BINDURA UNIVERSTY OF SCIENCE EDUCATION

DEPARTMENT OF INTELLIGENCE AND SECURITY STUDIES

TOPIC

AN ASSESSMENT ON THE CAUSES OF BANK FAILURES IN ZIMBABWE. A CASE STUDYOF ZB BANK (PERIOD 2006-2014).

BY

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DEDICATION

This research is dedicated to my family, friends and above all to the Almighty God who made all things possible.

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I would like to express my gratitude to the Almighty, who is the driving force behind my accomplishment, for allowing me to experience this adventurous period and bringing me to this point. Many thanks again to the people that helped me complete my research assignment. I owe a debt of gratitude to all my friends for inspiring me to work hard and achieve my goals; without them, I would not have made it this far. I am very grateful to the ZB bank management and staff who willingly and thoughtfully shared their knowledge, ideas and values which contributed greatly to the success of this project. Finally, I express my sincere gratitude to my beloved Masunga family for their express support financially and otherwise, encouragement and life building words towards learning; I am forever indebted to you.

May God bless you all!

ABSTRACT

The main aim of this study was to assess on the causes of bank failures in Zimbabwe from the period between 2006 and 2014. The study was guided by four objectives: (1) to identify the causes that lead to banks failures in Zimbabwe during the referred period, (2) to examine the effects of financial institution failures, (3) to identify measures that have been put in place to prevent bank failures in Zimbabwe and, (4) to suggest any other practical or possible ways to deal with bank failures in Zimbabwe. During the said period, the sector faced some challenges as most of the indigenous financial institutions went through a series of unprecedented closures. These range from insider lending issues, poor corporate governance, and inadequate capital reserves. This study adopted the case study of ZB bank by employing questionnaires and interviews to collect data. The study carried out using a sample size of 30 employees. To successfully accomplish the objectives, the study's analysis used Microsoft Excel and Word data analysis. The analysed data was presented using graphs, charts and tables. Findings of the research showed that poor corporate governance, non-performing loans, weak supervisory and regulatory framework and poor credit risk were the major causes of bank failures in Zimbabwe. Due to these causes, the research recommended that there is need for securitization of non-performing loans, good corporate governance needs to be ensured, and creation of specialized commercial courts, proper credit risk management as well as strengthen the supervisory and regulatory frameworks.

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CHAPTER I

PROBLEM AND ITS SETTING

Introduction

This study aimed to conduct an empirical investigation into the causes and consequences of bank failures in Zimbabwe. ZB Bank Period as a Case Study (2006-2014). The study was driven by the researcher's desire to address the situation of bank failures and determine why it became so widespread in Zimbabwe. This chapter provides a brief overview of the study, as well as the problem statement, research objectives and research questions. This chapter also discussed the significance of the study as well as the assumptions tested during the investigation. This chapter also covered the definitions of study as well as the limitations and delimitations.

1.1 Background of the Study

The unprecedented closure of local banks in Zimbabwe caused panic to the financial sector which was once named as a second largest most stable in the Sub Saharan Africa after South Africa. That good reputation was tarnished mostly in the late years of the 90s where the Zimbabwe's financial sector went into a crisis. A brief history of the Zimbabwean financial sector, it was one of the most stable economy especially in the financial sector throughout the region. It had only two governing bodies that were responsible for compliance issues and these were the Ministry of Finance and the central bank that is the Reserve Bank of Zimbabwe. This framework served Zimbabwe well as the sector did not experience any closures maybe because the industry lacked competitors that would out compete themselves for survival and dominance. In the years of 1991, Zimbabwe began to reform its regulations and it embarked on a programme called the Economic Structural Adjustment Programme (ESAP). This programme implemented financial reforms through liberalisation and deregulation. All this while, the banking sector was oligopolistic in nature without any players as well as competition.

To correct the issue, the government intervened. It did so through the Ministry of Finance and the Reserve Bank of Zimbabwe, which began issuing licenses to financial actors in 1993, resulting in a surge of banking institutions between 1993 and 2003. Players in the banking system gradually grew from 21 in 1990 to 23 in 1993, and 41 in 2003, just before the financial crisis.

In 1990, there were six commercial banks, two discount houses, three building societies, five finance houses, and five merchant banks among these players. The greater the number of institutions in the sector, the more the governing bodies were required and they were responsible with financial regulation and supervision. The Deposit Protection Corporation (DPC), the Securities Exchange Commission (SEC) were the major authorities, in addition to the Ministry of Finance and the RBZ.

The Zimbabwe's financial industry consisted of 15 commercial banks, one merchant bank, three building societies, and one savings bank. In Zimbabwe, ZB Bank is one of the commercial banks. It provides different services and a wide range of products which includes foreign currency accounts, investments advisory services, treasury bills, savings deposits account, fixed deposits and many more as according to https://www.zb.co.zw . ZB Financial Holdings has been in existence since 1951 and was once named the Netherlands Bank of Rhodesia and changed its name in 1981 to Zimbabwe Banking Corporation after the Government purchased the majority shareholding.

It restructured itself by bringing all subsidiaries and associates under one investment and this allowed the bank to concentrate on providing commercial banking services. Over the years, the Group acquired a number of subsidiaries, allowing it to provide a diverse variety of services, including commercial and merchant banking, hire purchase and leasing as well as trust and executor services.

According to the https://www.zb.co.zw in 2006, the Group formally changed its name to ZB Financial Holdings Limited and adopted the new brand. This move was also timed to coincide with the merger of previous Intermarket Holdings units. These include the Intermarket Bank, Intermarket Building Society, Intermarket Reinsurance, and Intermarket Life. The Intermarket subsidiaries are part of the failed banks rescued through mergers with ZB Bank hence the reason being chosen as a case study to this research.

ZB Financial Holdings is one of the most varied financial services counters on the Zimbabwe Stock Exchange.

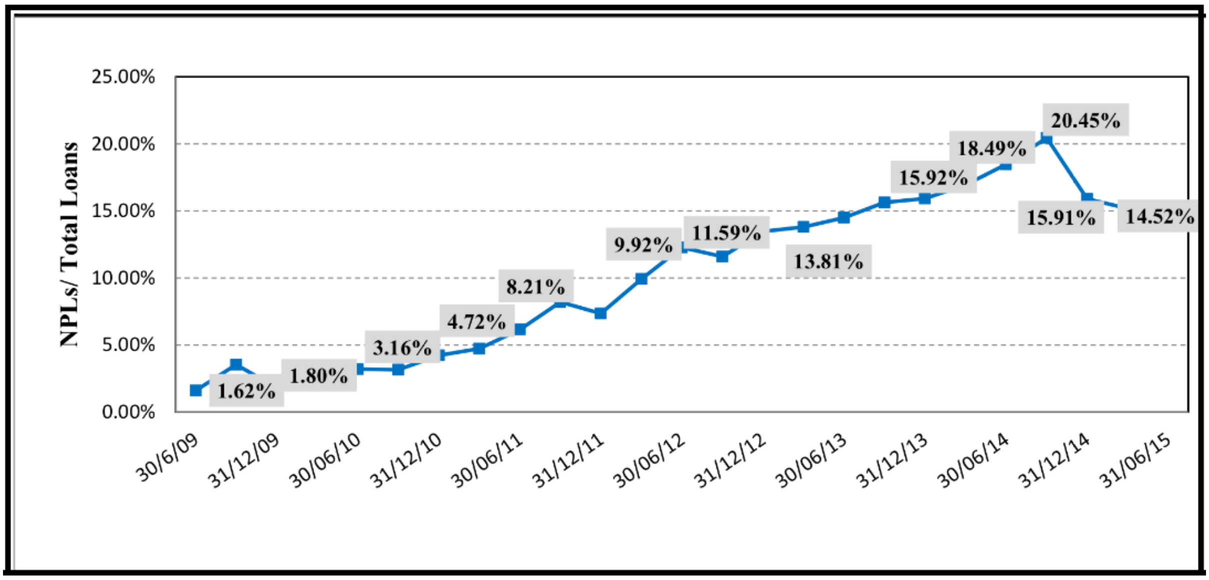
Over the years most banks in Zimbabwe including ZB Bank started to face serious liquidity and solvency problems that were attributed to poor corporate government practices. The unprecedented closure of local banks caused panic to the financial sector. Mainly acts of fraud, insider trading and abuse crippled the banks as their officers. Directors engaged in illegal and unsound practices that encumbered everyone with reckless loans and unsafe security investments according to Vickers, (2011). These were some of the factors led to the demise of most Zimbabwean banks especially in the years of 2006-2014.

During these years the banking crisis was seen as an unparalleled magnitude as it affected the entire economy. The banking sector faced challenges that had constrained the public to access money in time and desired amounts. This somehow caused bank runs as most people lost their confidence in the banking system which is one of the issues that still remain dominant. Again the banking sector has been facing challenges for more than a decade and this has negatively affected the ordinary people as they cannot access their funds or they had to wait in long queues for long hours for them to get hold of their monies due to cash shortages.

According to Deloitte, (2013) most banks collapsed due to high level of non-performing loans and lack of good corporate governance. Chikoko et al (2012) also placed the problem of bank failure in Zimbabwe on non-performing loans which the author believes had a negative impact on the performance of Commercial Banks which gives deep emphasis on how non-performing loans were the most outrageous cause of bank failure.

Since the introduction of the multi-currency in 2009, non-performing loans took a staggering increase in trend as shown in the graph below. This increase starting from 1.62% and significantly rose to a high of 20.45%. This shows how much the levels of NPLs were at its peak and evidently some of the institutions that failed due to this increase included the Allied Bank and Interfin.

Figure 1.1 Non-Perfuming Loans trend since 2009



Source: Reserve Bank of Zimbabwe (2015)

In response to the rising number of non-performing loans, the Reserve Bank of Zimbabwe established the Zimbabwe Asset Management Corporation (ZAMCO), an independent asset management firm. This is because high non-performing are a result of bad lending practices, such as insider and related party loan exposures, poor corporate governance and inadequate risk management and the majority of financial institution failures are due to catastrophic acts of non-performing loans.

Another major and most visible cause of why most banks in Zimbabwe collapsed is that of poor corporate governance issues. Poor corporate governance issues brought down a number of institutions in Zimbabwe and to clarify on this matter, banks like the United Merchant Bank, Universal Merchant Bank, Zimbabwe Building Society and many more failed due to the poor corporate governance.

Poor corporate governance shows a weakness from within the system and the financial sector. Again it shows poor regulatory and supervisory regimes that govern and ensures compliance. Hence the demise of these institutions in a more devastating way due to lack of corporate governance. Though most of these efforts were made to revive the broken economy as well as the failed financial institutions and compensate to the affected different stakeholders through the Deposit Protection Corporation (DPC), it still was not enough to kick start the economy to a more stable position.

Henceforth the researcher's keen interest to commence this research and come up with the causes of bank failures to which these brought havoc to the Zimbabwean economy in the past years and then try to establish the damages that this financial distress caused due to bank failures.

1.2 Statement of the Problem

In Zimbabwe, most banks failed to conduct their duties and this resulted in most banks collapsing and some having to go under judicial windups. About 4 banks collapsed in 2004 and the number rose to 17. As for the discount houses, they had increased to 8 in 2003 and thereafter steadily declining to zero in 2010.

This situation in Zimbabwe became so unsettling as more financial institutions experienced a substantial increase in poor risk management issues, the issuing of inappropriate loans to bank insiders also known as insider lending. To add on to the list, an increase in mal-practices that is internal bank frauds, lack of internal control systems and high level of non-performing loans as well as the operation of rogue employees who try to bypass internal controls in an attempt to cover losses.

All of these factors led to a number of troubling factors as the results of these closures of banks brought about a couple of unpleasant effects. According to Kupakuwana (2012), the fall of the ENG Asset management triggered runs on banks where a lot of people panicked and withdrew all their monies in fear of uncertainties in the future. The banking system became so paralyzed that most people shunned the banks.

It did not only end there on bank runs as other events started to unfold. These events included a rampant increase in cash shortages. Long queues began to be seen at banks as people tried to access their money but to no avail. Most people would wait for long and cash would run out whilst waiting for their turn to get in front. The closure of these banks also resulted in an increase in unemployment.

Due to all these factors, this has inspired the researcher to investigate on the causes of bank failure. If these problems of bank demises are not addressed, unlawful speculative investment in foreign currency, cash problems and political interferences would therefore cause a surge in the present economic instability as financial institutions are a key contributor to a stable and sound economy. Moreover, if this problem persists it will further diminish the level of confidence among different stakeholders within the banking system and financial sector more specifically depositors. This will affect the national savings, individual banks and other financial institutions hence more and more increase in the disturbing issues of bank runs. Thus the need this research was done on the banking crises and their closures in Zimbabwe.

1.3. Research Objectives

1. To identify the causes of bank failures in Zimbabwe.
2. To examine the effects of bank failures in Zimbabwe.
3. To identify measures that have been put in place to prevent bank failures in Zimbabwe.
4. To identify possible solutions to bank failures in Zimbabwe.

1.4. Research Questions

1. What are the causes that have led to the failure of banks in Zimbabwe?
2. What are the effects of bank failures in Zimbabwe?
3. What probable measures has Zimbabwe incorporated to prevent the failure of banking institutions?
4. What are the possible solutions to bank failures in Zimbabwe?

1.5. Significance of study

In as much as these failures have caused havoc and a widespread consequences some which cannot be reversed, the researcher has seen it fit to educate, to add information and to provide solutions on bank failures so as to provide a significant contribution as to the reasons behind these banking systems failures in Zimbabwe. This study is of paramount importance as it affects different stakes within the financial sector such as policy makers, financial regulators and bank managers to assist them in creating sound policies on how best to operate and manage systems. In addition, to ensure that all internal control systems are in place as well as being adhered to. Furthermore, the financial regulators which also includes the central bank will also benefit from this study in that they will be able to identify and be able to correct the existing weaknesses that could hinder the effective execution of mitigating the causes of financial institutions failures. Also to ensure compliance among different financial institutions to the stipulated laws established by the central bank.

1.6. Assumptions

1. All commercial banks and financial institutions are being reluctant in terms of complying with the rules and regulations enforced by the Reserve Bank of Zimbabwe.

2. The political and economic challenges will continue to prevail.

3. The research is done in good faith and that the information collected is correct.

1.7 Delimitations of the Study

Because banks played such a large part in Zimbabwe's financial industry, the investigation focused on all institutions that may have failed between 2006 and 2014. In addition, challenges of insufficient resources such as financial and non-financial resources to conduct the research were experienced. As a result, the researcher chose to use less expensive resources in order to continue with the investigation.

1.8 Limitations of the Study

Data collection became problematic for some reasons concerning conducting interviews of financial institutions to the questionnaires due to the COVID-19 pandemic and the excess lockdown and movement restrictions. Some other key personnel of the failed institutions also resisted to cooperate hence secondary data was of great value in this research.

However, these limitations did not affect the commencement of this study as other alternatives were made like conducting interviews and handling of questionnaires online.

1.9 Definition of terms

Bank failure is a situation in which a bank is unable to service its debts as alluded by the Farlex Financial Dictionary (2012).

1.10 Chapter Summary

The main subject of the research has been clearly outlined in this chapter. It clearly states the study's background, the statement of the problem, the research aim and objectives, significance of study as well as its delimitations and limitations. This chapter also serves as a framework for the subsequent chapters two through to five. The literature review will be discussed in Chapter 2, which will contain both theoretical and conceptual frameworks as empirical material.

CHAPTER II

LITERATURE REVIEW.

2.0 Introduction

This chapter covered on various aspects of literature that is empirical studies on the causes of bank failures and the theoretical framework as well as the gap analysis. This literature review was made on the basis of the researcher's objectives that is the causes of bank failures with the aim of identifying the possible impacts that arise due to the latter as well as coming up with the possible solutions to bank failures. This literature review was of paramount importance as it assisted in evaluating and analysing the causes of bank failure in Zimbabwe. This chapter presented in sub-sections of all the types of literature reviews that is from the theoretical framework, conceptual framework, empirical evidence and the gap analysis.

2.1. Purpose of Literature Review

According to Aveyard, (2010) a literature review is a comprehensive study and interpretation of literature that addresses a specific topic. Smith (2012) also went on to note that literature review form the backbone of the wider theoretical base of a study. Literature review consists of two types which are the conceptual framework as well as the theoretical framework.

A literature review is useful because it provides an overview of a topic or serves as a stepping stone by giving a strong framework for the examination of a research article. It also includes content aimed at reviewing key aspects of current knowledge, such as substantive results as well as theoretical and methodological contributions to this particular subject.

Furthermore, prior to conducting a new investigation, a literature review builds familiarity with and comprehension of current research in a certain topic.

It simply allows for more research on existing current knowledge and research already completed by different researchers, allowing for the identification of a gap or unknown within the topic in question, as well as the enhancement of necessary adjustments to the existing knowledge for academic or professional purposes.

2.2. Theoretical Framework

It is a structure that can hold or support a theory on a research study. The theoretical framework introduced and described the theory that explains why the research problem under study exists. It defined the key concepts of the research by giving direction and allowing to convincingly interpret, explain and generalise findings.

A theoretical framework is important because it strengthens the study by permitting the reader to critically evaluate and connect the research to the existing knowledge. The researcher therefore carried out a theoretical framework because it connects the researcher to the existing knowledge and provides a base of the project as it proves that theoretically banks fail.

One of the most widely discussed theories on the factors that lead to bank failure is that of moral hazard which is particularly characterized by information asymmetry. Moral hazard is a concept with relevance to a variety of principal agent relationship characterized by asymmetric information. In the commercial banking industry there are institutions even in Zimbabwe that are believed to be “too big to fail” and those are usually assisted by different regulatory bodies to prevent them from going into liquidation. This is because of the fear of these failures having to ignite a systematic risk which may result in a nationwide disaster disrupting the whole economy. Most of these are bailed out from their misery by their principals the likes of Zimbabwe Allied Banking Group (ZABG). According to Muranda (2006) political factors might result in the saving of most institutions that are too big to fail where the RBZ was accused of offering liquidity support to only politically connected banks.

Therefore this prompted banks and other financial institutions to take more risks than optimal since they believe their losses will be recouped by the banks creditors mainly the central bank or the government. Moral hazard is also a significant factor for bank loans. Most banks feared that applicants may fail to repay the given loans hence banks tend to partake in risky investment strategies according to Makhubela S, (2006) by offering loans at lower interest rates or lending to high-risk borrowers.

Furthermore, moral hazard can be discussed from an insurance perspective. Moral hazard is more of a phenomenon that having insurance may change how one behaves or acts. One party may deliberately cause a loss with the intention in mind that the loss would be covered by insurance through insurance claims.

Both of these discussed perspectives causes the expectation that the principal will bail out the agent in case of losses hence results in reckless decisions since there is an implicit guarantee and support in the event of making a loss.

The theory of moral hazard goes hand in hand with that of too big to fail theory which holds the notion that large banks exhibit higher systemic in the economy. Somehow these assertions contribute to bank failure as it stimulates high levels of bad loans in an attempt to attract deposits by offering lower interest rates, high levels of non-performing loans and the immense increase in credit risk. According to Labonte, (2013) the author emphasized on the too big to fail theory arguing that moral hazard is in fact effective in the short run by preventing failure through maintaining financial system stability but however in the long run it results in unstable financial system due to moral hazard as it weakens market discipline.

2.3. Conceptual Framework.

This study also focused on the previous studies carried out by past researchers. This assisted in reviewing the current study by identifying and establishing the knowledge gap in relation to bank failures. This section established the relevance of the study by continuing to elaborate on the issues of bank failures by picking up on where previous researchers left to which they provided a fundamental base to this study. To give this study additional context, bank failure occurs when a bank is unable to satisfy its obligations to its depositors or other creditors due to insolvency or insufficient liquidity. A bank usually fails when market value of its assets falls below the market value of its liabilities, according to Brewer III.

2.3.1. Types of Bank Failure.

Bank failure occurs in different ways mainly by it being insolvent or being illiquid.

Insolvency

According to the World Development Report (1989), a bank is deemed solvent if the value of its assets is greater than the value of its liabilities to depositors and other creditors. It therefore becomes insolvent if it struggles to pay its debts within the meaning of the company's act or a winding up order is made against it. In this regards, usually the central bank determines the value of its assets.

Illiquidity

Another form of how a bank or financial institution can fail is when it becomes illiquid. This means that the institution will be said it can no longer meet up with its future cash needs. Illiquidity disrupts all the major functions of the institution that deal with cash. Which means stakeholders like depositors cannot get hold of their money just because the bank is deemed illiquid. Illiquidity may again lead to insolvency. Henceforth the bank will be said to have failed if it struggles to meet up with its obligations and its core existence.

2.3.2. Legal Framework of Zimbabwean Financial Sector

There are quite a number of legislations that govern, control and give guidelines on how operations should be conducted within the banking sector.

According to the Law Development Commission Zimbabwe, **Reserve Bank of Zimbabwe Act [Chapter 22:15]** is one of the legislative laws that govern the banking sector in Zimbabwe. This Act provides proceedings and laws on how most banks should conduct their business in accordance with the laws within the Act.

There is also the **Banking Act [Chapter 24.20]**. This Act provides for the registration, supervision and regulation of persons conducting banking business and financial activities in Zimbabwe. The Act also deals with establishing a deposit protection scheme to protect depositors in the event of an insolvency.

Bank Use Promotion and Suppression of Money Laundering Act [Chapter 24-24]. This is one of the legislation that exists within the banking sector of Zimbabwe. According to the Law Society of Zimbabwe, this Act serves the purpose of enabling the unlawful proceeds of all serious crimes for example drug trafficking to be identified and confiscated. This Act also requires financial institutions and cash dealers to adhere to the measures so as to combat money laundering.

Exchange Control Act [Chapter 22:05]. This is another legislative act that exists in Zimbabwe governing the banking sector. It is an act that imposes duties and restrictions. These restrictions are exerted on items like gold, securities, payments, transfer and settlement of property, payments and debts as well as currency. The president has regulatory powers and may make regulations relating to exchange transactions as he deems fit.

National Payment Systems Act [Chapter 24:23]. According to Law Development Commission of Zimbabwe, this act serves the purpose to provide for the recognition, operation, regulation and supervision of systems for the clearing of payment instructions between financial institutions.

2.3.3. Causes of Bank/Financial Institution Failures

Poor credit risk.

It is one of the major contributing factor there is to bank failure. Studies like Njanike (2009) admited that a number of financial institutions have collapsed or experienced financial problems due to inefficient credit risk management systems. Brownbridge (1998) also supported this notion that the major contributing factor to bank failure is lending. The study goes on to note that most financial institutions involved themselves in lending at high interest rates to high risk borrowers. This tests out the theory of moral hazard characterized by high costs of mobilizing funds to which resulted to the demise of most financial institutions. This led to most locally owned Zimbabwean financial institutions facing illiquidity issues. Hence contributing to the closure of most banks.

Non-Performing Loans

Most scholars and studies attributed the failure of banks to a high level of non-performing loans. Nyamuvurudza, S. (2015) asserted that the operation of ZAMCO it had acquired NPLs amounting to $158 million out of the $577 million collected. This clearly demonstrates the banking sector's rapid increase in non-performing loans. Studies such as Chikoko, L. et al. (2012), a total of 15 registered commercial banks in Zimbabwe were sampled.

According to the findings, most banks were amassing a large number of non-performing loan (NPLs) as a result of poor credit analysis, incorrect products supplied to clients, and lending based on balance sheet strength rather than cash flow. As a result, most banks have a substantial number of non-performing loans.

Also, banks cannot function well if their balance sheets are burdened by high amounts of NPLs, and NPLs were a major reason in the collapse of banks such as CFX Bank, Royal Ban k, and others, according to the RBZ (2006).

Poor Corporate Governance Issues.

These issues are one of the contributing factors to bank failures. Nworji et al (2011) conducted a study which examined the issues, challenges and opportunities associated with corporate governance and bank failure in Nigeria. This study revealed that the new code of corporate governance for banks is adequate to curtail bank distress and that improper management, corruption of bank officials and over expansion of banks are the key issues why banks fail. Torku, K. and Laryea, E. (2018) conducted a study of the Ghana's 2018 banking sector crisis and this study placed blame on both the managers of the failed institutions and the central bank as they failed to review on the corporate governance regulations and guidelines to which led to the crises. Looking at these studies this concludes that corporate governance is a necessity in the proper management of financial institutions. Thus the reason why poor corporate governance is the major cause for the poor functioning of financial institutions.

Fraud and Corruption

The problem of bank failure is also attributed to corruption and fraudulent activities. These serves as examples of white collar crime and they raise ethical issues as well as dishonest behaviours. In Zimbabwe according to Muranda (2006) one bank, the United Merchant Bank (UMB) collapsed due to fraudulent activities. These activities included high insider loans, and the issuing of fake Cold Storage Commission bills. More of these fraudulent activities have resulted to the closure of most financial institutions.

Weak Supervisory and Regulatory Frameworks

According to Ingves (2003), the problem of bank failures was due to weak supervisory and ineffective regulatory frameworks. Ingves went on to say that, while banking plays a big part in bringing down a financial system, it can only endure in the absence of effective market discipline and proper legislation and supervision (poor supervisory framework).

2.3.4. Effects of Bank Failures in Zimbabwe

Loss of Confidence

Bank failure so happens in ways that the financial institution will fail to meet its obligation or its mandate. By failing to do so, most stakes within the institution are affected by this especially depositors and investors. These stakeholders will lose confidence in the institution and its system. According to a study conducted by Springford (2011), it articulates that there is a strong relationship between financial distress and consumer trust. Due to this study, it clearly showed that any unfortunate proceedings within the financial institution happen to implicate the behaviours of the stakeholder towards the institution. According to IMF (2015), there was a significant decrease in credit and deposit growth which subsequently lead to bank runs. These bank runs occur when many clients withdraw their money from a bank because of a belief that the bank may cease to function in the near future. Thus a loss in the consumer confidence and trust.

Unemployment

Another effect of bank failures is the loss of employment. The closure of the UMB came with a devastating effect to the whole financial sector. A dozen more institutions followed after the UMB and this resulted in many people losing their jobs. These bank failures caused severe poverty as most of the affected people could no longer fend for their day to day basic necessities.

Additional Costs to Tax Payers

Closure of banks or their collapse impacts negatively to the economy as these are the stronghold of the financial sector. These impacts cause for immediate intervention and development of resolution strategies with an attempt to rejuvenate the sector. This becomes so costly to the taxpayers in the sense that they will be charged extra costs. These extra costs will be channelled towards the development of the failed institutions to which these funds could have been used for other projects with the economy. Therefore, the impacts of bank failures will hit hard especially on tax payers due to additional costs.

2.4. Empirical Literature Review

Empirical review on literature focuses more on the past studies done by other scholars and researchers by providing a back borne and base to the current study. It helps in giving direction and insights towards the subject understudy.

Gumiremhete, S.M. An assessment on the causes of bank failure in Zimbabwe (2009-2013).

Previous studies assessed on the causes of bank failure in Zimbabwe. The outcomes from this study show that minimal capital requirements, poor governance and liquidity had a negative impact on the performance of the most failed banks in Zimbabwe.

Kadongwe, S. (2015). The Root Causes of Bank Failures in Zimbabwe since the Year 2008 to 2015

The study sought to identify the real causes of bank failure in Zimbabwe. Past studies have indicated on a number of causes as to why banks here in Zimbabwe failed. This is one of those studies and it established some of the real causes of bank failures. Some of the findings related to this study where that poor corporate governance was the most contributing factor and major cause to bank failure. It was seen according to this study that due to poor governance, it led to so many other negative factors which are huge non-performing loans and poor credit risk management among others.

Katuka, B and Dzingirai, C. (2014). Determinants of Bank Failures in Multiple-Currency Regime in Zimbabwe (2009-2012).

Previous studies of this sort looked at the causes or determinants of bank failure in Zimbabwe taking the country's multiple currency regime in consideration. This study used the pooled logit estimator to gather data and the results were that the GDP growth rate within the macro economic environment particularly had a direct influence on bank failure. The study went on to note that liquidity, profitability and capitalisation where most of the prominent determinants of bank failures.

Nyamuvurudza, S. (2015). Sustainability of the securitisation model for non-performing loans in Zimbabwe.

The genesis of the multiple currency system saw an increase in the NPLs. These NPLs are one of the major attributes to bank failure. The research on the sustainability of the securitisation model serves as an attempt to minimize and avoid the future closure of financial institutions by eradicating NPLs as a causal factor to financial institution failure. It acts as a preventative measure to avoid further demise of financial institution hence aligning with the objective of this study to come up with the measures currently in place to prevent a similar catastrophe.

Greuning, H.V, and Sonja, B. B. (2000). Analysing and Managing Banking Risk.

The study on analysing and managing banking risk stresses and emphasizes on risk management principles. The approach used in this study gives a guideline for identifying the key players in the risk management process. It further discusses on the accountability on various dimensions of the financial and other risk management process.

Katuka, B. (2013). An Investigation on the Determinants of Bank Failures in Zimbabwe: 2009-2012.

One of the goals of this study is to learn about possible remedies to bank failures in Zimbabwe. According to this report, one of the possible remedies to this problem was for the RBZ to emphasize liquidity and capital requirements, as these issues have proven to be the pr imary cause of bank failures.

Oleksandr Nikolsko-Rzhevskyy. Bank Bankruptcy in Ukraine: What are the determinants and can bank failure be forecasted.

The research uses the Giant Logit Model to which it models the probability of bank failure. The research examined the causes of bank failure in Ukraine during the period of 1998-2003. This study concentrated more on managerial quality where it tested for environmental differences. Outcomes of this particular research showed that inefficient banks tend to fail. More importantly bank size can be a determinant of bank failure. This study also shows that the more the institution grows especially those that over invest in securities and bank size will fail.

Chidziva, B (2016). The Role of Corporate Governance in Preventing Bank Failures in Zimbabwe.

The author looked at the role of corporate governance as a possible solution to bank failures. This study engaged the agency theory. Some of the issues were that there is need for improvement in terms of compliance to corporate governance policies and regulations, risk management and internal control, training and awareness of best practises. These where the findings towards the possible solutions that can be implemented so as to address the given circumstance.

2.5. Gap Analysis

Past studies have put much emphasis on the causes and determinants of bank failures. Less focus is being exerted on the possible ways as well as the prevention measures put in place to solve the issue of bank failures. It is therefore one of the main objectives of this study to point out and eliminate the gap in regards to the solutions and prevention measures in place to prevent a similar catastrophe.

2.6. Chapter Summary

This chapter looked at previous studies in an attempt to gather evidence on the findings that previous researchers gathered in relation to bank failure. The findings particularly pointed out to so many causes of bank failure that is from minimal capital requirements, poor credit risk to bank size as causes of bank failure. The following chapter would be chapter 3 and this is where the study will cover most of the research methodologies engaged to give base through gathering of data so as to give sufficient meaning to this research.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives a clear description of how the study was carried out as well as the methods used in an attempt to fulfil the objectives. The research methodology includes the research design, research subjects, and research instruments used in this study and data analysis and be presentation.

3.1 Research Design

According to De Vaus, D. A (2001). The research design is the overarching method you adopt to combine the various components of the study in a logical and cohesive manner, ensuring that you will effectively address the research problem. It is the blue print for data collecting, measurement and analysis. The non-experiment approach, descriptive research, and qualitative research were all options opted by the researcher. The researcher also observed the subject in the context of the financial environment using a case study technique, which allowed the researcher to provide first hand, credible and practical information pertinent to this study. A descriptive survey was also used questionnaires and interviews to learn about the opinions, attitude, and preferences of the people the researcher has chosen and targeted. This design was chosen because it allowed for the researcher's personal feelings, judgements, experiences, and insights to be included.

3.2 Population

A targeted population refers to any group of individuals with common characteristics from which the researcher is interested in acquiring information and develop knowledge from according to Gable (2014). The population was randomly selected and this includes every employee who has knowledge pertaining to research including the management.

3.3 Sampling Technique

Non-probability sampling technique was used. According to Shajahan (2005), non-probability sampling technique is a sampling method which involves selecting a specific number of sample units with the intent of including just the most significant items that represent the population's genuine characteristics. This sampling procedure was adopted, and the researcher felt sure that the sample picked was actually representative of the total population. The research technique allowed the researcher to select the sample that provided the necessary information to meet the research purpose and questions.

3.4 Sources of Information

According to Ajayi, V.O. (2017) there are two sources of information and these are primary and secondary sources. The researcher used both sources where for primary questionnaires we used whilst for secondary data source documents were used.

3.4.1 Primary Data

Ajayi, V.O. (2017) defined primary data as the original and unique information obtained from a source by the researcher such as observations, questionnaires and interviews. It allows for immediate collection of information which is reliable and pertinent to the specific study. However one of its disadvantage is that it is very expensive to gather.

3.4.2 Secondary Data

According to Ajayi, V.O. (2017), secondary data is data that is readily available but not pure because it has gone under numerous statistical manipulations. These secondary sources include journals, textbooks and even company records and reports. It is not expensive to gather this data as compared to primary data and it saves time. However information obtained from secondary sources might be bias as it is prone to a series of manipulations.

3.5 Research Instruments

This study relied on personal and telephone interviews. Face to face interviews could not be commenced due to the covid-19 pandemic. These telephone interviews assisted in eliminating the amount of bias from secondary sources and also to fill in the gaps left by insufficient information in secondary data. The field research comprised of:

3.5.1 Questionnaires

A questionnaire is made up of a group of questions that are typed and printed in a specific order on a set of forms according to Kothari (2004). Questionnaires should be tested on a pilot sample to ensure their reliability and validity. This study will use questionnaires that will be handed out online to the respondents because of the covid-19 pandemic.

3.5.1.1 Advantages and Disadvantages of using Questionnaires

The researcher structured the questionnaire in such a manner that it can be easy for respondents to fill in at the same time be easier to analyse the findings. The advantage of using questionnaires is because it is a low-cost research tool that can be used to collect data. They are time effective as many questionnaires can be delivered to a number of people at the same time, hence this probed the researcher to use these as a research tool.

However, the absence of control over who completes the questionnaires might be problematic as the questionnaires might be completed by anybody other than the intended respondents. Also the lack of communication between the researcher and the responded is a weakness on its own as it limits room for clarification

3.5.2 Interviews

According to Kothari (2004), the interview method of data collection entails the presentation of oral verbal stimuli and responses in terms of oral verbal responses. Telephone interviews and other electronical platforms will be used to gather qualitative data.

3.5.2.1 Advantages and Disadvantages of Interviews

Interviews enable the use of gestures and other visuals to enable clarifications on certain aspects pertaining to the study. This will enable collection of most accurate and reliable information as the researcher will have full control over the whole interview process.

However, interviews require certain techniques in conducting them. These are those techniques where the interviewer will have to ask questions through the use of leading questions to which can lead to biased results.

3.6 Data Collection Procedure

The use of a targeted population of the ZB Bank is to be used. The data pertaining to this study will be collected through various means and these have been mentioned before. These include the use of questionnaires and conducting interviews as well as observations. To speed up the process of data collection, follow ups were made to remind interviewees of the data collection period.

3.7 Data Analysis and Presentation

Overall data collected was interpreted and analysed. The findings were presented using graphs and tables as well as the use of statistical principles like percentages. All these were shown in the next chapter that is Chapter 4 were research findings were presented.

3.8 Chapter Summary

This chapter looked at the methodology and the procedures that are to be undertaken in the data collection processes. It included identification of sources of data that is primary and secondary sources. It also looked at data collection procedures and research instruments. The following chapter is Chapter 4 involves the presentation of the collected data at the same time organising it and summarizing it.

CHAPTER IV

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.0 Introduction

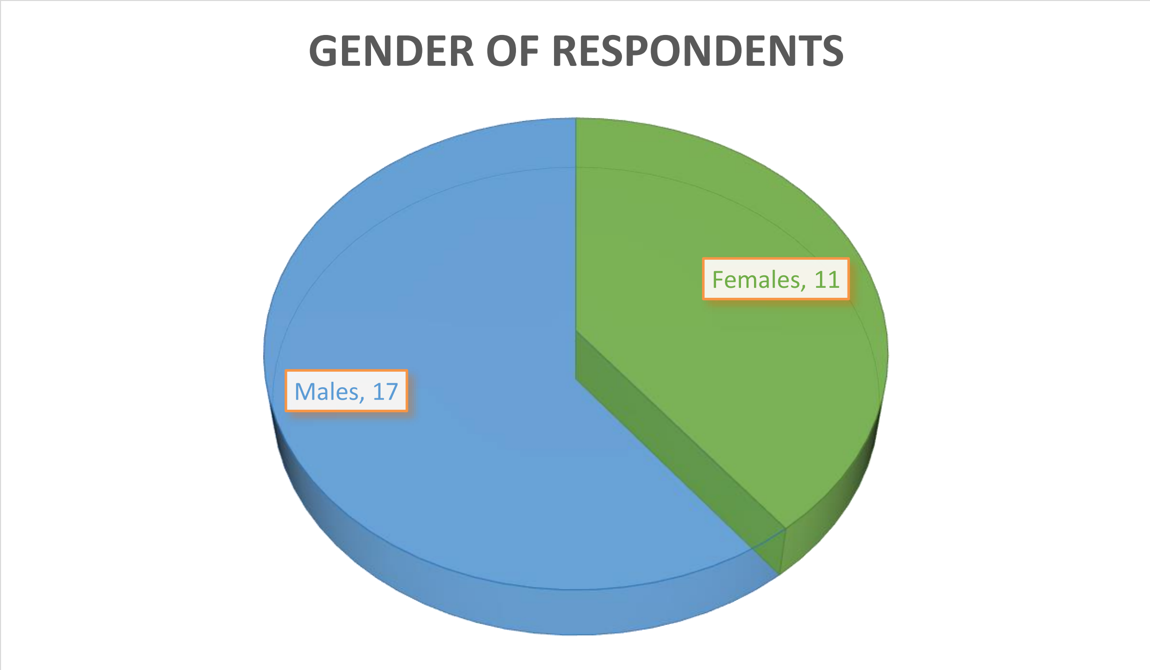
The main purpose of this research was to assess on the causes of bank failure in Zimbabwe and this research was particularly focused on ZB Bank. This chapter presents the findings and results found of the gathered data from both primary and secondary sources. Different techniques to obtain this data were exploited by the researcher. To obtain sufficient evidence and relevant information, interviews were held as well as questionnaires handed and secondary research. A deep analysis and interpretation of this data will be commenced in this study with the use of tables, graphs and charts.

Data analysis in this chapter involves a combination of narrative and interpretive techniques. The sections within this chapter include the demographic characteristics of the respondents, identification of the causes of bank failures in Zimbabwe, an assessment of the effects of bank failures in Zimbabwe, identification of measures that have been put in place to prevent bank failures in Zimbabwe as well as possible solutions to bank failures. Thus the subsection clearly focuses of the objectives of this research.

4.1 Demographic Characteristics

This section looks at the demographic characteristics of the respondents at ZB Bank HQ. Variables such as sex, age, and level of education, years, duration in service as well as position in the organisation were used in understanding the thrust of the research, particularly the causes of bank failures in Zimbabwe. The respondents were residents were employees of ZB bank inclusive of the key informants who were the directors, managers as well as the curators who were directly involved in dealing with bank challenges. These helped in giving an assessment and an understanding of the causes of bank failures in Zimbabwe.

Figure 4.2.1 Gender of the Respondents



As shown above, respondents were both males and females. The study did not target any specific gender but involved all personnel that assisted in making this study successful.

Table 4.2.2 Duration in Service

Number of Years	Frequency	Frequency in Percentage
Less than 5 years	5	18%
Less than 10 years	5	18%
More than 10 years	11	39%
Over 20 years	7	25%
Total	28	100%

Table 4.2.2 shows that the majority of the respondents have over 10 years working experience in the banking sector. Working experience is necessary when responding to questions because those that worked for more than 10 years have more knowledge of bank products and bank proceedings. Those with more work experience adequately respond to the questions and they provide a thorough analysis on the banks that failed.

4.2 Analysis of Response Rate

The majority of the respondents were fully cooperative and responded to both the questionnaires and some telephone interviews. Though some could not be available and busy to conduct interviews, it did not affect the outcome of the research. The population was made up of different people who hold different positions throughout the organisations, this helps in getting more diversified and different opinions as to what really caused the failure of banks here in Zimbabwe. The figure below shows the total number of response rate per position within the organisation.

Table 4.3.1 Response Rate Analyses

	FEMALES	MALES	TOTAL
Department Managers	3	5	8
Senior Accountants	3	2	5
Curators	2	3	5
Lawyers	1	3	4
Auditors	2	4	6

Source: Raw Data

All respondents were from the ZB Bank HQ and this branch was chosen as many are employed there hence the more the respondents the more analysis could be given to the research findings.

4.3 Interviews

Total planned interviews where 10 and these were key informants that once worked in the once failed financial institution that is Intermarket Holdings Limited merged together with ZB Bank. The outcomes of the interviews are shown in the diagram as follows:

Table 4.4.1 Interview response rate

	PLANNED	HELD	PERCENTAGE
Physical	5	1	20%
Telephone	10	9	90%
Total	15	10	66.7%

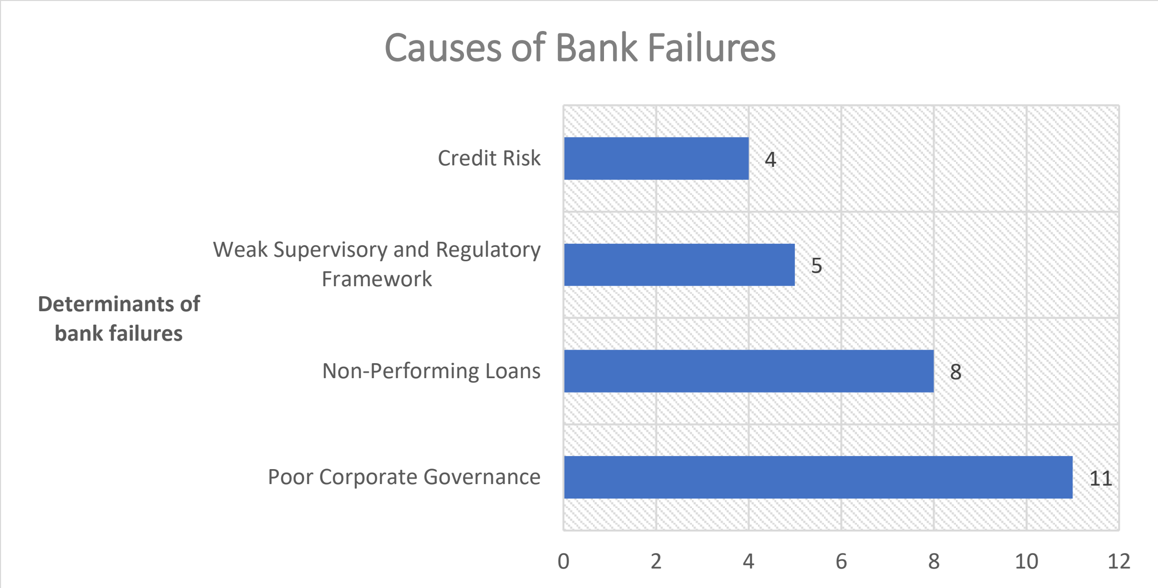
In the above table, it shows the response rate of the interviews held. Very few people responded to physical interviews due to the fears of contracting the covid-19 pandemic. However the researcher opted to conduct more telephone interviews to suffice the unpleasing turn out of the physical interviews so as to come up with findings which are dense in terms of information and knowledge on the real causes of bank failure. The main purpose of conducting these interviews were to eradicate the occurrence of failing to clarify certain questions answered within questionnaires.

The total number of questionnaires administered to ZB Bank are a total of 30 and of the 30 handed out, only 28 were successful. In regards to the interviews conducted, total planned interviews were 15. Only 10 interviews were successful and the total percentage of the successful interviews became 66.7%.

4.4 Causes of Bank Failure in Zimbabwe.

The main purpose of the questionnaires was to get an overview on what really causes bank failures. Of the 30 questionnaires handed out, 28 were successful and of the target interviews 10 were successful. The respondents included department managers, lawyers, curators, auditors and senior accountants. This research gave a 93% response rate and this validates the reliability of the research findings. According to the questionnaires handed out, most respondents pointed out on the following summarized causes which led to the failures of banks:

Figure 4.4.1 Causes of Bank Failure



	Poor Corporate Governance	Non-Performing Loans	Weak Supervisory and Regulatory Framework	Credit Risk
Causes of Bank Failure	11	8	5	4

Source: Raw Data

4.4.2 Poor Corporate Governance

According to Singh S. (2005), corporate governance is an internal system that incorporates policies and procedures that meet the needs of shareholders and stakeholders in the process managing the administration with good judgement, accountability and integrity. The majority respondents depicted or showed that the major reason for bank failure was due to poor corporate governance. 11 out of the 28 people who filled out the questionnaires pointed out that the demise of these banks were due to failure of policies and procedures required to meet stakeholders and shareholder's needs. This makes 39% of the respondents attributing poor corporate governance as a major cause of bank failure.

This research study also shows that poor corporate governance is somehow a predicate cause of bank failures as it results in the emergence of other causes. Most interviews held clearly revealed that these corporate governance issues showed themselves through uncalled for and unethical activities by top executives. A good example of where corporate governance issues through unethical behaviour was that of the United Merchant Bank were Roga Boka paved his way up by engaging in fraudulent activities to which was one of the reasons why UMB collapsed. In relation to the case study, ZB is one of the most diversified financial services as it merged with former Intermarket Holdings units to which some had failed due to poor governance issues.

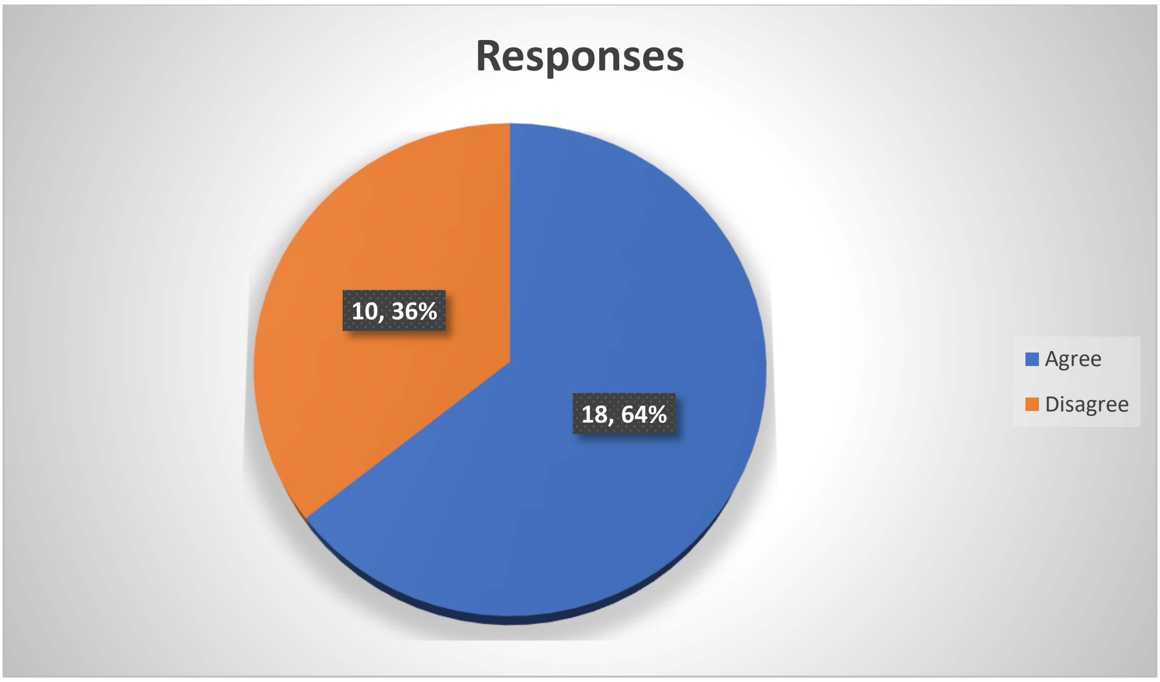
4.4.3 Non-Performing Loans

29% of the respondents identified non- performing loans as one of the major causes of bank failures in Zimbabwe. Most NPL's occur due to corporate governance issues. Studies like Chikoko, L. et al (2012), clearly showed that quite a number of banks were sitting on a number of NPLs due to poor credit analysis as well as lending based on the balance sheet strength instead of cash based lending. This left most banks with a large record of NPLs. As mentioned earlier, banks fail to function well if their balance sheets are burdened by large sums of NPLs and according to the RBZ (2006) hence the reason why it is a cause of bank failure and banks like the Royal Bank were not spared. Most of the failed banks were characterized by large share of debts due to insider lending and unsecured loans as according to Brownbridge (1998).

4.4.4 Weak Supervisory and Regulatory Framework

Most of the respondents also identified weak supervisory and regulatory framework as one of the causes there is to bank failures. 18% of the respondents felt that the Reserve Bank of Zimbabwe and all the governing bodies played a part in the demise of most banks. They failed to carry out supervisory duties and imposing regulations that could have dealt with unethical misconducts of insider lending, rogue employees, fraud, bad debts and corruption. The research questionnaire also asked the respondents whether if they agree that the Reserve Bank of Zimbabwe had weaker policies which led to the closure of these banks as it is part of the regulatory and supervisory framework in Zimbabwe. The following figure will show the response attained pertaining to the question asked:

Figure 4.4.4.1 Response rate to weak supervisory and regulatory framework



Source: Raw Data

From the chart above, it shows the frequencies of the response rate pertaining to whether the RBZ can be partially blamed for the failure of most banks due to ineffective controls and regulations. 18, 64% of the respondents confirmed that the RBZ had weaker policies which led to the demise of these banks. Justification was provided and stated that the RBZ acted with leniency and failed to act upon this crises with urgency. Most researchers for instance Fagbule (2009) conducted their studies and also saw that the governing bodies to the financial sector in Zimbabwe where rather weak in controlling and the banking crisis was characterized by weak regulations and rather lax banking practices.

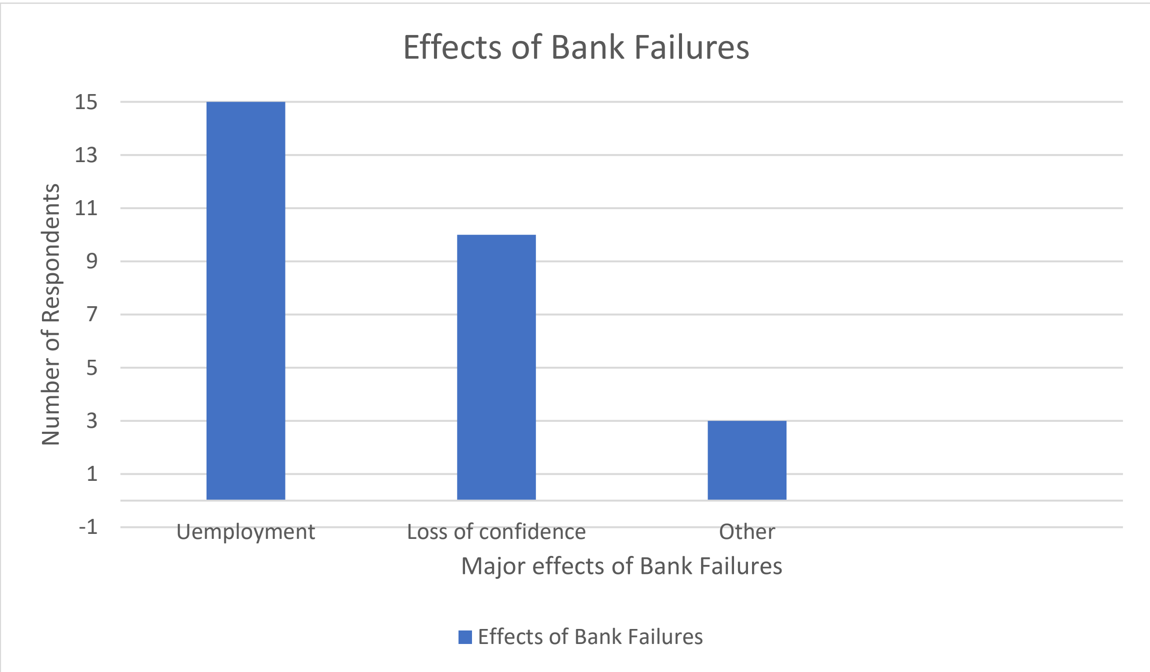
It is however said that the Reserve Bank of Zimbabwe could have done better to avoid the financial crises that the banking sector faced. Also if there was a strong supervisory and regulatory framework, acts of misconduct and poor governance issues in banks would have been at a minimal.

Findings also show that credit risk is another major contributing factor causing bank failure in Zimbabwe. 14% of the respondents reported that credit risk is one other major cause of bank failure. Njanike (2009) also supports this notion that most banks closure were due to inefficient credit risk management systems and that most institutions involved themselves in activities of moral hazard by lending at high interest rates to high risk borrowers. This was seen also as another cause that led to the failure of most locally owned banks in Zimbabwe.

4.5 Effects of Bank Failures

Most key informants clarified on the effects of bank failure saying that everyone was somehow affected by the financial crises that hit the banking sector, most specifically in the early years of 2000. Two major effects of bank failures reported and identified were that of high unemployment and loss of confidence to the banking structure and system.

Figure 4.5.1 Major Effects of Bank Failures



Source: Raw Data

4.5.1 Loss of Confidence

Findings highlighted that 54% of the respondents identified loss of confidence as one of the major effects of bank failure in Zimbabwe as shown in the table above. Many banks in Zimbabwe failed to meet its specified duties and objectives. Increases in cash shortages and depletion in value of depositor's funds became the new norm. Most people after speculating a decrease in the availability of cash in the market as well as in the banks, it resulted in bank runs. Bank run also known as runs on banks is a situation where many clients withdraw their money from a bank because of a belief that the bank may cease to function in the near future. Clients lost their trust and confidence in the banking system as many people withdrew their monies and those that had left their monies in their accounts, it depreciated in value due to the hyperinflation that hit Zimbabwe. Most people became so hesitant to keep their money in their respective bank accounts as it became safer to keep money at home that to leave it for safe keeping at banks. This is one of the most major effects there is to bank failure that still exists even till now, so the more these banks failed, the more trust was lost. It is said that there is a significant relationship between bank distress and customer trust according to Springford (2011) hence the reason why many people lost their trust in the banking system.

4.5.2 Unemployment

Many banks seized to exist in Zimbabwe. A majority of the local owned banks failed and some had to be placed under liquidation and some under judicial windups. 36% of the respondents reported that unemployment was one other devastating effect that many had to face due to the closure of these banks. Over 15 banks were closed and those that survived were only because of mergers and or financial assistance they received from other institutions like the RBZ. Despite the fact that some institutions were rescued for instance ZB Bank merged with the former Intermarket Holdings institutions which are Intermarket Building Society, Intermarket Bank and Intermarket Reinsurance, over 1000 people lost their jobs due to this financial distress. It increased the rate at which most people became unemployed and poverty rates increased. This had a negative impact on the majority of the population as more people were employed in the once dominant financial sector.

4.6 Possible Solutions to Bank Failures

In as much as most banks failed in Zimbabwe, possible solutions can be noted and the respondents suggested on some solutions. These solutions include:

4.6.1 Practice of Good Corporate Governance

Respondents emphasized on the issue of corporate governance. It was seen that if good corporate governance was practised and not just brushed and put on paper, a lot of banking operations could improve. Studies analyse the issue of practising good corporate governance as a way to curb unethical behaviours hence it is also seen as a measure to curb the occurrence of bank failures.

4.6.2 Implementation of the Basel Committee on Banking Supervision and Surveillance

Zimbabwean banks need to ensure that there is standardisation of policies and regulations with international standards. The implementation of the Basel Committee on Banking Supervision and Surveillance will assist and prevent the failure of banks in the sense that international standards set will act more as guidelines on how banking operations are done. Also it creates a platform that makes supervision on banking activities easier as guidelines are already put in place.

4.6.3 Implementation of a Proactive Approach to Banking Supervision

Relevant authorities that is the functional bodies that regulate operations in the financial sector which include the central bank and other monetary authorities should identify banking system vulnerabilities. Continuous liquidity and solvency assessments should be used by monetary authorities to identify banking sector risks. When a banking problem arises, regulators can use this information to determine whether the institution is experiencing liquidity or solvency issues, as well as the potential consequences of a failure. By so doing, the possibilities of a bank failure will be close to none.

4.7 Summary

This chapter gave an analysis and interpretation on the findings pertaining to the research in question that is an assessment on the causes of bank failure in Zimbabwe. The findings showed that most of the factors that led to the failures of these financial institutions were that of ineffective corporate control, weak supervisory and regulatory frameworks that failed to properly manage and monitor bank operations, poor lending initiatives as well as non-performing loans. The next chapter will therefore conclude the research study by giving recommendations based on the research findings in an attempt to provide solutions and measures that can be put in place to avoid the financial distress of bank failure in Zimbabwe.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter summarized all the chapters pertaining to the research question on the assessment on the causes of bank failure in Zimbabwe. Findings and recommendations were outlined in this chapter basing on the research findings obtained from the questionnaires as well as noted in the previous chapter. The research findings comprised of the causes of bank failure as well as the effects. These recommendations were given in an attempt to try and prevent a similar catastrophe in the financial sector.

5.1 Summary of Findings

Major findings on the causes of bank failure pointed that poor corporate governance, non-performing loans, credit risk as well as weak supervisory and regulatory framework were the resultant factors that led to the causes of bank failure according to the respondents' comments. There is need improve on the bank practices so as to enhance bank soundness and managerial bank effectiveness. The recommendations that could be put in place so as to address the major causes of bank failure will be given.

5.2 Conclusions

The conclusion of the research study on the assessment on the causes of banks failure in Zimbabwe was based on the following objectives:

- To identify the causes of bank failures in Zimbabwe.

- To examine the effects of bank failures in Zimbabwe.

- To identify measures that have been put in place to prevent bank failures in Zimbabwe.

- To identify possible solutions to bank failures in Zimbabwe.

The research was conducted basing on the noted objectives. Findings depicted on a number of causes and these include:

- Poor corporate governance
- Non- Performing Loans
- Weak Supervisory and Regulatory Framework
- Credit risk

Respondents also emphasized on the devastating effects that negatively affected a number of people. Some of these effects still exists even till now and these include:

- Loss of Confidence
- Unemployment

Some of the responses obtained from the research questionnaire pertaining to whether the RBZ can be blamed for the failed institutions, showed that 64% of the respondents agreed that the RBZ had weaker policies in place at the time these banks failed and somehow contributed to the failure of these. Only 36% of the respondents stated otherwise as they were not in agreement with the latter. A close relationship between consumer trust and financial distress was also established as it showed that where there is financial distress there is also consumer trust lost resulting to bank runs.

5.3 Recommendations

In respect to the above conclusions, it is recommended that the following recommendations be considered as possible solutions to prevent bank failure:

5.3.1 Securitization of Non-Performing Loans

Non-performing loans need to be securitized as this will enable banks to convert assets into liquidity at their time of maturity which cannot be sold in liquid markets. Securitization implies that banks can easily convert assets that would otherwise be stranded on the balance sheet until they mature into liquidity assets. By so doing the bank will easily afford to provide new loans as its liquidity would have now improved. Securitization also eliminates liquidity problems that banks could face as it allows for quick conversion of assets into liquidity. Henceforth if non-performing loans are securitized this will ensure high liquidity for financial institutions and eliminate it as a potential cause of bank failure.

5.3.2 Ensure Good Corporate Governance

It has been noted that corporate governance issues are the major causes as to why most banks and other financial institutions are failing. Most institutions have failed all because of poor corporate governance. Therefore this study recommends that there is need to ensure good corporate governance. This can be done in so many ways by implementing separation of control from management so as to enable clarification and specification of duties and also implementing inspections and monitoring evaluations across the entire entity. Good corporate governance also ensures the recruitment and appointment of qualified personnel as well as an emphasis on the code of ethics. This reduces the rate at which illegal activities such as insider lending from rogue employees will occur.

5.3.3 Improve on Security Features in Banks

Banks are corporations that are prone to high risks which include security invasions as they are open to a lot of people. There is therefore need to improve on monitoring and surveillance systems. This helps monitor all activities done in the bank more specifically those done by bank employees. Surveillance is most effective because it eliminates a lot of human intervention and interaction hence ensures the automatic processing of financial reports at the same time reducing the event at which information may be tempered with.

5.3.4 Creation of Specialised Commercial Courts

The creation of individual courts that specifically await or deal with commercial crimes enables thorough prosecution of these crimes. These commercial courts can be established by the government through Acts of Parliament. Most of these commercial crimes like white collar crimes are more rampant in the financial sector and these include fraud, embezzlement of depositors' funds and corruption hence the need to create these courts as this enables specialisation in how these crimes are dealt with.

5.3.5 Ensure Credit Risk Management

Credit risk management is the process at which institutions try to minimise losses by understanding the adequacy of loan loss due to the inability of the borrower to make payments on a particular debt. To ensure a successful credit risk management there is need to completely gain a thorough picture of a bank's entire credit risk by looking at risk at the individual, customer and portfolio levels. These thorough risks assessments assist banks to know whether its capital reserves reflect imminent risks of loss. This will assist in making decisions whether to engage in issuing of loans basing on the moral hazard theory to which most institutions collapsed as a result of this negligence. Proper credit risk requires data visualisation and business intelligence tool capabilities that deliver critical information into the hands of people who need it, when they need it minimising the closure of banks due to credit risk.

5.3.6 Improve and Strengthen the Supervisory and Regulatory Frameworks

The central bank that is the Reserve Bank of Zimbabwe needs to strengthen its supervisory framework. This can be done by implementing policies that must be adhered to by the financial institutions. If certain policies are implemented, it would be easier to monitor compliance issues and regulate activities conducted by banks. These policies must be formulated adhering to the FATF Recommendations as they offer a guideline on how banks should operate. Moreover, to avoid a potential banking crisis, strict preregistration and license procedures must be implemented as well as ensuring the KYC standards are being complied with and suspicious transactions being reported. Therefore a robust supervisory and regulatory framework needs to be formulated.

5.4 Suggestions for Future Studies

Many factors that have resulted in poor corporate governance and non-performing loans. However future studies need to emphasize more on the implications of the Reserve Bank of

Zimbabwe in banking operations as well as explore on the impact of political policies implemented by those in power and how they directly affect and stand as an underlying cause of bank failure.

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APPENDIX A

APPROVAL LETTER

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To Whom It May Concern

REF: RESEARCH ASSISTANCE

My name is Ottilia Tariro Masunga (B1850205), a student at Bindura University of Science Education, undertaking a degree program in Financial Intelligence in the Faculty of Commerce. I am carrying out a research project on **“Assessment on the Causes and Effects of Bank Failures in Zimbabwe. A Case Study of ZB Bank.”** I therefore sincerely ask you to provide me with information that will support me in my research. Information collected during this research is for academic use only and it will be treated with utmost confidentiality. All information will be valued and recognized, no view or opinion will be regarded as wrong. You will not be probed to write your name anywhere on the questionnaire as it is considered anonymous.

Your assistance and time taken to fill in this questionnaire and conduction of interviews is greatly appreciated. For any queries and more information kindly contact the undersigned at email address tarymasunga@gmail.com **0772117234**

Yours Sincerely

Ottilia Tariro Masunga

APPENDIX B
QUESTIONNAIRE

Instructions

1. Please tick in the appropriate box.
2. Do not write your name.

<u>Questions on assessment on the causes and effects of bank failures in Zimbabwe. A case study of ZB Bank</u>

<u>SECTION A: Demographics.</u>

Company name…………ZB BANK……………………………………

1. Gender: Male [ ]   Female [ ]

2. Type of institution

Commercial bank [ ]   Merchant bank [ ]   Building Society [ ]

Savings bank [ ]   other [ ]

3. What is your minimum length of service at the current organisation?

Less than 5years [ ]

Less than ten years [ ]

More than 10 years [ ]

Over 20 years [ ]

4. Indicate your position in the organization.

Department Manager [ ]

Department Officer [ ]

Senior Accountant [ ]

Auditors [ ]

Other (specify)……………………………………….

5. Qualifications: Degree [ ]   Diploma [ ]   Professional Qualification [ ]

Other [ ]

Section B. (Fill in the spaces provided)

1. What were the causes of bank failure from the period 2006-2015?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
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…………………………………………………………………………………………………

2. Do you think corporate governance issues where a major contributing factor to bank failure?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

3. Can it be said the Reserve Bank of Zimbabwe could have done better to avoid the financial crisis from the period 2006-2015?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

4. Do you agree that the Reserve Bank of Zimbabwe had weaker policies which led to the demise of these banks? Yes [ ] No [ ]

If **yes** please justify your answer

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5. What are some of the major effects that were caused by bank failure during the period of 2006-2015?

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6. What are the factors that need to be addressed to improve the banking sector and avoid banks from failing?

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7. What other policies has the Central Bank pursued to mitigate bank failures in Zimbabwe?

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8. Is your institution complying with these policies you have mentioned in question 7?

Yes [ ] No [ ]

Thank you for your cooperation, God bless you!

Appendix 3 Interview Guide

Interview Guide

1. What were the causes of bank failure from the period 2006-2015?

2. Do you think corporate governance issues where a major contributing factor to bank failure?

3. Can it be said the Reserve Bank of Zimbabwe could have done better to avoid the financial crisis from the period 2006-2015?

4. Do you agree that the Reserve Bank of Zimbabwe had weaker policies which led to the demise of these banks? If yes please justify your answer

5. What are some of the major effects that were caused by bank failure during the period of 2006-2015?

6. What are the factors that need to be addressed to improve the banking sector and avoid banks from failing?

7. What other policies has the Central Bank pursued to mitigate bank failures in Zimbabwe?

8. Is your institution complying with these policies you have mentioned in question 7?