

Mobilizing deposits; the role of Commercial Banks in Ghana

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Abstract

Commercial banks are the main controller of the financial system in Ghana performing financial intermediation. They control greater portion of the investment funds from domestic deposits and are the main creditors of the corporate bodies, SMEs and individual investors. However, the amount of domestic funds that commercial banks receive is far below the level sustainable for self-sufficiency. Huge volumes of loanable funds are left out of the banking system and it needs the efforts of the commercial banks to tap them into productive uses. The purpose of this study therefore is to identify the most effective and efficient ways commercial banks in Ghana should employ to maximize the volume of domestic deposits in the environment of high rural population, dominant informal sector employment and macroeconomic instability. Thus, the study aims to evaluate the design of bank products and services, assess their effectiveness of harnessing domestic deposits and challenges they face in mobilizing deposits. This research is based on relevant books, journals, articles and other publications. In addition, data from commercial banks in Ghana on deposits they received from 2000 to 2004 were studied to make recommendations. Results from the analysis indicated that deposits mobilization of Commercial Banks in Ghana though, has an upward trend, it increases at a decreasing rate hence, the present level of deposits as a ratio of the total amount of money in circulation is woefully inadequate. The study also reveals certain basic facts about commercial banks in Ghana. Their concentration in the cities and a few urban areas as well as their product design and services are targeted to the literate formal sector employees. In addition, unfavourable macroeconomic conditions have resulted in negative real interest rate on deposits while unnecessary government intervention has reduced the confidence in the banking sector. The effects of these factors are the low deposits that commercial banks receive. The study concluded with recommendations for commercial banks such as; the need to redefine their product target, increase their scope to include the large majority etc. in order to ensure improvements in their operations.

Keywords: *Commercial banks, mobilization of deposits, products and services, macroeconomic conditions, capital growth and investment, and interest rate.*

Introduction

There has been a major interest in eradicating poverty in Ghana. The leaders of the developed countries in the various G8 summits pledged their support about debt cancellation and aid increments as their quota towards realizing this objective. Much still depends on the ability to mobilise domestic resources to achieve self-sufficiency. The financial sector is one major sector of Ghanaian economy that needs to be revitalized constantly in mobilising domestic deposits to increase investment funds.

The financial system in every economy is composed of the Bank-based system where provision and monitoring of investments funds are made through the banks on one hand and the stock market where investors (surplus units) enter directly through ownership of securities. Banks play an intermediary role of mobilising funds from savers and subsequently lend them to investors-individual/corporations as mostly the case in Germany and Japan. On the other hand, investment funds can also be mobilized by floating shares (equity) in the stock exchange market (Market-

Based system) where investors with surplus funds directly own part of the company (shareholder). The major players in the market-Based system are the institutional investors such as pension, mutual funds and insurance companies. In the United States and the United Kingdom economies where these institutional investors are well developed coupled with the high accounting standards and corporate laws, the role of commercial banks in mobilizing deposits has greatly reduced. According to Rajan (2005) the share of commercial banks assets as a ratio of the total assets of the financial institutions has declined from 70% to 30% in the United States while banks share of corporate debt has reduced from 19.6% in 1979 to 14.5% in 1994. This demonstrates the efficiency at which the stock market mobilizes funds/deposits for investments.

The stock markets in Ghana are not matured to the extent of mobilizing sufficient funds/deposits for investments (Kenny et al. 1998). This is due to the problem of information asymmetry, inappropriate accounting methods, low level of risk management, underdeveloped institutional investors such as insurance companies, pension and mutual funds, inappropriate corporate regulations and independent judiciary that must exist to ensure and articulate stock market capable of protecting investors and investment funds (Ross and Levine, 2000), (Beim and Calomiris, 2001). Though Kenny and Moss (1998) acknowledge growth of stock markets in Africa with the onset of certain institutional reforms like the Financial Sector Adjustment Program (FINSAP), the stock market contribution of 13.30% to GDP in Ghana is still too low to provide sufficient credits in the economy (Global Stock Markets Facts book, 2003). While efforts are underway in these economies to provide the necessary macroeconomic environment and institutions conducive for a market-based system of financing investment there is the need to strengthen the banks alongside due to the vital role they still have to play in the agriculture, Small and Medium Scale Enterprises (SMEs).

The function of the commercial banks in Ghana regarding deposits mobilization has not yielded maximum results. Banks deposit mobilization has tended to concentrate more in the urban areas. This covers the rich with regular incomes and a few large reputable companies who have the ability to save. Needless to say, most of the rural folks and small scale businessmen have limited access to the commercial banks. In many instances these people resort to “susu” collectors and rotational savers for their saving services. As far as these services may achieve their purpose of mobilizing deposits, they face threats of frauds and subsequent mistrust of operators. The benefits of extending bank services to these areas would be enormous either extending bank branches where profitable or bank personnel making periodic visits and training of local group leaders capable of using bank expertise to mobilize deposits.

In Ghana there are limited sources of funds to investors and looking at the dominance of the commercial banks operating in 277 areas and commanding 70% of the banking business (Embassy of Ghana in Washington DC) there is the need for bank reforms that devise more effective ways of mobilizing deposits from these small scale enterprises and subsistent farmers and widens their scope to meet the entire population with bank products and services. The more banking services are extended to the rural savers, the more deposits will increase and “all other things being equal” supply of loanable funds will increase proportionately.

Methodology

This study mainly had an explanatory research purpose since it aimed to establish the effect of methods used by commercial banks on deposits mobilization.

According to Yin (1994), there are five major research strategies used to answer research questions which are experiments, surveys, archival analysis, histories and case studies. This study adopted a case study approach (i.e. commercial banks in Ghana as a case). Yin (1994) suggests that a case study methodology is a preferred research approach where the research question to be addressed is a type of how-why; control of the researcher over the research is none or very insig-

nificant and the focus is on a contemporary phenomenon. Because of these differentiating characteristics, no approach could have answered and achieved the research questions and objectives respectively than the case study method. In the case study methodology, the focus is not on a limited number of predetermined independent variables, but on factors, which are helpful in explaining the observed phenomena.

The population of the study is commercial banks in Ghana. Out of the twenty-seven (27)

Commercial banks, nine (9) have been selected as the sample size because of access to ready data. In addition, some of the banks were not in operation during the periods under consideration (2000 -2004).The sample include the Ghana Commercial Bank Limited, Barclays Bank (Ghana) Ltd, Standard Chartered Bank (Ghana) Ltd, SG-SSB Bank Limited, Trust Bank, Prudential Bank Ltd, Stanbic Bank (GH) Ltd, HFC Bank (Ghana) Ltd, International Commercial Bank, listed in descending order of rank in accordance with the standards set up by both Fitch and Standard and Poor (S&P) Credit Rating Agencies (Bank scope, 2005). Banks 'ratings largely depend on the strength of both their capital adequacy ratio and the volatility to credit and interest rate risks. The larger a bank's capital adequacy ratio, the less vulnerable it is to crisis and other things being equal the more solvent it becomes. Due to the small sample size, it is recommended that interpretation of the results from the study should be done with some degree of caution.

The secondary data source used included audited and published financial statements for the years 2000 to 2004. The websites of the various banks, annual reports, brochures, past research work, publications of Ghana statistical service, books as well as print media were also scrutinised for information. The periods were chosen because of access to ready data. The data was sourced from nine (9) commercial banks and was basically from the Annual Financial Reports which were gathered through contacts of their Managing Directors.

Analysis and Discussions

Commercial banks in Ghana through their various products have embarked on an intensive marketing drive to enhance deposit mobilisation. The mechanism has always been product design. These products must be designed to be customer focused. Indeed, they must be designed to either target their corporate customers such as Unilever Ghana Ltd, Guinness Ghana Ltd, Ghana Brewery Ltd, Small and Medium Scale Enterprises (SMEs) and/or individuals saving through current and/ or saving accounts. Above all, the products must attract and retain valuable customers to be able to generate the required profits.

4.2 Trend of Deposit Mobilisation in Ghana

A study of deposit mobilisation in Ghana from the year 2000 to 2004 reveals an upward trend. A sample of nine(9) out of the twenty-seven(27) commercial banks involving the top rated banks by Fitch and Standard & Poor Rating Agencies indicates an average yearly increase of 32.1% calculated from the yearly percentage increase in deposits. Theoretically, a growth rate of 32.1% in deposits may be considered sufficient to increase supply of loanable funds. However, the present level of deposits as a ratio of the total amount of money in circulation is woefully inadequate (Chapter one).

There is a wide disparity in the rate of deposit growth among commercial banks. The newly established commercial banks for instance Stanbic Bank (Gh) Ltd, Prudential Bank and International Commercial Bank have higher deposit growth rates than the traditional commercial banks such as the Ghana Commercial Bank, Barclays Bank (Gh) Ltd and the Standard Chartered Bank (Table 4.1 and figure 4.1). Over the years studied, Stanbic Bank has more than doubled its deposits yearly while International Commercial Bank and Prudential Bank almost doubled their deposits receipts in 2001. However, Standard Chartered Bank fell behind its deposits in the previous year. This is likely to be the effect of the high rate of inflation in early 2001 as discussed in chap-

ter two. Though there were increases in the deposits received by all the other commercial banks in the year in question (2001), the rates were comparatively minimal.

The data presented in table 4.1 and figure 4.1 below only gives an idea about the amount and the rate of increase over the years studied. There is no distinction as to the proportion of annual deposits mobilized domestically. Evidence from the ownership structure as given in (Acquah, 2003) indicates that foreigners own a greater percentage of commercial banks in Ghana. This suggests that more of their deposits may rather come from foreign sources instead of the domestic country. If the latter scenario holds, then in the event of macroeconomic instability as has been the case in the previous years (chapter two) with its related capital flight, the Ghanaian commercial banks may be prone to financial crises.

Table 4.1 Commercial Banks (Ghana) Deposits (2000-2004)

Bank	Annual Bank Deposits (million GHC)						
	2000	2001	2002	2003	2004	Total	Average Growth Rate (%)
Ghana Commercial Bank Ltd	1,693,283.0	1,720,419.0	2,470,177.0	3,183,830.0	4,321,166.0	13,388,875.0	21.9
SG-SSB Bank Ltd	748,435.0	879,000.0	1,273,180.0	1,491,561.0	1,821,854.0	6,214,040.0	24.7
Barclays Bank Ltd	1,344,383.0	1,819,836.0	2,075,643.0	2,912,024.0	3,511,465.0	11,663,351.0	22.0
Standard Chartered Bank	2,053,668.0	1,783,000.0	2,262,199.0	3,077,375.0	3,494,800.0	12,671,042.0	12.5
The Trust Bank	186,613.6	227,158.1	317,845.1	452,847.7	652,760.1	1,837,224.6	29.6
International Commercial Bank	261,278.9	50,976.6	91,998.2	166,441.9	257,516.0	596,211.6	47.2
Stanbic Bank (Gh) Ltd	26,825.1	67,408.0	90,832.3	308,690.4	610,446.6	1,204,202.4	98.8
Prudential Bank	80,664.5	145,693.2	234,062.0	305,914.0	503,950.0	1,189,619.2	47.3
HFC Bank (Gh) Ltd	164,409.0	201,889.6	224,307.2	213,753.0	230,539.0	1,034,897.8	7.4
Total	6,246,895.6	6,895,390.5	9,140,243.8	12,112,437.0	15,404,496.7	49,799,463.6	32.1

Source: Bank scope; annual deposits figures were extracted from the balance sheets and used to calculate the growth rates.

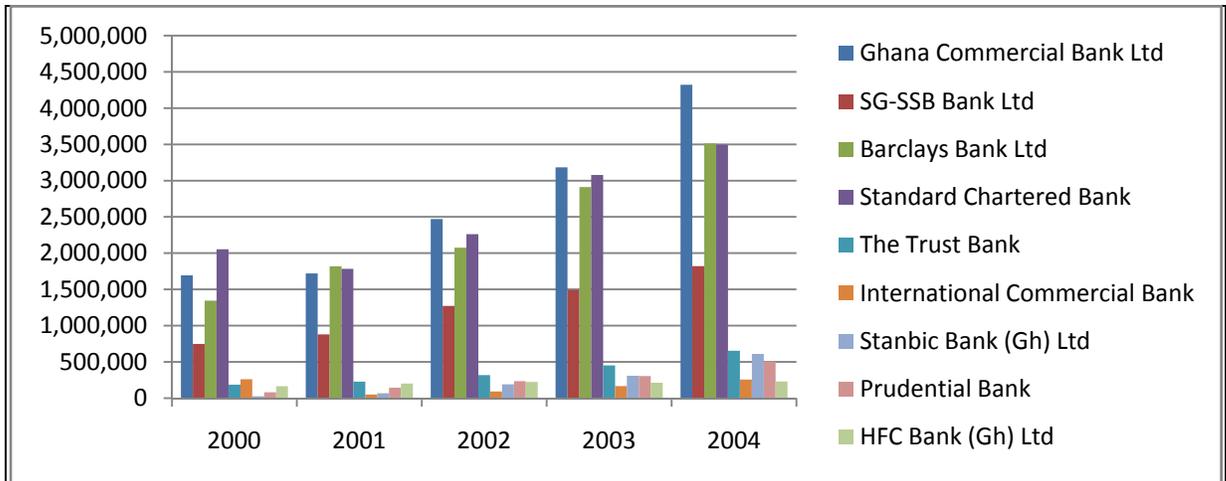


Figure 4.1 shows the Trend of Commercial Deposits Average Growth Rate

Source: Bank scope; annual deposits figures were extracted from the balance sheet.

The figure 4.1 above, though, review upward trend, the average deposits growth rates were comparatively minimal. Considering the individual commercial banks' strength of mobilising deposits, the study reveals that the amount of deposits gathered over the five year period is directly related to the number of branches. The larger the number of branches the larger the volume of deposits received. The Ghana Commercial Bank has the highest number of branches and total deposits as well as Barclays Bank and Standard Chartered Bank in that order. However, SG-SSB Bank ranks second in branches but fourth in total deposits. This must be due to over concentration on pension funds and students loan schemes previously. In all, total deposits commercial banks receive increase yearly. Figure 4.1 illustrates the total deposits of individual banks and total deposits in each year over the five year period respectively.

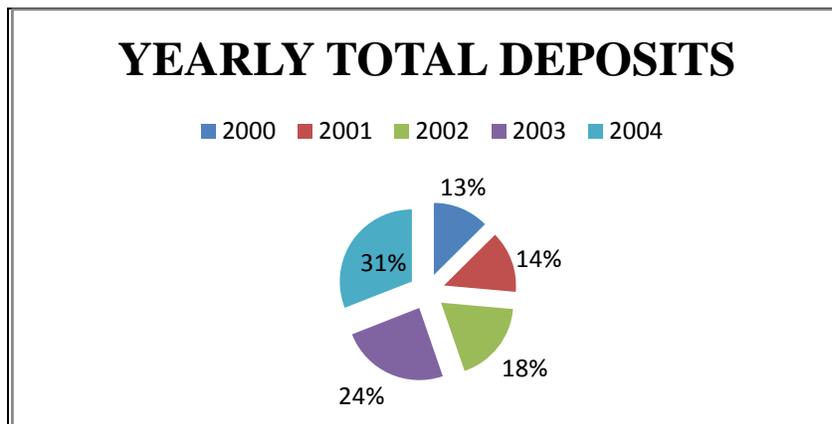


Figure 4.1.1 shows the Yearly Total deposits from (2000 – 2004)

Source: Bank scope (2004)

From figure 4.1.1 above, the percentage of the commercial banks yearly total deposits increased from 13% in 2000 to 31% in 2004.

Deposits form a major proportion of commercial banks' liabilities (Bank scope, 2004) and are the main source of loanable funds to individual investors and corporate customers. In the year 2004 alone the share of deposits (from table 4.1) as a percentage of Ghana Commercial Banks' liabilities was 77.0% while Barclays Bank (Gh) Ltd, Standard Chartered Bank (Gh) Ltd and SG-SSB Bank recorded 73.3%, 79.5%, 74.7% respectively. This underscores the over dependency of

commercial banks in Ghana on deposits and the issue of their efficient mobilisation needs to be addressed.

Instruments of Deposit Mobilisation in Ghana

Generally, commercial banks in Ghana use common tools to attract deposits. These tools have dual functions. Primarily, they are means of mobilizing deposits from customers. Secondly, they are media through which other financial products and services are sold to the customers. These tools are in the form of products and services and may have different names in the various commercial banks; however, they have similar modes of operation and effectiveness. The mechanisms discussed below are the general and specific products designed to meet their wide range of targets. Indeed, the mechanisms or methods help to satisfy the achievement of objective two of the study.

Savings Accounts

Savings accounts enable customers to deposit their money for investment and/or future use. This account is a provision for future convenience. Customers have the benefit of accumulating funds from their own occasional savings and earning interest. Depending on the type of commercial bank in Ghana operators of this account may have twenty-four hour access to their money or a specific time with limited amount to be withdrawn. Savings accounts are available to all customers, personal individuals, groups, corporate bodies and societies. Unlike the developed countries like the United Kingdom savings account in Ghana demand initial deposits and a minimum balance to be retained in the account to make it operational.

Aside, the standard savings account explained above, some commercial banks have specific savings accounts for specific customers with specific needs. These may include Trustee/High rate savings for children and people with liabilities, Fixed Deposit which in itself is an investment hedge against time. Fixed deposits are available in 3months, 6months and one year with negotiated interest rates and a Flexsave account which has flexible withdrawals. The minimum balance requirement as a condition for savings account favours regular income earners who have the ability to meet this minimum balance. Savings accounts are made attractive differently in the various commercial banks with different accompanying products which will be discussed in the subsequent sections.

Current Account

A current account is the type of account which operators have access to their money at all times. There are no restrictions as to the number of times a current account holder can withdraw provided there is sufficient balance in the account and the maximum daily withdrawal limit of the account is not exceeded.

Current accounts are cheque guaranteed and depending on the bank that operates them as well as the outstanding balance left may or may not attract interest. It enables customers (enterprises, societies, individuals and corporate bodies) to transact business and pay for them later. Current accounts in Ghana are normally operated by worthy individuals, cooperate bodies who wants to attract interest on their deposits while enjoying flexibility regarding withdrawals (call account). Current account holders in Ghana must earn regular and specific minimum incomes to qualify. Banks provide other services in connection with current account for instance bill payments to make them attractive to customers respectively. This underscores the over dependency of commercial banks in Ghana on deposits and the issue of their efficient mobilisation needs to be addressed.

Accompanying Products and Services to Customers

Savings and Current account holders enjoy a wide range of other services that are cross sold by the banks. These products and services have dual benefits to both the banks through the fees paid and to customers' access to smooth income. The most popular ones normally used by commercial banks in Ghana are overdraft facility where worthy customers are allowed to overdraw their accounts in the short term (maximum of 12months), medium term (3-5years) and long term (over 5years) loans payable by monthly instalments. Others include consumer credit schemes which allow regular income customers to hire purchase domestic appliances and communication gadgets and Comments purposely designed for corporate customers to access their accounts and request for other services at the comfort of their offices.

Kudi Nkosuo Account

The Kudi Nkosuo is a "Susu" saving scheme for the informal sector designed to encourage members of this sector to save and have access to credit facilities to expand their businesses. The different currents and savings accounts with their inherent benefits favour regular income earners in the formal sector. The informal sector which employs the highest proportion of the labour force is excluded. Kudi Nkosuo targets petty traders, artisans, market women and men (www.gcb.com). Bank personnel are deployed to the door steps of the savers to collect their daily savings. The door to door services enable to benefit from loans, overdrafts and other financial services. This type of account is unique to the Ghana Commercial Bank in its efforts to reduce financial exclusion on both the informal sector and the rural savers. Huge sums of rural deposits are harnessed through this service.

Fodem Account /Foreign Currency Account

Commercial banks efforts to expand deposits they have been extended beyond the borders of the country to entice Ghanaians abroad. Coupled with their money transfer services commercial banks are used as a medium through which huge sums of remittances from Ghanaians abroad are received. Most of these deposits are retained in the accounts of customers, hence increasing deposit liabilities of the banks.

Innovative Marketing Strategies towards Deposit Mobilisation

The greatest challenge facing the banking industry in recent times is competition among the banks. All the commercial banks have similar products designed to attract the same customers. It is therefore imperative to adopt the best customer care services to attract and retain valuable customers.

The innovative marketing strategies currently used by commercial banks are the use of automated teller machines (ATM) to facilitate cash withdrawals, telephone banking, net working of bank branches to speed up credit deliveries and computerisation of banks to encourage inter- bank transactions.

Problems of Deposit Mobilisation in Ghana

Outreaching Rural Savers

In Ghana, Commercial Banks are faced with many challenges in their desire to mobilise more deposits. As observed in the previous chapters, more than 60% of the population live in the rural areas in isolated villages. It therefore become cost ineffective to have bank branches that can conveniently provide door step financial services to the rural inhabitants hence, their concentration in the urban and the southern part of the country (Jones et al, 2000). In many instances bank are forced to close down their branches. Gockel (2003) observed that between 1989 and 1998, then SSB closed down 32 rural branches and Barclays and GCB closed down 16 each for the purpose

of cost reduction. He further observed that none of the newly established banks in the 1990s had branches outside the cities of Accra, Kumasi or Tarkoradi. Commercial Banks therefore battle with the problem of how to effectively harness the large volume of deposits left in the rural areas.

Regaining Confidence in the Banking Sector

The Banking sector in Ghana has not fully regained the confidence that many customers lost; thus making deposit attraction difficult. This could be due to partly the attitude of bank staff towards customers and the government action of controlling the operations of the banks. In the early 1980s most depositors had their deposits frozen because of the government's decision to withdraw fifty cedi notes from the money in circulation. Depositors are therefore reluctant to deposit in the banks for the fear of suffering similar action. In other instances depositors have been subjected to bank officials' brutalities in their attempt to withdraw their own deposits in times of need. The net effects of loss of confidence in the bank system are the low deposits that commercial banks receive in Ghana.

Unstable Macroeconomic Conditions

Another problem militating against deposit mobilisation in Ghana is the unfavourable macroeconomic environment with high inflation and reserve requirement and their associated low returns on deposits. In a period of high inflation, hedging is inevitably a prudent measure depositors pursue in order to enjoy future appreciation of value. Thus, more deposits are redirected into the purchase of real estate properties. The high reserve requirement of 44% (BOG Statistical Bulletin- Up to January 2005, Table 7) compose of both secondary and primary reserves in addition to high tax and a 10% development levy reduced the volume of loanable funds which subsequently reduce returns on investment and deposits. Currently, the reduction of reserve requirement to 15% still has the tendency to erode loanable funds and reduce interest payments, thereby discouraging deposit mobilisation. Deposits are withheld in a period of unstable macroeconomic environment.

Insufficient Instruments

Currently, the main instruments used to attract deposits in Ghana range from the simple savings and current accounts that require unaffordable initial deposits, money remittances business, branch expansion, corporate imaging, negotiable interest rates, promotion and advertisements, overdrafts and loan facilities to complex internet, telephone and ATMs. These instruments in the first place are not sufficient to cater for the financial needs of all the settlements. Secondly, they favour regular and formal service income earners than the informal workers such as artisans, farmers and other small scale operators who are the majority. Thirdly, customers require literacy to utilise these instruments which majority of the population especially the rural inhabitants do not have.

Summary of Findings, Conclusions and Recommendations

Summary of Findings

The study reveals certain basic facts about commercial banks in Ghana in their struggle to mobilize greater domestic deposits. Firstly, Commercial banks deposits mobilization in Ghana from 2000 to 2004 indicates an upward trend however, the present level of deposits as a ratio of the total amount of money in circulation is woefully inadequate. Secondly, the methods or the design of product and services, like initial deposits as a precondition for bank account as well as ways of promoting products, have tended to benefit formal sector workers who earn regular income than the informal workers such as artisans, farmers and other small scale operators who are the majority. Thirdly, the concentration of commercial banks in urban areas couple with the insufficient

instruments used for deposit mobilization make them battle with the problem of how to effectively harness the volume of deposits left in the rural areas. Also, the attitude of bank personnel towards rural savers in Ghana has not been customer friendly to entice more depositors. Finally, even though there is a significant difference as far as the banks general deposits growth rate is concerned, in terms of annual average deposit growth rate, there is no significant difference.

Conclusion

Commercial Banks are absolutely essential in the development of the financial system in Ghana. At the moment they are the major mobilizers of local resources in the form of deposits. They are indeed the appropriate media to secure investment funds in these economies where the market is yet to develop. The deposits they attract over the years keep increasing, but are insufficient for self sustainability and form a meagre proportion of the money in circulation. The implication is that large unproductive deposits are left to be squeezed into loanable funds for investment. The onus rests on the commercial banks in collaboration with all other formal and informal financial service providers and government to introduce immediate reforms towards achieving these goals. They strive towards self sufficiency in the financial sector should embrace all calibre of people in Ghana to make the Millennium Development Goals achievable.

Recommendations

1 Extending Banking services to the rural savers.

Commercial banks should now target the rural majority. Where the usual way of extending bank branches has not been helpful, there could be formation of Self Help Groups (SHGs) made of members with similar occupations. Bank personnel can then be deployed periodically to train them simple book keeping, account maintenance and depositing and other related business advice. This is likely to develop rapport between banks and savers. On the other way round, rural saving mobilizes such as mutual fund operators, ROSCA, credit unions, rural banks and “susu” collectors should be commissioned and monitored to ensure savers safety.

2 Restoring Confidence in the Banking Sector

The banking sector has been unnecessarily controlled by government where depositors suffered losses through account freeze and interest rate ceilings. Depositors are reluctant to save. Making the Central Bank independent in taking monetary policy regulations while, government concentrate on fiscal and infrastructural development would be helpful to restore savers confidence. Prudent macroeconomic policies to subduing inflation to a reasonable level will ensure positive real income.

3 Removal of High Initial Deposits and Minimum Balance.

Basic bank products and services such as opening bank account and withdrawals should be made absolutely unconditional. Initial deposits and minimum balance requirements squeeze out savers available income. Depositors should have their money as and when needed through ATMs and Retail shops. This will do away with the habit of keeping money under pillows. Efforts should be made to ensure employees in the formal and informal sector receive their wages through the banks.

4. Strengthening the Financial Sector Regulations

The legal system in Ghana is weak and subject to manipulation from both the government and the opinion leaders. Investors/depositors are not protected in such a situation to invest their money. Good accounting methods, auditing and other checks and balances would ensure smooth

interpretations of the law. Enforcing regulations to guide and protect depositors would provide a safe environment for depositors to increase their savings.

5. Bank Personnel Direct Contact Promotions

Commercial banks should form the habit of reaching savers with their products and service in vantage areas like shopping malls, super markets and other similar places. The usual trend of waiting to receive depositors in the banking halls need to be extended. In such cases, telephone and internet banking would help in the urban areas while other resources would be left for personal contact between bank officers and rural savers. Detailed education on product benefits to customers should be promoted and advertised.

6. Direct Rural Development

Commercial banks in Ghana do not usually commit part of their profits into village development. In many cases the huge profits declared are only paid as dividends. The rural savers therefore see commercial banks as institutions belonging to the rich. However, evidence from the GCB Quarterly Economic Review, (2003) confirms that banks which are used as media for micro projects in the villages increase their rural customers. Commercial banks would increase deposits should they combine with the government in developmental projects at the community level.

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