing loans that have the highest figure are Bank D, Bank L, Bank K and Bank B. They have non-performing loan ratios which are way above the 5% standard measure. Bank D has 98.50%, Bank L 96.99%, Bank K 93.15%, and Bank B with 53.75%.

### 4.3.1 Size of Loan Book

<table>
<thead>
<tr>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>60%</td>
<td>40%</td>
</tr>
</tbody>
</table>
Fig 6: Impact of Loan Book Size

Respondents’ views on the size of loan book

A loan book is a representation of the size and nature of business the bank can handle. Loans to deposit ratio is normally used as a performance indicator of the bank’s performance. One Curator recommended not more than 50% total loans to deposit ratio as the internationally recommended ratio to analyze the performance of the loan book in banks. The view was supported by the Senior Bank Managers who identified loans to deposit ratio as a good measure of bank performance. All Senior Bank Managers strongly agreed that the loan book became too big during 2009 to 2013 and they attribute this to some bank senior managers who set performance targets for the junior loan officers whilst compromising the quality of loans as well as the quality of borrowers.

The Independent Economic Analysts believed that the problem of maintenance of the loan book largely depended on the performance of the economy. Noted was the high inflation rate of 2008 which affected the economy prior to the adoption of the multi-currency in Zimbabwe. The poor performance of the economy affected the ability of the borrowers to meet their loan obligations to the banks. This created a huge gap in banks which were left with a big share of the loan book that was not performing.

It was recommended that banks should not deviate from procedures and policies to avoid negative consequences and compromising the efficiency of the banks. The lack of aggressive loan recovery plans contributed to banks failing during the period 2009 to 2013.

The regulators agreed with the Curators, and the Senior Bank Managers that the loan book was not in line with the risk appetite of the bank. Revelations were made that proper identification, measurement and monitoring of risk had lacked during 2009 to 2013 resulting in high non-performing loan books. During the period under review origination and credit management systems lacked in banks and as such affected the bank financial position the banks.
4.3.2 Effects of Non-Performing Loans

Fig 7: Responses to Effect of Non-Performing Loans

In response to how non-performing loans affected the soundness of the banks in Zimbabwe. A total of 95% responses indicated that non-performing loans affected the soundness of the banks during 2009 and beyond whilst 5% denied the effect of non-performing loans. They noted that during the period under review depositors’ confidence was highly eroded and one respondent described the effect of non-performing loans as a ‘cancer that slowly waste away banking institutions in Zimbabwe’ as high levels of non-performing loans affected the bank’s capital.

The majority of the Senior Bank Managers agreed that the problem of bank failure was caused by non-performing loans as they were granted on a personal basis without following the proper risk management procedures. It was established that most of the loans were insider loans and related party lendings. Non performing loans’ effect during 2009 to 2013 was negative as they eroded the bank’s earnings, deposits and capital. It was noted that assets and liabilities were mismatched due to the effects of non-performing loans hence increased legal and compliance risk.
4.3.4 Managerial Effectiveness

The indicators for managerial effectiveness among them is the number of meetings held by the board, senior management and board composition as well as separation of power. The reason being that for the board and management to be effective they hold regular meetings. The board and senior management also set ethical foundations for the bank whilst at the same time they are expected to formulate risk management frameworks through effective internal control of systems. This is done through the Vision, Mission Statement and Values which have to be cascaded to all employees to ensure uniformity as well as encourage separation of power which was not the case during the period under review as highlighted above.

The importance of board meetings cannot be over emphasised. One of the board’s core functions is to give guidance and direction for the operations of the bank by ensuring that the bank remains loyal to its mandate of service provision to its clients and shareholders. This is achieved through the procedures and plans of action which have to be adhered to at all times.

Fig 8: Response to Managerial Effectiveness

The indicators for managerial effectiveness among them is the number of meetings held by the board, senior management and board composition as well as separation of power. The reason being that for the board and management to be effective they hold regular meetings. The board and senior management also set ethical foundations for the bank whilst at the same time they are expected to formulate risk management frameworks through effective internal control of systems. This is done through the Vision, Mission Statement and Values which have to be cascaded to all employees to ensure uniformity as well as encourage separation of power which was not the case during the period under review as highlighted above.

The importance of board meetings cannot be over emphasised. One of the board’s core functions is to give guidance and direction for the operations of the bank by ensuring that the bank remains loyal to its mandate of service provision to its clients and shareholders. This is achieved through the procedures and plans of action which have to be adhered to at all times.
4.4.1 Frequency of Meetings

10% of the responses indicated that 2009 and the early part of 2010 had the highest number of meetings held by the bank boards and senior management. The economy was facing challenges at the time and the banks had adopted the multicurrency. The need to continuously meet and strategize was noted to be the reason for the high frequency of the meetings. The trend changed after 2010 with board meetings decreasing as the economy had stabilized. However, it was revealed through investigations that these meetings were dominated by a few individual owners who had unfretted powers and hence made decisions without consulting the minority shareholders.

It was continuously highlighted during the course of the interview by the Senior Bank Managers that locally owned banks board meetings lacked strategic focus. The board did not appreciate the importance of the role they play of giving direction, oversight and the protection of the shareholder’s interest by setting legal framework structures and compliance to procedures.
4.3.6 Composition of the Board

Investigations revealed that board composition in most banks were dominated by owner managers who had undue influence. 85% of the respondents confirmed that the board was dominated by owner managers whilst 15% denied the assertion. During the interviews the respondents highlighted the increased abuse of the depositor’s funds and unsecured party lendings. The respondents highlighted the none existence of non-executive directors in failed banks. Senior Bank Managers noted that in banks which had non-executive directors’ their role was to rubber stamp decisions made by owners during the period under review. Poor corporate governance were noted to have caused the problems at Interfin as Mr Rwodzi, Chiganze and Tsodzai had a combined shareholding of 51, 24 %. This was not in line with the RBZ Corporate Governance guideline requirements that stipulates that one should have not more than 10% shareholding in the bank for him to be part of management. ReNaissance Mr Timba owned 70% shares at RFHL in violation of RBZ Corporate Governance Guideline 01-2004/BSD. On the question of owner managed shareholding structures having contributed to bank failure during 2009 to 2013. The diagram illustrates this point.
4.3.7 Shareholding Structure Contributing to Bank Failure

Fig 11: Response to the Contribution of Shareholding Structures to Bank Failure

90% confirmed that owner managed shareholding structures contributed to bank failure. However, 10% did not agree. It was highlighted by one banker that owner managers forced the banks to accept bad loans as the owner managers sat virtually on all board committees. A case cited was that of Royal Bank where, Mr Mzwimbi made most of the decisions alone (RBZ Press Statement 2010).

Further probing indicated that some of the respondents felt that during 2009 to 2013 overbearing influence by owners was significant and it was revealed that owner managed banks had statistically the highest number of bank failures as compared to the foreign owned Banks. During 2009 to 2013 noted was the abuse of power by owner managers who exercised a lot of power to influence decisions in bank boards with the mentality ‘it’s my bank and no one can challenge me’ syndrome eventually caused some banks to fail.
4.3.8 Separation of Chairmanship Role

![Bar Chart: Response to Separation of Chairmanship Role]

95% and 5% of the interviewees indicated that the separation and segregation of duties of the chairmanship and the Chief Executive Officer’s role was among one of the major causes of bank failure during 2009 and 2013.

The scandals that were highlighted were that of Interfin and Renaissance banks who abused depositors’ funds and insider related party lending as there was no separation of roles. It was revealed that Mr Chiganze and Mr Rwodzi chaired both the Bank and the Interfin Financial Services Board (RBZ Press Statement 2012).

It was highlighted that failure to separate the roles had a negative impact on the performance of banks that failed during the period under review. The power was vested in a single individual who made all the decisions without the involvement of the board or other senior managers. The roles of the Chief Executive Officer and the Finance Director were noted to be handled by a single individual. The scenario gave rise to abuse of power, hence the increase in the number of non-performing loans to inter related parties.
4.3.9 Monitoring and Supervision by Central Bank

The monitoring of banks and supervision of banks is the sole responsibility of the Regulator who is mandated by law to ensure the protection of the depositor’s funds and compliance. The main indicator for monitoring is the number of on-site and off-site examinations. This is measured by the number of visits by the regulator. Investigations conducted throughout the interviews indicated that the regulator has been religiously carrying out the random checks and visits on banks. A 90% response indicated that the visits were done frequently whilst 10% did not agree.

The regulators indicated that they closely monitored the banks that showed signs of stress, hence they were able to detect the challenges faced by the banks on time. However, concerns were raised on the conduct of the regulators as a Senior Bank Manager noted that the regulator did not take a proactive position during 2009 to protect the depositors and notes ‘*it remains important that the Central Bank could have done better by taking proactive positions once they detected the problems. Central Bank always left things too late*’.

A few bankers noted the lack of good corporate governance structures in banks. Highlighted was the overbearing influence by the owner managers as having had a negative effect on the banks.
financial positions at the time under review. One of the respondents mentioned that poor governance structures were the cause of bank failure and notes ‘the failure was mainly attributed to poor corporate governance where insider lending, related party lending was rampant coupled with poor liquidity management. The RBZ raised capital requirements in phased approach thus giving banks adequate time to raise capital’. Poor liquidity management systems were found to have contributed to the challenges of raising the minimum capital levels. Lack of good corporate governance as highlighted in the reports (RBZ Press Statement 2012 & 2013) for all the five banks had weak governance structures.

4.5 Effects of Low Earnings

The indicator for earnings is the profitability levels of banks. Earnings are important to the bank as indicated by the responses which was 100% in support of the fact that earnings had an effect on the banks performance. It was noted that during 2009 to 2013 the banks that failed, faced serious liquidity challenges hence the banks’ earnings dropped. Losses recorded led to bank failures. The regulators noted that low earnings were a result of non-performing loans which subsequently eroded the capital levels of banks. It was also highlighted that earnings affects asset quality and results in small business growth. Another regulator noted that poor earnings lead to bank closures and liquidations as the banks failed to meet their operational costs. Low income was noted to result in lack of investment as the capital levels were affected. However, it was noted that the macro and micro economic factors had an impact on the performance of all banks in Zimbabwe. The socio-political and economic environment was identified as one of the key determinant in the performance of the bank during 2009 to 2013. Unfavourable macro-economic environment had negative effects on the ability of the banks to generate income.

Table 4.9: Low Earnings as an Indicator of Bank Failure

<table>
<thead>
<tr>
<th>Institution</th>
<th>Net Capital as at Dec 2013</th>
<th>Minimum Capital at 2013</th>
<th>NPLs &lt;5%</th>
<th>Profits or (loss) in $USD</th>
<th>Liquidity Ratio &lt; 25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank A</td>
<td>84,238,536.02</td>
<td>25,000,000.00</td>
<td>14,31%</td>
<td>14,051,231.14</td>
<td>36.02%</td>
</tr>
<tr>
<td>Bank B</td>
<td>8,741,373.09</td>
<td>25,000,000.00</td>
<td>53.75%</td>
<td>(7,813,860.19)</td>
<td>19.64%</td>
</tr>
<tr>
<td>Bank C</td>
<td>39,685,322</td>
<td>25,000,000.00</td>
<td>8.09%</td>
<td>939,916.00</td>
<td>59.21%</td>
</tr>
<tr>
<td>Bank</td>
<td>Earnings</td>
<td>Capital</td>
<td>Profit</td>
<td>Equity</td>
<td>Interest</td>
</tr>
<tr>
<td>-------</td>
<td>------------------</td>
<td>---------------</td>
<td>----------</td>
<td>-----------------</td>
<td>------------</td>
</tr>
<tr>
<td>Bank D</td>
<td>(233,562.86)</td>
<td>25,000,000.00</td>
<td>98.50%</td>
<td>(10,252,514.39)</td>
<td>0.86%</td>
</tr>
<tr>
<td>Bank E</td>
<td>32,707,659.00</td>
<td>25,000,000.00</td>
<td>2.73%</td>
<td>3,990,910.00</td>
<td>74.54%</td>
</tr>
<tr>
<td>Bank F</td>
<td>49,973,871.32</td>
<td>25,000,000.00</td>
<td>43.97%</td>
<td>1,492,005.91</td>
<td>25.78%</td>
</tr>
<tr>
<td>Bank G</td>
<td>68,057,120.27</td>
<td>25,000,000.00</td>
<td>7.74%</td>
<td>18,310,465.10</td>
<td>49.95%</td>
</tr>
<tr>
<td>Bank H</td>
<td>63,412,984.71</td>
<td>25,000,000.00</td>
<td>12.99%</td>
<td>(41,549,483.16)</td>
<td>62.82%</td>
</tr>
<tr>
<td>Bank I</td>
<td>17,013,497.62</td>
<td>25,000,000.00</td>
<td>36.36%</td>
<td>(21,134,164.49)</td>
<td>14.60%</td>
</tr>
<tr>
<td>Bank K</td>
<td>(21,740,988.02)</td>
<td>25,000,000.00</td>
<td>93.15%</td>
<td>(14,128,652.45)</td>
<td>5.71%</td>
</tr>
<tr>
<td>Bank L</td>
<td>(6,415,733.22)</td>
<td>25,000,000.00</td>
<td>96.99%</td>
<td>(11,287,464.70)</td>
<td>1.51%</td>
</tr>
</tbody>
</table>

*Source: author's own compilation from primary data sources*

Earnings in banks are represented by shareholders capital, ordinary shares, fees and equity and interest on loans. Profitability is important in banks as there is need to create confidence in the minds of the customers who entrust their money with the bank with the hope of earning a return. Table 4.9 shows that 6 out of the 11 banks had negative profit balance as at 31 December, 2013. The result indicates that the banks are not making a profit or if they are making profits they are not reinvesting them in the business to promote growth of the business.

The other reason could be that in the banking sector there is stiff competition for clients and high levels of non-performing loans hence the negative balances. However in the case of Bank H which has a huge core capital the banks’ negative balance may indicate a problem of poor management of non-performing loans. Although supported by a huge core capital the bank can fail any time as their capital position is not supportive of the business model hence they may not be able to match the available resources with the level of risk in the banking sector. Suffice to say that the banking environment is competitive and capital is a major ingredient for survival. The bank may not have financial stamina to withstand the harsh macro-economic environment brought about by globalization.

An analysis of balances on Table 4.9 using the CAMELS Model shows that the low earnings of a bank can determine bank failure. On the Table the banks that has the highest possibility of failure are those with a negative income on the profit column. According to the analysis using earnings, the banks that are highly likely to fail are Bank H, K, I, L, D and B. This is indicated by the
level of the losses incurred in order of size. The probability that Bank H fails is high despite the fact that Bank H has a positive net capital of US$ 63,412,984.71. Bank H has a negative balance (loss) which is negative US$ (41,549,483.16). Bank K with a (loss) of US$ (14,128,625.45), Bank L with (loss) US$ (11,287,464.70), Bank D with a (loss) of US$ (10,252,514.39) and the last bank to fail on the list is Bank B whose (loss) is US$ (7,813,860.19).

### 4.6 Effects of Low Liquidity

The indicator for liquidity is the loan to deposit ratio. The ratio best describes the effect loans have on the banks deposit base. The impact is that if too many loans are given out against a low deposit base it affects the performance of the bank. It was found out that liquidity affected the banks in Zimbabwe due to the deposits which were transitory in nature. The effect was that customers did not keep money in banks. Eventually the banks did not have money to invest. It was also found out that the macro-economic environment effect on most banks was negative. Generally the minimum liquidity ratio set by the Central Bank is 25% of the total deposits.

### Table 4.10: Loans to Deposit ratio as an Indicator of Bank Failure

<table>
<thead>
<tr>
<th>Institution</th>
<th>June 2009 L/D %</th>
<th>Total Deposits 2010</th>
<th>Loans to Deposit Ratio 2010</th>
<th>Total Deposits for 2011 $US</th>
<th>Loans to Deposit ratio 2011 $US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commercial banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banc-ABC</td>
<td>68.95%</td>
<td>34,918,905.02</td>
<td>68.95%</td>
<td>211,426,832.43</td>
<td>61.02%</td>
</tr>
<tr>
<td>MBCA</td>
<td>148.86%</td>
<td>41,192,768.16</td>
<td>125.44%</td>
<td>68,356,458.94</td>
<td>126.72%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>52.80%</td>
<td>10,343,685.60</td>
<td>55.42%</td>
<td>43,968,427.86</td>
<td>66.19%</td>
</tr>
<tr>
<td>Stanbic</td>
<td>14.68%</td>
<td>164,762,600.39</td>
<td>37.85%</td>
<td>296,587,046.17</td>
<td>33.90%</td>
</tr>
<tr>
<td>TN/ Steward</td>
<td>90.44%</td>
<td>15,021717.95</td>
<td>31.15%</td>
<td>53,844841.22</td>
<td>68.14%</td>
</tr>
<tr>
<td>ZABG/Allied</td>
<td>18.2%</td>
<td>11,182,941.84</td>
<td>29.87%</td>
<td>14,271,448.61</td>
<td>10.61%</td>
</tr>
<tr>
<td><strong>Failing banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royal</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Barbican Bank</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Trust Bank</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>CFX</td>
<td>53.65%</td>
<td>2,395,615.62</td>
<td>191.04%</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>
From above information it is indicated that in 2009 MBCA Bank had the highest loans to deposit ratio of 148.86%, Interfin 99.80%, TN/Steward 90.44% and Banc ABC 68.95%. In 2010 ReNaissance had 256.25%, CFX 191.04%, Tetrad 80.18%, MBCA 64.57% and Genesis 43.69%. Conclusions are that liquidity is a good indicator of bank failure as noted that all the banks that had a high liquidity ratio faced viability challenges. These are CFX in 2010, ReNaissance in 2011, Interfin in 2012 were put under curatorship. Some of the banks above have merged, these are TN/Steward, Econet took over the management from TN and rebranded the bank to Steward and ReNaissance had 84% stake bought by the National Social Security Authority in 2011. Genesis was closed in 2012. This is a clear indication that loans to deposit ratios has the ability to predict bank failures.

4.7 Summary of Findings

4.7.1 Minimum Capital Requirements

Findings from primary data gathered from Senior Managers and the regulator indicated that some banks failure during 2009 to 2013 was caused by the banks inability to meet the minimum requirement levels set by the regulator. It was noted that the type of capital needed for capitalization affected most banks. Response from Senior Bank Managers indicated that illiquid capital caused bank failures. Some banks presented illiquid capital which had land and property on the balance sheets. However, although buildings and property are regarded as capital these could not be used to generate more income through onward lending. Capital was identified as major determinant of bank failure during the period under study. Indications are that most banks
that failed had not succeeded in finding merging partners as their banks were undercapitalized and their balance sheets were poor.

In 2011 (6) banks failed to meet the minimum capital requirement level which was set at US$12,5 million. The banks are Allied/ZABG Bank, Premier/Ecobank, Royal, Barbican, ReNaisance, and Genesis.

In 2013 (5) banks failed to meet the minimum requirement levels set by the regulator which stood at US$ 25 million for Commercial Banks and US$ 20 million for Merchant Banks. However, the other two to make the number up to (7) are National Discount House of Zimbabwe and Interfin Securities which were closed for reasons not related to the inability to meet the minimum capital requirements. Banks that failed to meet the 2011 deadline of US$12.5 million and 10 million for Merchant Banks as at 30 June, were Allied banks US$ (14,391,244.48) million, Ecobank US$ 8,716,234.79 million, Royal US$ 1,006,460.48 million, Barbican US$ 0, Genesis US$ (525,537.11) and ReNaisance US$ 0. Findings are that Genesis, Royal and Barbican bank surrendered their banking licenses to the regulator in 2012 as they failed to raise the minimum capital level except for Interfin which had its license withdrawn by the regulator after gross misconduct was discovered. In 2013 (3) Banks failed to meet the minimum capital levels these are Met Bank US$ 17.70, Allied/ZABG US$ 15.80 million and ReNaisance/ Capital US$ 7.5 million and the benchmark was US$ 25 million and US$ 20 million for Commercial and Merchant Banks respectively.

The computation done reveals that in 2013 (5) banks failed to meet the minimum capital levels and the banks coded B, D, I, K and L. (3) banks are Commercial Banks whilst (2) are Merchant Banks.

4.7.2 Quality of Assets

Findings indicate that a ratio of 5% of the total loan book which is the International Best Standard Practice is acceptable by most banks as a standard measure. It was also noted that the loan book size is not important, but the quality of loans and borrowers. Another finding was that non-performing loans affected the profitability of the banks and that procedures were not being
adhered to. A large amount of non-performing loans were due to insider party related lending in most banks that failed. Computations done through the use of primary data shows that non-performing loans affects the bank’s performance.

Data gathered through secondary supports this notion as all the banks that were closed during the period under review were as a result of non-performing loans which were too high. Trust Bank had a non performing ratio of 99.29% against a loan book of US$2.62 million against the International Best Practice standard of 5% which affected the performance of the banks. Interfin Bank had non-performing loans amounting to US$60 million.

Findings are that non-performing loans were high in failed banks as supported by respondents. Findings are that all the banks that failed had non-performing loan ratio of above 50%. Royal bank had 99.29% against a loan book of US$ 1, 52. Barbican as well had high non-performing loans during the period under study. Findings are that all the banks mentioned above had misrepresented their financial statement on the state of affairs to the regulator.

In the computation findings are that the banks that had the high non-performing loan ratios are D, L, K, F and B as at 31 December, 2013. The banks are D, L, K and B whose ratios are above the 5% standard measure. These are 98.50%, 96.99%, 93.15% and 53.75% respectively.

**4.7.3 Managerial Effectiveness**

Findings are that an average of one to two meetings were held by the board and senior management in most banks. Poor board and management over sight was noted as the boards failed banks did not formally meet since 2011. Failure to hold meetings by the board was in violation of Section 40 (1) of the Banking Act. It was also found out that the board did not formally meet to craft strategies and they did not have Audit, Legal Compliance and loans review committees. Findings revealed corporate governance deficiencies and poor liquidity planning on the part of the board and management.

Separation of ownership and control between Chief Executive and Executive director in line with RBZ Guideline of Corporate Governance was lacking. Findings revealed improper composition of the board.
The average number of meetings held ranged from one to two for the whole year. Findings indicates that in most cases two directors were directly involved in the approval of loans. At Royal Bank, Mr Mzwimbi was Director banking as well as the Chairman of the board which is in contravention of the RBZ guidelines on Corporate Governance No 01-2004/BSD

4.7.4 Effects of Low Earnings
Findings revealed that low earnings were recorded during 2009 to 2013 due to non-performing loans which were very high. It was noted that low earnings affected the ability of the banks to underwrite business as they did not have money. However, it was shown that the harsh economic conditions affected the banks especially the indigenous banks that had no support from international parent banks.

All the banks that failed during the period under review had cumulative losses which were affecting their viability. Secondary data indicates that Royal Bank had a loss of US$5.9million, whilst Trust had US$18 million as of June, 30, 2012 (RBZ Press Statement, 2012). The other issue that was highlighted that affected earnings was the lack of a strategic fit between the bank’s available resources and the business model which created a mismatch that resulted in banks not being able to match their operation income with costs incurred. It was noted through the discussions that banks could have streamlined their operations in line with the change in the macro-economic environment when the multicurrency was introduced

Findings are that earning affects the performance of a bank and its capital levels. Six (6) banks had balances indicating losses by 31 December, 2013. (4) of the banks are Commercial Banks whilst 2 are Merchant Banks. The banks are coded B, D, H, I, K and L had cumulative loses for 2013. They had US$ (7,813,860.19), US$ (10,252,514.39), US$ (41,549,483.16), US$ (21,134,164.49), US$ (14,128,652.45) and US$ (11,287,464.70) respectively. The losses eventually led to their downfall as the negative balance affected the banks viability.

4.7.5 Effects of Low Liquidity
The respondents indicated that liquidity affected deposits which were transitory in nature. Some
of the banks failed to pay their creditors on time. It was found out that liquidity ratios for most banks that failed were high. Findings reveal that Genesis, Interfin, ReNaissance and Tetr
did have high liquidity ratios for the period 2009 and 2010. ReNaissance had 256.25% loans to deposit ratio. Findings are that 4 of the banks that had high liquidity ratios during that period finally failed. It was also noted that lack of strategic fit between the business model and the available resources impacted negatively on the failed banks as some financial statements of banks were not healthy.

Findings are that in 2009 MBCA, Interfin, Steward had the highest loans to deposit ratios. However it can be noted that out of the 16 Banks 10 banks had their loans to deposit ration being above 50% loans to deposit ratio which is not recommended. In 2010 ReNaissance, CFX, MBCA, Tetr, Genesis and ReNaissance had the highest loans to deposit ratio.

Findings indicate that in 2009 MBCA Bank had the highest loans to deposit ratio of 148.86%, Interfin 99.80%, TN/Steward 90.44%. In the following year, 2010 ReNaissance had 256.25%, CFX 191,04%, Tetr 80,18%, Interfin 64.57% and Genesis 43.69%. In 2011 MBCA 126.72%, Genesis 109.32% and ReNaissance 104.07%.
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction
This chapter provides the thesis conclusions and recommendations. Summaries are based on the five themes in line with the CAMELS Model used in bank supervision by Central Banks. Recommendations are done in line with key conclusions and findings. In particular the recommendations are to help the Central Bank in improving the financial stability and market discipline in banks.

Summary of Conclusions
Due to the increased number of banks that had been failing over the years the Central Bank introduced minimum regulatory requirements for capital, liquidity and non-performing loans in Zimbabwe. This was aimed at improving the financial discipline within the banking sector. There was also the need to protect the depositor who was vulnerable as there were poor corporate governance structures in banks. This in turn affected the depositors’ confidence and faith they had bestowed on the banking system.

Propositions
The propositions were associated with the notion that minimum capital requirement and poor management principles were responsible for bank failures in Zimbabwe. This proposition was operationalized by answering the question: what effect did the regulatory requirements and management ineffectiveness have on bank failure in Zimbabwe during 2009 to 2013? This was done by the used of five indicators which were minimum requirement levels set by the Central Bank, Non-performing loans ratio, profitability levels of the bank and loans to deposit ratio through the use of the CAMELS Model. The effort was to build back the customers’ confidence in the use of the banking system which had been eroded. To attain the desired results the following objectives were propounded.

Objectives were to:-

- Investigate the effects of minimum capital requirement levels on bank in Zimbabwe.
- Assess the quality of assets in banks performance in Zimbabwe.
• Assess the effectiveness of management in banks.
• Ascertained the effect of low earnings on bank performance.
• Assess the effect of liquidity on bank’s performance in Zimbabwe.
CONCLUSION ABOUT RESEARCH ISSUES

5.1 Minimum Capital Requirements

5.1.1 Conclusions were that the banks failed to meet the minimum capital requirement levels mainly because of the absence of a strategic fit between the available resources and the business model of the subject of banking. It was also concluded that banks failed to meet the minimum requirement levels as the amount was too high especially for the indigenous banks that did not have support from foreign parent banks.

5.1.2 The availability of liquid capital was concluded to be important in the banking sector and capital was an important determinant of bank failure during the years 2009 to 2013. It was concluded that most banks that failed had capital in the form of properties and buildings which could not be used for onward lending hence most banks that failed did not have liquid capital. It was also concluded that capital could be used as a buffer when the banks encountered financial challenges however, it was noted that sound risk management principles were lacking in the banks that failed.

5.1.3 It was concluded during the study that owner managers of the banks that failed feared dilution of power and loss of control. They did not want to merge or find shareholding partners in order to raise the minimum capital requirement levels. Another conclusion drawn was that mergers would have strengthened the financial position of the banks that failed, however the banks had lost their attractiveness due to poor governance hence no partners could be found.

5.2 Quality of Assets

5.2.1 It emerged from the study that asset quality was an important indicator of bank failure and the conclusions drawn were that most banks that failed had not remained in line with the regulatory requirements and the international best practice standards of a non performing loan ratio of less than 5%. The study established that all the banks that failed had non-performing loans which were high. It was established that most banks experienced high non-performing loans during the period under review. CFX which had a liquidity ratio of 191.04% in 2010, ReNaissance had 256.25 % liquidity ratio for 2010.
and whilst, Genesis had a liquidity ratio of 109.32% in 2011. It was established by the study that all the failed banks had the highest liquidity ratios as compared to the other banks during the period under review. The conclusion drawn is that the higher the liquidity ratio the higher the probability of the bank failing as noted by the challenges that the banks faced during the period under review. The study also established that although there were some banks like MBCA that had experienced high levels of liquidity in 2009, 2010 and 2011 and 2013 these banks did not fail. This brings into focus the claim that foreign owned banks have a lesser chance of failing as they have financial backing from parent banks.

5.2.2 It was established during the study that the size of the loan book was good for the bank as the bigger the size the higher the profits. However, the study established that the loans and borrowers’ performance had to be of high quality in order to reduce the number of non-performing loans. It was established that some banks did not have sound origination, administration mechanisms for monitoring the loan book which had to be in line with the size of the banks’ balance sheet as well as the risk appetite. It emerged that most banks that failed had set targets for loan officers hence the quality of loans decreased as volume was more important than quality. This failure was compounded by the fact that the banks that failed had higher insider loans which were not performing resulting in the unsustainability of the banking operations.

5.2.3 Non performing loans were found to have caused banking failure during the period 2009 to 2013. It was established that high non-performing loans had affected the capital levels and earnings of the banks that failed. Noted were the high levels of non-performing loans that were granted by the banks during the period under review which were based on weak credit appraisals especially those granted to related parties that caused the banks’ balance sheets to be illiquid. Hence, this resulted in failure. Highlighted was the issue of non-performing loans rising to unmanageable levels due to poor board oversight, poor management practices and laxity in loan policies which led to the abuse of depositors’
funds. It was evidently indicated during the study that international owned banks fared better than indigenous banks as they had better governance structures. Their decisions were made by more people unlike the owner managed banks that failed as no one challenged the decisions they made.

5.3 Managerial Effectiveness

5.3.1 The study found out that most boards and senior management had a negative effect on the efficiency of banks during 2009 to 2013. It was highlighted in the study that the ineffectiveness of the board and senior management resulted in poor risk management systems as the owner managers literally controlled the banks. The wrong decisions made eventually led to the collapse of these banks as the boards were sometimes powerless to act against the wishes of the owner. However it was established that the boards were also to blame as it failed to stop owner managers from siphoning the depositors’ money. It was established that the boards were weak as they were overshadowed by overbearing influence by owner managers’ which led to bank failure. The board lacked guidance and strategic focus as they failed to adequately lead. It was learnt that most boards for the banks that failed did not hold formal meeting after the economy had stabilized following the introduction of multicurrency. The board members met informally sometimes once a year. The study also established that the banks did not have board committees of Audit, Legal, Credit and oversight which are mandatory in line with the RBZ Guidelines. However, for those banks that had the committees in place, findings were that they did not meet regularly to discuss bank issues. This compromised their leadership and oversight roles. It was found out that the boards and senior management did not appreciate their roles and responsibility of setting strategic plans and crafting visions for the banks they led.

5.3.2 All the banks that had failed were owner managed hence the assertion that owner managed banks statistically had a high risk of failure as recorded by the highest number of banks that failed, in fact all of the banks that faced challenges were owner managed institutions. It was found out that the banks lacked good corporate governance as compare to other banks that were foreign owned and adhered to the principles of good
governance structures and laid procedures. The study revealed that most owner managers contributed to bank failure through high levels of non-performing loans that were given to insiders or related parties without board approval. It was established that in most instances the owner managers compromised on control systems and processes as there was a tendency to override policies and procedures. The study found out that most owner managers were in breach of their own policy especially those related to sending related party loan applications to the board for approval. The owners believed that they had no obligation to be answerable to anyone, hence the abuse of bank resources through non-performing loans which saw banks failing. One other issue that was found out during the study was the inability of the owners to separate themselves from bank activities on a day to day basis. Most owners had managerial posts at the bank which is in conflict with the principles of good corporate governance. Separation of ownership and control was noted to be one of the problems that the owner managed banks faced during 2009 to 2013. It was noted that the chairman was usually the executive director within the bank which is in violation of Corporate Governance Guidelines set by the Regulator. Non publication of financial statements was noted on all failed banks for the year ending 31 December, 2011 and 2012 which is a violation of the Banking Act section 36. It is one of the requirements of corporate governance for a financial institution to publicly publish the financial position of the bank.

5.3.3 The study found out that monitoring by the Central Bank was necessary and most welcome as the regulator managed to identify the problems before it had gone out of hand. It was found out during the study that one of the functions of the Central Bank is to ensure there is sanity in the financial sector through regular checks that are done on site and off site. Although it was discovered that some of the banks that failed had not upheld their moral integrity as there was a lot of misrepresentation that was only unearthed when the regulator analyzed the financial books of the banks concerned. It was noted that it was the Central Bank that picked up the problem when they were checking the financial records of the affected banks when in fact management had tried to conceal the high non-
performing figures in the balance sheets as assets were overstated, whilst liabilities were understated. One of the fundamental roles of the Central Bank was to ascertain and ensure that boards and senior management operated within the confines of the law as well as to check that effective risk management systems were in place in line with the international best practice. The study established that monitoring of financial institutions by the Central Bank had been necessary as depositors needed to be protected through ensuring that the soundness of the banking system was maintained. However, it was discovered that although the Central Bank detected the problem earlier, it took time for the regulator to act. The regulator should have moved in fast enough to curb the problem after dollarization, and all banks showing signs of stress being constantly monitored. It was established that the Central bank had to put in place regulatory instruments in place to curb intra party lendings after the ReNaissance Scandal of 2011.

5.4 Low Earnings

5.4.1 The study found out that low earnings affected the balance sheets of most banks in Zimbabwe during the period under review. It was noted that during the period under review most banks’ financial positions were weak and hence they were prone to fail. The reason for low earnings was attributed to high levels of competition among banks as the multi-currency was attractive for investment unlike the Zimbabwean dollar. This promoted imprudent lending with the hope by the banks of getting more money. Besides affecting the balance sheet, low earnings affected organic growth of the failed banking institutions as they failed to recapitalize. They could not recapitalize as low earnings translated into small business growth which limited the ability of the banks to mobilise meaningful deposits for investments. Low earnings resulted in banks failing to mobilize money for onward lending. On the other hand it was discovered that the depositors did not get value for their money as the customers failed to service loans given prior to dollarization. The banks operational costs reduced the earnings some banks failed to reposition their operations when the multi-currency was introduced. The banks failed to close loss making branches or retrench excess staff to reduce costs. At last, the banks lost
focus and continued with the imprudent lending with the hope of improving the financial position of the banks which did not happen as the banks continued to plunge into debts.

5.4.2 It is believed that capital is one of the most important assets of a bank and as such it was important that the banks avoided cumulative losses that eroded the capital levels of these banking institutions. The study found out that some of the banks that faced financial difficulties had illiquid assets which could not be easily turned into cash hence the banks were forced by the circumstances to ‘eat’ into the capital and customers deposits. The macro-economic environment was found out to have contributed to the erosion of capital base through high levels of inflation prior to 2009. Capital was described as the life line of any organization, hence the fall of the profit levels affected as well as the banks’ performance. Banks that failed were forced to limit underwriting and intermediary roles due to lack of capital. Again in the same light it was found out that investors demanded a return on investment of a region of about 20% and hence the banks failed to attract investors to inject capital into the banks.

5.4.3 The study found out that the majority of the banks that failed had the ability to identify cost drivers but, lacked control and maintenance mechanisms of the cost drivers. It was found out that the banks failed to embrace efficiencies required by the transitions from the Zimbabwean dollar to the United States dollar during the period under review. It was established during the study that some of the banks that failed had to eventually retrenched staff in order to minimize their costs. Some staff members were put on shorter hours to alleviate the situation. Although the cost drivers can be identified it was noted that staff occupancy and information technology investments dominated the cost bases for the entire banking sector. This was noted to be the result of ever changing technology in the banking industry, hence banks that did not change their systems in line with the market needs lost goodwill and customers. Low business activities resulted in the banks overhead costs going up due to the effects of micro and macro environment.
5.5 Low Liquidity

5.5.1 The situation made deposits generally transitory, short term and expensive which resulted in huge balance sheet mismatch by affected banks. The study found out that when the market became liquid the banks failed to pay back the depositors their dues. The effects of liquidity were noticed through the liquidity crunch which limited the banks’ ability to avail loans to their customers who wanted loans for investment. It was established that customer confidence was lost in the banking sector. This resulted in the customers holding onto their deposits, thereby keeping money away from the banking system where it was needed most. It was found out during the investigation that the macro- economic environment affected lending as banks failed to avail the money to its clients hence the banks suspended or reduced lending. It was also found out during the study that the banks faced a challenge of servicing their loans as well due to the negative effects of the macro environmental challenges faced during the period 2009 to 2013. Most notable was the fact that locally owned banks resulted in lower lending which subsequently translated to lower earnings for the banks. The study found out that as a result new loan applications were not processed as the banks stepped down on lending activities. It was revealed that writing of new loans was badly affected by liquidity challenges during 2009 to 2013. It was established that the liquidity gap increased in some banks to as high as US$3.03million and that most banks that failed had high levels of fixed assets instead of liquid assets that could be used for onward lending. The other factor is that banks failed to mobilize meaningful deposits during the period under review as hard currency was hard to come by as compared to the Zimbabwean dollar and competition was high. Intense competition which was as a result of the coming into the market of international banks into the market like Ecobank affected the indigenous banks which were already under intense competition from already established foreign banks. Low deposits translated into low income for the banks. The macro-economic environment affected the banks as they could not generate income during the period under review. This was largely due to the fact that deposits were few hence this affected the banks
whose line of business is to lend money at a fee. Also Liquidity ratios were very high for all the failed institutions. The study noted that this affected their intermediation role as the bank had no deposits as they were transitory. It was also concluded that non-performing loans affected almost all the banks that had failed.

5.5.2 It was found out during the study that generally deposits were affected by liquidity as the reliability and political concerns on the area of indigenization of banks had a negative effect on banks hence people held their funds outside the banks usually off shore, this act worsened the situation. It was noted that those who had the money both people and business needed to consume the money and not deposit the money in banks. Due to the unavailability of money on the market some banks failed to meet the depositor’s cash requirements, thus reverting to rationing of amounts of up to US$50 per day. It was discovered that the reason why deposits were transitory was mainly the high cost of living that required depositors to pay for essential goods and services. As such the study found out that the deposit base diminished to insignificant levels which resulted in the increase of interest rates and limited funding in the industry.

5.6 Chapter Conclusion

The study was to explore the determinants of bank failure in Zimbabwe during 2009 to 2013. The problem of mismanagement was prevalent in all of the failed banks coupled with poor liquidity, lack of good corporate governance structures, and poor management of information systems, poor board and management oversight.

Banking failure of the period between 2009 and 2013 is believed to have been caused to a larger extent by the minimum capital requirements set by the regulator. It was found out that bank failure was as a result of low liquidity and breach of bank policies by the directors. It was also noted that capital is important in banks as it affects the earnings and the bank’s ability to underwrite meaningful business for the growth of the bank. The findings of the study indicated that minimum capital requirement might have negatively impacted on the banks inability to meet the regulatory requirements. The failure by some banks to find shareholding partners negatively impacted on the ability of the banks to raise the minimum capital requirements. It was also
found out that the size of loan book does not cause bank failure but promotes business. The poor quality of the loans had a negative effect on the loan book. It was also found out that non-performing loans affected the soundness of the banking sector during 2009 to 2013.

The research found out that poor board and management oversight were some of the major issues that contributed to bank failure during the period under review. The owner managers dominated and influenced the decisions of the board. It was also noted that monitoring of the banks by the Central Bank was important as this process ensured compliance to the regulatory framework. Also noted was the importance of earnings to the wellbeing of the banks that failed, as poor earnings were noted to have affected the bank’s balance sheets. It was observed that the banks managed to identify cost drivers even though they failed to monitor and manage them properly.

On how the macro-economic environment affected liquidity during 2009 to 2013. It was learnt that the depositors failed to access loans due to the unavailability of money in the market. Also noted was the effect of liquidity on loans which was believed to have affected the depositors’ confidence in the banking sector. The deposits were transitory in nature, hence the banks did not have enough money for onward lending to third parties inorder to generate income. Generally, the belief is that deposits were largely affected by liquidity with discouraged depositors from using the formal channels of banking.

5.7 RECOMMENDATIONS
The recommendations that are suggested aims to address the research question of the study which analyzes the effects of the minimum capital requirements on bank performance and how the quality of assets affect bank performance in Zimbabwe.

The recommendations will also be done as to how management can be effective and how earnings can be improved to avoid bank failures. Liquidity improvement is of paramount importance in this study as the recommendations done will help in devising strategies on deposit mobilization and restoration of depositor confidence.
5.7.1 The researcher suggests the following recommendations:-

- **To increase the minimum capital requirements**

  The regulator should increase the minimum capital requirement levels in order to maintain and uphold financial discipline within the financial sector. The financial sector has been affected by low levels of confidence by the depositor. There is need to build the trust lost during the period 2009 to 2013 when some banks failed. This will help to avoid unnecessary bank failures that have a cost element, not only to the depositor but the country. Investors’ confidence has dwindled down due to lack of financial discipline in Zimbabwe. This could be done by closely monitoring of banks that show signs of stress and categorizing the banks into different groups according to their levels of challenges. The regulator will identify challenged banks in time to minimize the effect on the economy and the reputation of banks.

  The regulator should form a troubled fund which assists the banks that would have faced financial challenges. It is the function of the regulators to ensure sanity prevails in the banking sector. This promotes investor confidence which is currently low. This could be done by setting aside some funds which should be contributed by all the banks in Zimbabwe. The interconnectedness of the banks makes them share a special bond. The bank is a customer to the public it serves and banks share businesses as they transact on a daily basis with one another. The fund will help to boost depositor confidence since the money paid out by the Depositors Protection is limited to US$400 only regardless of the size of deposit one had before a bank faced challenges.

  The regulator should craft policies and procedures to improving and curbing bank failure, through market research and data gathering. The aim will be to establish why some banks fail in the same environment whilst other banks are thriving. Regular meetings with all stakeholders assists in getting them to understand and appreciate the role that banks play in the development of the economy. Improvement of channels of communication with all the stakeholders in the banking industry helps to create rapport and mobilize support. Banking involves a lot of players like industry and commerce, there is need for the regulator to communicate with them regularly appreciate and understand the challenges faced with the aim of assisting when ever need arises.

- **To improve Risk Management Systems**
The banks should have sound procedures for origination, administration and monitoring of the loan book. The size of the loan book should be supported by the size of the bank’s balance sheet as well as risk appetite. To complement the systems and procedures the loan book size should be commensurate to the bank’s risk appetite. Proper limits for loan and sector diversification should be met before approval. Banks should establish a credit bureau, tighter credit systems and processes are to be enhanced, to curb inter party related lending. Setting up of a purpose committee to deal with bad loans would greatly improve the systems.

Banks should avoid Intra-party lending’s and insider loans as there is a problem of non-performance. This results in the depositors not able to access their money. This can be done through minimizing related party lending and ensuring adequate security for all landings.

Banks should monitor their cost regularly though collecting and monitoring of the banks financial statements and costs regularly by the boards.

- To improve on Monitoring and Surveillance of banks

The regulator should ensure that the board is properly constituted at all times and that gender is represented in boards. This is done to allow diversity of opinion and appreciate the role of women in society and business in particular. The quota system can be used for women board members in all the banks.

The regulator should ensure that there is adequate leadership and guidance in all boards and ensures that meetings are held regularly. Where adherence is lacking the regulator should recommend the replacement of the board with a more competent members. Their role is to give guidance and direction to the whole bank through the crafting and implementation of strategies by ensuring that the banks operate in line with the confines of the law. The regulator should also ensure that the sub committees like the loans Audit, Credit and Risk and Oversight are in place in all banks. Failure to have the committees should result in the dismissal of the board members as they would have failed to adhere to policies and procedures of the regulator.

Regulator should encourage the automatic generation of financial and management reports so as to reduce human intervention. This can be done by ensuring that banks use appropriate banking
systems that supports, the operational needs of the financial institutions in line with the volume of work and risk involved. This can be done by ensuring the automatic processing of management and financial reports is done with minimal human intervention. This reduces the element of bias and tempering with information.

**To improve liquidity**

Banks should be encouraged to reduce the high volumes of non-performing loans and avoid setting performance based targets for junior loans officers who end up compromising on the quality of borrowers. This can be done by allowing the officers to follow laid down processes and procedures on loan applications.

### 5.18 Implications for future Research

A Longitudinal survey on the effects of minimum capital requirements on Micro Finance Institutions in Zimbabwe and on a broader spectrum establish the effects of regulatory requirements on banks in Sub-Saharan countries in order to compare and contrast findings.
REFERENCES

Articles


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Books

of Mazadara, M.A thesis Azad University: Ghaemshahr.


Internet


My name is Maria Kohli and I am a student with Bindura University of Science Education. I am currently studying towards the attainment of a Masters in Business Leadership Degree. I am carrying out a study in partial fulfilment of the degree requirements. My research topic is on the determinants of bank failure in Zimbabwe during the period 2009 to 2013. Your co-operation in answering the interview questions will be greatly appreciated and any responses got will be purely for academic purposes only and confidentiality will be maintained.

This research is purely for academic purposes and it is my hope that your bank will greatly benefit from this research.

I kindly appeal for your co-operation as the information obtained will be treated with utmost confidence and will not be disclosed to anyone. My email address is mariakohli32@gmail.com or 0775 032 432/ 0733 039 364.

Yours faithfully

Maria Kohli
(Student, BUSE)
Section A: Demographics

Questions key informants

1. Position: Curator/Liquidator □ Analyst □ Regulator □ Banker □ Other □

2. How long have you been in that position………Years

3. Qualifications :Degree □ Diploma □ Professional Qualification □ Other □

4. Gender: Male □ Female □

5. Type of Institution:
   Commercial Bank □ Merchant Bank □ Building Society □
   Savings Bank □ Other □

Section B: Effect of Capital Adequacy

1. What is your comment to the claim that bank failure during the period 2009-2013 was as a result of the inability of Banks to raise the minimum capital requirements?
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2. In your own view how important was capital as a determinant of bank failure in Zimbabwe during the period 2009-2013?
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3. What is your opinion to the claim that some Banks during the period 2009-2013 failed due to the fact that they did not merge or find shareholding partners so as to raising the minimum capital requirements levels?
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Section C: Identification of Asset Quality Measurement which is Acceptable in Banks

1. In your own view what is the asset quality measurement that is acceptable to prevent bank failure in Zimbabwe. Comment?
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2. What is your suggestion in dealing with the size of the loan book which has been noted to contribute to bank failure during the period 2009-2013?
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3. What is your comment to the view that non-performing loans affected the soundness of banks in Zimbabwe during the period 2009-2013?
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Section D: The Effectiveness of Management and Corporate Governance in Banks

1. In your own experience what effect did the ineffectiveness of board and senior management have on the efficiency of the banks during the period 2009-2013?
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   Investigations carried out indicate that owner managed shareholding structures might have contributed to bank failure during the period 2009-2013. What is your point of view?
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2. As far as you are concerned why was it important for the Central Bank to continuously monitor, control boards and senior management during the period 2009-2013?
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Section E: The Importance of Earnings Rating (Profitability) in Banks

1. What is your opinion on the point that low earnings might have contributed to the bank crisis in Zimbabwe during the period 2009-2013?

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2. It is generally believed that poor earnings during 2009-2013 directly affected the capital levels and the ability of Banks to generate income. How true is it?

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3. Some people say the inability of the bank to identify cost drivers led to bank failure in Zimbabwe during 2009-2013? Is it true

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Section F: The Impact of Liquidity

1. What is your comment on the effects of the macroeconomic environment on the liquidity of the banks between 2009-2013?

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2. What do you think was the effect of liquidity on loans during the period 2009-2013 on the banks in Zimbabwe?

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3. What is your comment on the effect of liquidity on deposits during the period 2009-2013 on the banks in Zimbabwe?

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End of Interview