Causes of Bank Failure in Ghana: A Study of UT and Capital Bank

Author Details:
Ernest Ofori Asamoah, KNUST, IDL Kumasi, Ghana
Email: droforisamoah@gmail.com
Sandra Boti, KNUST, IDL Kumasi, Ghana

Abstract
Since the late 1970s, bank failures have become increasingly common the world over, to which Ghana was no different. The Bank of Ghana announced that Capital Bank (Gh) Ltd and UT Bank had been awarded receivership to Ghana Commercial Bank Ltd, because they were deeply insolvent. The study seeks to examine the general causes of bank failures in Ghana. The study adopted the deductive and inductive research approaches as it combined quantitative and qualitative strategies. The sources of data were from both secondary and primary sources. The Statistical Package for Social Science (SPSS v 23) was used to analyse the data. The findings of general causes of banks in Ghana from the customers, capital requirements; poor risk management procedures such as lending practices of banks; lender of last resort, bad loans, deregulation of banks were the most severe causes of bank failures. The findings from the management members, the lender of last resort; over-reliance on one member of staff, deregulation of banks; poor risk management procedures such as lending practices of banks; government Deposit insurance scheme was the most severe causes of bank failures. The findings from the regulators, political interference; inappropriate corporate government structures; bad loans; adverse economic environment; Fraud and corruption were the most severe causes of bank failures.

1.0 INTRODUCTION
Since the late 1970s, bank failures have become increasingly common. Bank failures have occurred not only in Ghana but globally including Africa. Bank failures are the most dreaded phenomena within the Banking Industry across the world as they not only affect the Bank but its Clients, Depositors, Industry and even Families. The fear of Bank failures is not only because of its impact on Depositors but for the likely spillover effect of one Bank’s failure on other Banks as Depositors rush to withdraw their Monies for fear of similar failure of their Banks.

In Ghana, the first phase of the Financial Sector Adjustment Programme which started in 1988 and ended in 1991 revealed that seven (7) out of eleven (11) commercial banks in Ghana were distressed. Aside from the banks, several rural banks in Ghana were also seriously challenged. It cost the government an estimated US$ 30 million or 6% of GDP to resolve the situation (World Bank, 1989). In the year 2000, the Central Bank announced the resolution of the Bank for Housing and Construction and the Ghana Co-operative Bank after they continuously failed to meet the regulatory requirement. In 2017, the revocation of the licenses of Capital Bank and UT Banks was a case in point of bank failures in Ghana.

There have been many conflicting theories explaining the causes of the failure of the banks. While some believe it was merely to score political points, others believe it was as a result of high non-performing loans. This paper seeks to ascertain the causes of the failure of these banks in Ghana.

2.0 REVIEW OF RELATED LITERATURE
Several factors have been identified to cause bank failure by previous researchers. Some of the common causes include deteriorating economic factors, regulation of banks, government deposit insurance scheme, capital requirements, inadequate reserve requirements, forbearance, the lender of last resort, mismanagement (over-reliance on one member of staff, fraud and corruption, deregulation of banks) and political interference.
Deteriorating Economic Factors
The deteriorating economic conditions (e.g. interest rates, exchange rates and inflation) of a country could breed bank failure (Hooks, 1994). Macroeconomic factors such as unexpected inimical alteration in global exchange, inflation rates and interest charges could result in bank failure if these factors are compounded by unfavourable regulations exacted on banks (Eisenbeis, 1986, cited by Hooks, 1994). Interest rate fluctuations as emphasized by Eisenbeis (1986) contribute to the banking crisis.

Regulation of Banks
Government interventions also have the tendency to stimulate a higher level of bank distress (Hooks, 1994). As explained by Hempel and Simonson (1999), the interventions of government to save banks from failing usually cause customers, creditors and institutions to depend on the government. Contrarily, these interventions serve as a disincentive to the efforts made by other customers, creditors and institutions to monitor their interest in the banks effectively and independently because they trust the government would intervene.

Government Deposit Insurance Scheme
The absence of rescue measures exposes distressed banks to the runs of their depositors (Goodhart et al., 1998). Nevertheless, when the government embarks on measures of rescue and insurance schemes of deposit, banks are not motivated to control intermediaries’ activities. This is explained by the reason risk-seeking behaviours of banks are reduced by regulators to protect the public interest.

Putting a Ceiling on Deposit Interest Rates
There has been a school of thought that when ceilings are put on interest rates of banks, it leads to them failing. According to Selgin (1996), the purpose of placing on the ceiling to prevent the banks and financial institutions from doling out high amounts of money as loans with huge interest. Hooks (1994) posits that the presence of the ceiling causes the banks to engage in risky tendencies that cause them to collapse.

Prohibiting banks from establishing branches
Geographical limitations pose significant threats to banks and so has the tendency to stimulate a higher level of bank failure (Selgin, 1996). Furthermore, such restrictions increase the vulnerability of a bank to several threats, encourage systemic risks and hinder the efforts of private market forces from averting failure. As observed by Hooks (1994), branching restrictions prevents banks from spreading out to new places.

Capital Requirements
The probability of failure of a bank becomes higher with a lower bank’s capital (Polizatto, 2012). Capital is crucial to mitigate losses suffered by banks. Banks usually cover up their challenge of capital inadequacy because they fear exposing their illiquidity. However, this could lead to insolvency (Polizatto, 2012). Goodhart et al. (1998) expressed a similar view by stating that sufficient capital decreases risk-taking whilst sufficient capital influences banks to employ actions towards survival at all costs.

Forbearance
Although leniency or forbearance exercised by the regulatory bodies is aimed at assisting the bank to generate profit, it becomes a disadvantage to the financial institution because when banks have inadequate capital and they continue to operate, their capital situation deteriorates (Jacobe, 2008).

Lender of Last Resort
When banks are failing, governments are normally noted for using the lender of last resort to help out the stakeholders (Selgin, 1996; White, 1999). When bank distress increases the money reserved to resolve the situation decreases. The options left are either to consolidate the operations of the distressed banks or to
replenish the reserves of the distressed banks. However, these measures could rather cause the banks to become very risky in their dealings.

Mismanagement
The success of a business is largely dependent on management. Many bank failures in the 1980s and early 1990s were a result of mismanagement. Spiegel et al. (1996) expound that focus and competence play a significant role in banking, this thus impliesthat bank crises may be a consequence of poor managerial ideas in management decision-making.

Political Interference
Politically focused lending, as pointed out by Goodhart et al., (1998), could lead to a banking crisis. In support of this claim, Caprio and Honohan (1999) note that the actions of governments, such as the exploitation of funds by deceitful leaders can in many ways result in bank failure as evidenced in the Philippines in the 1980s. Mostly, the solvency of borrowers is not assessed properly when governments influence banks to give out loans to win political favors and this undermines the financial standing of the bank which could eventuate into a bank crisis.

3.0 METHODOLOGY

Research Strategy Approach
According to Patel and Tebelius (1987), the main strategies available to researchers are qualitative and quantitative strategies. This study adopted the quantitative and qualitative research strategies. This involves the use of survey questionnaires which are structured and content analysis using document and desk review. The purpose of the questionnaire was to help come out with generalization that will help in the comprehension of the phenomena being studied (Naoum, 2002) while the content analysis sought to throw more light on the specific causes of the collapse of UT Bank and Capital Bank Limited. The quantitative research strategy is considered appropriate and suitable for studying the relationships between the variables.

Population of Study
The population target for this study consisted of regulators, management and staff members of UT Bank and Capital Bank now part of GCB Bank. The customers of GCB Bank formerly of UT and Capital Banks were also targeted. The target population was selected because it was believed they could provide data that would identify practitioners’ knowledge or otherwise of financial malpractices that led to the collapse of the two banks.

Data Sample and Sampling Method
The sample size for the study consisted of four hundred people comprising of regulators as well as management and customers of the defunct UT and Capital Banks were contacted through GCB Bank that had taken over the assets of the collapsed banks. After the distribution of questionnaires, a total of two hundred and seventy-two (272) questionnaires were retrieved from respondents, of which no invalidity was recorded. Two hundred and thirty (230) questionnaires were retrieved from customers. Forty (40) questionnaires were retrieved from management members while two (2) questionnaires were retrieved from regulators. This represents a response rate of 68%

The sampling techniques adopted by the research were purposive and cluster sampling techniques. In purposive sampling, a decision is made to target specific respondents due to their knowledge in the subject matter (Naoum, 2002). This is to reduce cost, time and increase efficiency by targeting every type of respondent involved; that is, customers of the two banks and GCB which took over UT and Capital banks, key management personnel of the former banks and regulators. Cluster sampling according to Saifuddin (2009) involves the grouping of population elements and working with the group instead of individual elements. Cluster sampling divides the population into varying similar groups.
The clusters in this study consisted of customers, employees and regulators. The target population was selected because it was believed they could provide data that would identify practitioners’ knowledge or otherwise of financial malpractices that led to the collapse of the two banks. After the selection of clusters, a simple random sampling was conducted for the various respondents in the clusters. In a simple random sampling technique, all the respondents were given an equal chance of partaking in the study.

Sources of Data
The sources of data were from both secondary and primary sources. The primary sources of data were the designed questionnaires, reflecting the study’s objectives and questions. The designed questionnaires were both open-ended and closed-ended. Meanwhile, the secondary data source comprised of journals, magazines and other reports on bank failures. Also, other secondary data sources such as books and internet searches were used in reviewing relevant literature in assembling information related to UT Bank and Capital Bank.

Data Collection and Study Tools
The researcher developed well-designed questionnaires and structured interview questions used to gather information from the population on the subject matter. The population was briefed on the purpose of the research by the researcher before giving out the questionnaires with no deception made. In ensuring a high sense of confidentiality and anonymity, the researcher managed data in aggregates not in units, as a means of protecting the identity of respondents. This ensured that respondents remained sincere and objective as possible. The researcher handed the questionnaire to respondents in a sealed envelope to be filled at their convenience and returned to their branch of the transaction of GCB Bank. The collection period for the data lasted for a period of four weeks. In relation to the tools used for the study, the researcher adopted both questionnaires and structured interviews. The questionnaires used for the study were both open-ended and closed-ended. The researcher also conducted interviews with management and regulators.

The questionnaires for the study were formulated based on a thorough review of existing literature involving the subject matter. There were three different questionnaires administered, one for each group of respondents. The respondent groups were customers, management and regulators. The researcher adopted a five-point Likert-scale format, where 1 was not significant, 2 was less significant, 3 was moderately significant, 4 was significant while 5 was very significant. Content analysis was conducted using past reports as well as reviews on the failures of UT Bank and Capital Bank. The thematic areas focused on were: the causes of the failures, actions against the directors, action against Bank of Ghana and measures to prevent bank failures.

Data Analysis
After the data was collected, it was segregated to allow for a clear and detailed analysis. The responses from the questionnaires were entered into the software SPSS (Statistical Package for Social Sciences) as well as Microsoft Excel. Analytical tools for the analysis comprised of descriptive statistics (simple frequencies) and mean score ranking (mean scores and standard deviation). Multiple regression analysis was used to assess the relationship that exists between bank failure and regulatory and prudential management.

4.0 RESULTS
The objective of this study was to explore the causes of bank failures in Ghana. The study explored the causes of banks in Ghana from the perspective of the customers, management and regulators of the industry. The customers of the failed banks indicated that capital requirements, risk management procedures such as lending practices of banks, the lender of last resort, bad loans and deregulation of banks among others were the causes of bank failure in Ghana. Table 1 shows the other causes attributed to bank failure by the customers of the failed banks.
These findings agree with past literature. Capital is crucial to mitigate losses suffered by banks. Banks usually cover up their challenge of capital inadequacy because they fear exposing their illiquidity. However, this could lead to insolvency (Polizatto, 2012). Goodhart et al. (1998) expressed a similar view by stating that sufficient capital decreases risk-taking whilst sufficient capital influences banks to employ actions towards survival at all costs.

<table>
<thead>
<tr>
<th>Causes of Bank Failure: Customers Perspective</th>
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<tbody>
<tr>
<td><strong>CAUSES</strong></td>
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<tr>
<td>Capital Requirements</td>
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<tr>
<td>Poor Risk Management Procedures Such as Lending Practices of Banks</td>
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<tr>
<td>Lender of Last Resort</td>
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<tr>
<td>Bad loans</td>
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<tr>
<td>Deregulation of Banks</td>
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<tr>
<td>Forbearance</td>
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<tr>
<td>Inability of management to appreciate and control a business</td>
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<tr>
<td>Over-reliance on one member of staff</td>
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<tr>
<td>Fraud and Corruption</td>
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<tr>
<td>Inappropriate corporate government structures</td>
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<tr>
<td>Deteriorating Economic Factors</td>
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<tr>
<td>Political Interference</td>
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<tr>
<td>Regulation of Banks</td>
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<tr>
<td>Prohibition of Banks from Establishing Branches and Limiting Bank Investments</td>
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<tr>
<td>Adverse economic environment</td>
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<tr>
<td>Asymmetric information</td>
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<tr>
<td>Putting a Ceiling on Deposit Interest Rates</td>
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<tr>
<td>Inadequate Reserve Requirements</td>
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<tr>
<td>Government Deposit Insurance Scheme</td>
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</table>

The causes of bank failure according to the management responses are indicated in Table 2 as shown below. According to the management of the defunct Capital and UT Bank now a staff of GCB Bank, *Lender of last resort*, Over-reliance on one member of staff, *Deregulation of banks*, Poor risk management procedures such as *lending practices of banks* and *Government Deposit Insurance Scheme* were among the top reasons for the failed banks. The findings are in agreement with past studies undertaken. When bank distress increases the money reserved to resolve the situation decreases. The options left are either to consolidate the operations of the distressed banks or to replenish the reserves of the distressed banks. However, these measures could rather cause the banks to become very risky in their dealings.

The management members indicated that other economic fundamentals also contributed to the collapse of the bank’s question in Ghana. The respondents indicated that the general economic environment impacting negatively on business; increased competition in the banking system caused by having so many banks, contributed to banks not doing due diligence before giving out loans just to get more customers. Also, the Bank of Ghana policy rates made interest rates on bank loans quite high. Since banks were borrowing at a higher rate from the Central Bank, they in turn had a high interest rate for loans. High interest rates led combined with weak economic fundamentals.
contributed default on the part of customers. Also, the regulator is blamed for not being strict in implementing its regulation caused the collapse of the two banks. These banks were permitted to engage in high risk transactions which led to bad debts.

The regulators who partook in the study also indicated the following as the major causes of bank failures in Ghana: political interference, inappropriate corporate government structures, bad loans, adverse economic environment as well as fraud and corruption.

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<table>
<thead>
<tr>
<th>Causes of Bank Failure According to Management</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender of Last Resort</td>
<td>4.025</td>
<td>0.94699</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
</tr>
<tr>
<td>Over-reliance on one member of staff</td>
<td>3.875</td>
<td>0.82236</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Deregulation of Banks</td>
<td>3.825</td>
<td>0.95776</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Poor Risk Management</td>
<td>3.775</td>
<td>0.99968</td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Procedures Such as Lending Practices of Banks</td>
<td>3.75</td>
<td>1.17124</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Government Deposit Insurance Scheme</td>
<td>3.75</td>
<td>1.17124</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Regulation of Banks</td>
<td>3.75</td>
<td>1.23101</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Inadequate Reserve Requirements</td>
<td>3.65</td>
<td>1.23101</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Asymmetric information</td>
<td>3.6</td>
<td>1.05733</td>
<td>9&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Putting a Ceiling on Deposit Interest Rates</td>
<td>3.575</td>
<td>1.29867</td>
<td>10&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Forbearance</td>
<td>3.5</td>
<td>0.96077</td>
<td>11&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Political Interference</td>
<td>3.475</td>
<td>1.06187</td>
<td>12&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Capital Requirements</td>
<td>3.425</td>
<td>1.37538</td>
<td>13&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Inappropriate corporate government structures</td>
<td>3.423</td>
<td>0.81296</td>
<td>14&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Inability of management to appreciate and control a business</td>
<td>3.375</td>
<td>1.16987</td>
<td>15&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Bad loans</td>
<td>3.365</td>
<td>1.14774</td>
<td>16&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Prohibition of Banks from Establishing Branches and Limiting Bank Investments</td>
<td>3.35</td>
<td>1.27199</td>
<td>17&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Deteriorating Economic Factors</td>
<td>3.25</td>
<td>0.97534</td>
<td>18&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Adverse economic environment</td>
<td>3.2</td>
<td>0.91147</td>
<td>19&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
</tbody>
</table>
Content analysis was used in the review of collapsed banks. Content analysis is a technique used in research to make replication and make inferences valid through interpretation and coding of textual materials.

According to Addison (2017), Governor, Bank of Ghana (BoG), at the Annual Dinner of the Chartered Institute of Bankers Ghana on December 2, 2017 published on the BoG website explained that the failure of the two banks was due to significant capital deficiencies, the underlying reason was poor corporate governance practices within these institutions. In this instance, there was the dominant role of shareholders who exerted undue influence on the management of the banks, leading to poor lending practices. This was also reinforced by weak risk management systems and poor oversight responsibility by the boards of directors.

Co-mingling of the banks’ activities with their related holding companies was also regarded in relation to the subject matter. For instance, one bank was paying royalties for the brand name, even at the time that the bank’s financial performance was abysmal and could not pay dividends. Interestingly, the royalties were approved by four out of seven members of the board without the consent of the other significant minority shareholders.

<table>
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<th>Std. Deviation</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Interference</td>
<td>4.1429</td>
<td>0.94926</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
</tr>
<tr>
<td>Inappropriate corporate government structures</td>
<td>3.7857</td>
<td>0.89258</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Bad loans</td>
<td>3.7857</td>
<td>0.89258</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Adverse economic environment</td>
<td>3.7143</td>
<td>1.06904</td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Fraud and Corruption</td>
<td>3.5714</td>
<td>0.85163</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Poor Risk Management Procedures Such as Lending Practices of Banks</td>
<td>3.4286</td>
<td>0.93761</td>
<td>6&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Lender of Last Resort</td>
<td>3.4286</td>
<td>1.08941</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Forbearance</td>
<td>3.3571</td>
<td>1.44686</td>
<td>8&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Government Deposit Insurance Scheme</td>
<td>3.2857</td>
<td>1.63747</td>
<td>9&lt;sup&gt;th&lt;/sup&gt;</td>
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<tr>
<td>Deregulation of Banks</td>
<td>3.2143</td>
<td>1.3114</td>
<td>10&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Inadequate Reserve Requirements</td>
<td>3.1429</td>
<td>1.35062</td>
<td>11&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Over-reliance on one member of staff</td>
<td>3.0714</td>
<td>1.14114</td>
<td>12&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Deteriorating Economic Factors</td>
<td>3</td>
<td>1.4676</td>
<td>13&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Asymmetric information</td>
<td>2.8571</td>
<td>1.74784</td>
<td>14&lt;sup&gt;th&lt;/sup&gt;</td>
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<tr>
<td>Regulation of Banks</td>
<td>2.8421</td>
<td>0.86444</td>
<td>15&lt;sup&gt;th&lt;/sup&gt;</td>
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<tr>
<td>Putting a Ceiling on Deposit Interest Rates</td>
<td>2.7857</td>
<td>1.47693</td>
<td>16&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Prohibition of Banks from Establishing Branches and Limiting Bank Investments</td>
<td>2.7857</td>
<td>1.47693</td>
<td>17&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
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<td>Capital Requirements</td>
<td>2.7143</td>
<td>1.54066</td>
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</tr>
<tr>
<td>Inability of management to appreciate and control a business</td>
<td>2.4286</td>
<td>1.15787</td>
<td>19&lt;sup&gt;th&lt;/sup&gt;</td>
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</table>
including an International Financial Institution. As a result, the international institution placed a notice on its website abrogating all relationships with the bank, and this led to most of the foreign lenders cutting off their credit lines to the bank and recalling their credits; thereby creating a serious liquidity squeeze to the bank. Non-executive directors of the banks compromised their independence and fiduciary duties to serve as checks on executive directors. This was because rewards such as business class air tickets were being granted to them annually. Very high executive compensation schemes were being operated by the affected banks which were not commensurate with their operations. The risk and earnings profile of the banks could not support the compensation schemes.

Interference by non-executive directors in the day-to-day administration of the banks weakened the management oversight function of executive directors. Some non-executive directors were also acting as consultants to the same banks with no clear mandate, which gave rise to a conflict of interest situations. Non-adherence to credit management principles and procedures as the banks were heavily exposed to insiders and related parties. There was also no evidence of interest payments on these investments. The investments were, therefore, impaired, but some members of the board at the time accepted the responsibility to pay off the said amount through a board resolution.

Diversion of funds to holding companies and their related parties was widespread. In the case of one bank, placements could not be traced to the bank’s records though some customers showed proof of their investments with the bank. The irregular board meeting also accounted for the weaknesses in the board oversight.

The Bank of Ghana’s policy measures was cited as a cause of bank failures. Mr. Bright Simons who is the Vice President of IMANI Africa blamed the country’s regulator Bank of Ghana. He cited the new minimum paid up capital of GHC 400 million to be too high and not considerate of the varying dynamics that exist in the banking industry. He also cited incoherency in the policy measures of the regulator.

Misuse of liquidity support given to the banks by the Bank of Ghana was cited as a major cause of the failure of the collapsed banks. This was contained in a report by PriceWaterHouseCoopers. According to the Bank of Ghana, the reason for the collapse included liquidity challenges, the inability of the said banks to meet the minimum capital requirement due to accumulated losses, and the fact that some of these banks obtained their licenses under false pretences and with non-existent capital.

Assibey (2018), a Senior Research Fellow at the Institute of Economic Affairs (IEA) posited that that the currency depreciation to about 39% in 2014, coupled with a high-interest rate of about 35% were all contributory factors to the collapse of banks as they had too much to lend and a high rate of non-performing loans. The collapsed banks were “unable to develop an acceptable plan”, according to the BoG, which indicated in a statement that it made efforts to help UT Bank and Capital Bank recover via private alternatives. The Central Bank said there were “repeated agreements between the Bank of Ghana and UT Bank and Capital Bank to implement an action plan to address these significant shortfalls.”

Bank failures are a serious phenomenon in Ghana. It is therefore prudent to have strategies to curtail the failures. The following recommendations are proposed:

• Regulatory authorities should ensure that banks operate within secure and reliable rules, maintain a high level of observance of internal control in respect of loans, employee remuneration, other management activities and top executive competence.

• Banks should be prohibited from engaging in proprietary trading, private equity or venture capital investments using depositor’s funds.

• The regulator, which is the Bank of Ghana, should improve upon its risked based prudential approach in terms of reforms in the banking sector by building its capacity to allow for early detection and management of risk.

• Measures should also be put in place to enable healthy financial sector evolution. This can be achieved by the function separation of banks into different activities, strengthening the activities of credit reference bureaus and raising the standards in the industry.
• The Central Bank should improve its regulation and regulatory framework to ensure quality in the supervision of the banking sector. This they can do through the systematic review of their directives, regulation and guidelines governing all the factors which are key contributors to the bank failure such as exposure to politically exposed persons, capital requirement, the lender of last resort etc.

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