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Banks and the fallacy of supervision: the case for Zimbabwe

Abstract

That banks need supervision is never a fact in dispute, that banks always get the right quality of supervision is a statement which may need to be verified through research. Close to 13 banking institutions have ceased operations in Zimbabwe in the past five years triggering questions why banks seem to be falling into the hole of liquidation.

A number of factors contributed to these failures, the factors ranged from poor capitalization, poor corporate governance, structural factors, poor profitability levels, poor leadership etc., but in all this, there appeared to be poor application of corporate governance issues from supervisory authorities. This manifested itself in a broader sense as a form of operational risk which cannot always be embraced by supervisory authorities.

Operational risk is defined as the probability of losses that occur in an organization as a result of failure in systems, fraud, human failures and breakdowns in controls (including external controls) and in some instances inability to appreciate the risk itself (Alvarez, G., 2005).

Using Zimbabwe as a test case this paper argues that operational risk is not fully embraced by supervisory authorities in Zimbabwe and that it contributed to bank failures in Zimbabwe during the period 2003 to 2015.

This paper assesses the institutional abilities of supervisory bodies to deal effectively with the duty of supervision using a combination of both secondary desk top information on bank failures in Zimbabwe and a 5-point anchored Likert scale questionnaire. The results seem to suggest that poor supervision contributed to bank failures in Zimbabwe and these findings support the call for supervisory authorities to do more to equip their staff members with new approaches to the supervision of financial institutions and for authorities to refrain from making political appointments to this very critical role.

Keywords: operational risk, financial deepening, structure and skills regulatory bodies.
JEL Classification: G32, G21.

Introduction

Conventional literature on the banking activities in Zimbabwe prior to Independence in 1980 is very limited as there is very little evidence of literature that reviewed the banking system then. The system inherited a regulated environment and it has for years pursued segmented or specialized funding (Mupambare, 2009).

Specialization characterized the operations of the banks then.

Building societies concentrated on mortgages, and discount houses focused on commercial and Reserve Bank of Zimbabwe (RBZ) intermediation. The government had put some boundaries that separated institutions and gave them almost guarantee of core business segments. There were also restrictions to entry into the financial market. The sector started to be liberalized in 1991 which liberalization resulted in the establishment of local banks and an expectation on the part of The Reserve Bank of a substantial growth of the banking sector (The Cleaner Production Centre of Zimbabwe (CPCZ), 2013).

The market reforms in the financial sector brought up new business opportunities, which encouraged new players into the sector. New banks started operations in the commercial banking, merchant banking, building society, finance house, and asset management sub-sectors.

Over the years the new banks that entered the market included AfrAsia (formerly, Kingdom Bank), Barbican Bank, MetBank (formerly, Metropolitan), First Bank Corporation, Time Bank, Trust Bank, Interfin Bank (formerly, CFX), Royal Bank, ZABG, Genesis Investment Bank, Capital Bank and several other institutions within the asset management, micro-finance, investment banking sub-sectors.

The financial sector was flourishing and the stock market was booming. New and innovative products were launched. The economy experienced real financial deepening as new players and products came into the market. This was the Zimbabwean dream to encourage local entrepreneurs to participate in the local economy.

1. Political developments and other socio economic developments

The political environment in the 1990s was stable but turned volatile after 1998, mainly due to the unbudgeted pay out to war veterans after they mounted an assault on the State in November 1997. This exerted a heavy strain on the economy, resulting in a run on the dollar. A poorly planned Agrarian Land Reform program launched in 1998, where white commercial farmers were ostensibly evicted and replaced by blacks without due regard to land rights or compensation

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systems did not help either. This resulted in a significant reduction in the productivity of the country, which is mostly dependent on agriculture.

These factors led to international isolation, significantly reducing foreign currency and foreign direct investment flow into the country. Investor confidence was severely eroded. Agriculture and tourism, which, traditionally, are huge foreign currency earners crumbled.

For the first post-independence decade the Banking Act (1965) was the main legislative framework. Since this was enacted when most commercial banks where foreign owned, there were no directions on prudential lending, insider loans, proportion of shareholder funds that could be lent to one borrower, definition of risk assets, and no provision for bank inspection.

The Banking Act (24, p. 01), which came into effect in September 1999, was the culmination of the RBZ's desire to liberalize and deregulate the financial services. This Act regulates commercial banks, merchant banks, and discount houses. Entry barriers were removed leading to increased competition. The deregulation also allowed banks some latitude to operate in non-core services. It appears that this latitude was not well delimited and, hence, presented opportunities for risk taking entrepreneurs. The RBZ advocated this deregulation as a way to de-segment the financial sector as well as improve efficiencies (RBZ, 2000, p. 4). These two factors presented opportunities to enterprising indigenous bankers to establish their own businesses in the industry. The Act was further revised and reissued as Chapter 24: 20 in August 2000. The increased competition resulted in the introduction of new products and services, e.g., e-banking and in-store banking. This entrepreneurial activity resulted in the "deepening and sophistication of the financial sector" (RBZ, 2000, p. 5).

This liberalization was accompanied by both financial deepening and financial engineering.

Financial deepening is the term used often by economic development experts to refer to the increased provision of financial services with a wider choice of services geared to all levels of society (Nyoka, 2015). The term deepening implies taking something to a new dimension or a new level which tends to be higher. This implies, therefore, that there are macro effects on the larger economy as a result of financial deepening.

Financial deepening brings with it a whole array of new products and with that, new opportunities for all players in an economy but with those new products come a lot of new risks, including operational risk. Financial deepening also implies availability of a lot of liquid funds. In an environment where interest rates are falling coupled with an increase in the number of middlemen (implying an increase in investments costs) and higher expectations on the part of investors, many markets, individual investors, speculators and fund managers have opted for financial engineering at times at risk levels that are frightening to an average man.

Financial engineering refers to a process of developing new financial instruments and processes that enhance shareholders' issuers or intermediaries' wealth (Nyoka, 2015). It focuses on improving existing products with a view of increasing returns to the investor.

Financial engineering should result in the issuers or developers or users of these instruments accomplishing something that they could not do previously and in a sense making the market more efficient.

Motivations for developing new instruments vary from risk management, tax advantages, agency and issuance cost reductions, regulation compliance or evasion, interest and exchange rate changes, technological advances, accounting gimmicks and academic research.

Both financial deepening and financial engineering require an efficient and effective supervisory structure at both national and institutional level which seems to have been lacking in Zimbabwe.

The Zimbabwean banking market benefited from all these developments over the period under review and profitability of banks was on the increase up to until 1998 when the sector's profitability honey moon was soon to be over when the country witnessed its first bank collapse in 1996 with the collapse of the United Merchant Bank a phenomenon that led to the RBZ increasing the capital adequacy requirement for banks to 10% compared to the internationally accepted minimum ratio of 8% (Reserve bank monetary policy document, 1998).

Today, most of the indigenous banks and financial institutions that entered the market are no longer in existence or are struggling to meet regulatory capital requirements. The first high profile case of a bank failure came in 1996 when The United Merchant Bank (UMB) went under. It is widely accepted that the reason for the failure of that bank was poor risk management; the bank is alleged to have loaned heavily to politicians, although the absence of an effective regulatory and supervisory framework in a radically reformed sector could also be partly to blame. United Merchant Bank, First National Building Society, Zimbabwe Building Society, Barbican, Renaissance Merchant Bank, Trust Bank, Royal Bank, Genesis Investment Bank, Capital Bank Corporation, Interfin Bank and, most recently, AfrAsia Bank have all gone under. These are some of the locally-owned institutions that came into being as a result of the liberalization of the financial sector. Looking at the failed institutions, one can pick up common themes on the causes of the failures. These include illiquidity and insolvency (due to high levels of non-performing loans (NPLs)), moral hazard (insider loans, high risk exposures and real estate), macroeconomic instability, and high operating expenses. All this indicates the vulnerability of indigenous banks to economic cycles and impact of less robust credit management systems.

2. Literature review

There is very little scholarly literature written on the banking sector in Zimbabwe. There is, however, some unstructured literature written about the sector. In its World Investment report 2015, The United Nations Conference on Trade and Development (UNCTAD) noted that political interference subverted prudential criteria in the granting of licenses in a lot of African countries, notably in Nigeria, where retired military officers were directors of many banks and in Kenya where many banks had prominent politicians on their boards. Like in other countries, the Zimbabwean local players saw opportunities to exploit the market gaps not covered by the traditional banks. They in the process exploited the political tolerance that prevailed during the time which was later to destroy them.

The locally based banks were able to gain market share by targeting customers neglected by the established banks and by offering better services. However, some of these locally-owned banks were very aggressive in their asset-liability matching when compared to foreign owned banks which have remained very conservative in their lending policies (Ruwo; The standard March 1, 2015).

Moral hazard kicked in due to macroeconomic instability, greed, related party lending, weaker bank capital bases, concentrated shareholder bases as well as the credit markets which these local banks focused on (Ruwo; The standard March 1, 2015).

According to a report contained in The Africa report 2015, the politicians took advantage of an ineffective regulatory and supervisory framework, poor corporate governance and poor risk management by monetary authorities (Africa report, 2015).

The same report goes indicated that in 2015 alone, three banks collapsed – Allied Bank, AfrAsia and Tetrad (The Africa report, 23/03/2015).

Companies that dominated the loan book of the failed banks, RioZim, Lunar Chickens, West Properties, Harambe Holdings, Croco Holdings, ZimAlloys and Zimglass are all companies with political connections.

Three institutions, which folded most recently, AfrAsia, Allied Bank, Interfin and Tetrad's top 20 debtors, owed a combined staggering $206 million.

The top five debtors in Tetrad Holdings, Tetrad Holdings shareholders, West Properties, Tetrad Resources, Rio Zim and Croco Holdings owed a combined $25 million.

The issue of leadership has always been a tropical issue in industry and commerce. Prominent Zimbabwean economist, John Robertson argued that, new banks were likely to attract not so sound customers and the quality of leadership elevated by a liberalization policy to protect the country from big banks, (which could hold it to ransom), saw even the less deserving securing bank licences (The Zimbabwe independent, 22/06/2015).

He blamed executives for accruing "lethal" non-performing loans by awarding easy credit to their relatives and friends, which were then consumed rather than invested.

The Zimbabwe Bank and Allied Workers' Union (Zibawu) in the same report, called for an investigation of the industry blaming stakeholders from executives to the Reserve Bank of Zimbabwe (RBZ) for the rampant collapse of various banking institutions.

3. Poor capitalization

Most Zimbabwean Banks have always been undercapitalized and the situation was aggravated by the country adopting a multicurrency system from 2008. The banks suffered conversion losses due to the poor exchange rate that prevailed at the time.

In one of his monetary policy statements, the governor of the reserve bank advised that Genesis Investment Bank resolved to voluntarily surrender its banking license (after failing to) raise the requisite minimum capital from over 20 different potential inventors whom the bank tried to engage since 2009. The bank, which had a negative capital of US$3, 2 million and is now in liquidation, was struggling due to gross under-capitalization, liquidity problems, small deposit base and persistent losses. Mismanagement was part of the problem. Interfin, which had a negative capital of about US$93 million, was closed and placed under the management of a curator for six months. The bank's closure was a result of low capitalization, concentrated shareholding and abuse of corporate structures, high levels of non-performing insider and related party exposures and a chronic liquidity crisis (Zimbabwe independent, June 22/2012).

The then Central bank governor did acknowledge in the newspaper report that "The unsafe and unsound condition of Interfin Bank Limited is attributable to inadequate capitalization, concentrated shareholding and abuse of corporate structures, high level of non-performing insider and related party exposures, chronic liquidity and income generation challenges, poor board and senior management oversight, as well as violation of banking laws and regulations". Ironically, all this happened under his eye as the head of the key supervisory board in Zimbabwe (Africa report, 2014).

A report in the Financial Gazette (13th February 2015) claimed that AfrAsia Bank, formerly, Kingdom Bank, was placed under liquidation by the Reserve Bank of Zimbabwe after its shareholders surrendered their banking license. The parent company, AfrAsia Bank Limited of Mauritius could not commit any more money to the Zimbabwean operation and would rather just pull out.

Kingdom Bank, in its prime, was the epitome of a clean indigenization dream. Building and not merely transferring wealth, but building and building it clean. The Founding father, Nigel Chanakira, was, then, an inspiration to many young entrepreneurial minds.

4. Poor corporate governance and poor regulatory frameworks

Bank failures have been attributed to structural problems in some cases. Economic problems, such as the chronic liquidity crunch, that dogged the sector since the advent of multicurrency and poor corporate governance were seen as key factors that contributed to the collapse of the banking sector. There is no doubt that banks partly battled for survival due to poor economic performance, low capacity utilization by industry and depressed demand against a backdrop of low disposable incomes. Zimbabwe banking sector has also been struggling because of tight liquidity conditions, attributable mainly to volatile short-term transitory deposits and limited lines of credit. There is also the problem of low savings due to low salaries and wages, as well as low interest income against high operating costs and low capitalization. In a report carried in one of the local newspapers, University of Zimbabwe's Professor Tony Hawkins inferred that some of the challenges being experienced by banks in Zimbabwe were symptomatic of an overbanked economy (Africa report, 2015).

Corporate governance indicates the policies and procedures applied by firms to attain certain sets of objectives, corporate missions and visions with regard to stockholders, employees, customers, suppliers and different regulatory agencies and the community at large.

Corporate governance is gaining importance among policymakers, entrepreneurs, and business personnel, stakeholders and related organizations (Victoria Wise and Muhammad Mahboob Ali, 2009).

Corporate governance has many definitions. According to Sir Adam Adrian Cadbury, corporate governance is the system by which companies are directed and controlled (Sir Adam Adrian Cadbury, UK Combined Code) and the Organization for Economic Cooperation and Development (OECD) refers to corporate governance as involving a set of relationships between a company's management, its board, its shareholders and other stakeholders.

It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD Corporate Governance Principles, 2004).

Consensus among the rank and file within the Zimbabwean Banking Market is that the greedy bankers abused deposits. One headline from a local daily newspaper captured it with "Depositors suffer as bankers live large" (Zimbabwe independent, June 22/2012).

One of the collapsed banks, Trust, is believed to have loaned a huge chunk of their cash to RioZim. The loan was allegedly imprudent, given the size of the bank's book, and was advanced to a company whose managing director also sat on the Bank's Board.

Embedded lack of integrity and corporate backbone has been the chronic terminal illness killing banks in Zimbabwe. A prominent Zimbabwean economist, John Robertson, described the prevailing practice where shareholders either lent money to themselves or their friends as bank owners who were devouring their own children.

Commenting in a report carried in the Zimbabwe independent, June 22/2012, Mugano implied that non-performing loans are all tied up with relatives of executives in banking institutions (Mugano; Zimbabwe independent, June 22, 2012).

Bankers are under immense pressure everywhere due to management failures and other things like paying themselves hefty bonuses even in the middle of serious financial problems and widespread suffering by their clients. While bank and company collapses occur everywhere, the common thread in Zimbabwean corporate failures so far seem to suggest acts of impropriety on the part of shareholders and managers. Renaissance Merchant Bank (RMB), Genesis and Interfin were victims of this (The Zimbabwe independent, June 22, 2012).

In its World investment report 2015, UNCTAD shows that growth of local banks in many African countries is mainly due to a combination of low entry requirements and the perception that banking provides opportunities for profit not available in many other sectors of the economy. In all of the countries where local banks were set up in significant numbers, the regulatory barriers to entry were low (The standard, 1/March 2015). Commenting on the troubles facing the banking sector in Zimbabwe, James Msipa, Quest Financial Services Managing Director argued that corporate governance problems faced by the local banking sector were partly caused by the tendency for bankers to pursue other interests beside their core business, he further attested that the critical challenge for the country's banking sector had to do a lot with the bankers, shareholders and managers, who have become industrialists in one form or other (Msipa, the Zimbabwe independent, June 22 2012).

Others have proffered a more analytical synopsis laying the blame squarely at the Reserve Bank of Zimbabwe (RBZ)'s door. Some are sold to the idea that the country does not have tools that are robust enough to provide the necessary oversight at the RBZ.

The central bank is depicted as a lame duck regulator with neither power nor teeth to stop the rot which even outsiders can see develop and implode from a distance.

Others assert that the tools are available, but the central bank is simply not doing its job. In a market that has a competent regulator, a failure of four banks in a few years does not bode well for its reputation. It is the stated mandate of the central bank to, among other things, ensure stability of the financial services industry.

Where tools are inadequate, a proactive central bank will ensure such is acquired quickly, pursuant to the effective conduct of its duty (John Kachembere; News Daily, 16/12/2013).

This has created the temptation for insider lending, as these bankers want to promote their interests outside banking. This results in the need to revisit corporate governance ethics and structures within the entire banking fraternity. In the end, banks are failing due to a combination of structural, corporate governance factors and greed which authorities need to stem to save the ailing sector from plunging into turmoil.

5. Issues of bank size and asset quality

Size is part of the argument in as far as the accounting of any (dis) economies of scale in the market is concerned. According to Akavein et al. (1997), Smirlock (1985), there is a positive and significant relationship between size and profitability.

Other researchers (Berger et al., 1987; Boyd & Grahame, 1991) indicate that economies of scale in banking tend to be exhausted at relatively low sizes, which suggests that large banks could eventually face scale inefficiencies which can in the long run result in failures.

Athanasoglou et al. (2005) suggest that size is closely related to capital in that large banks are able to raise capital relatively cheaply, consequently, making them appear more profitable and more stable.

Large banks do possess market power due to established brands which enable them to attract low cost capital, thus, resulting in them appearing more profitable and, therefore, less prone to failure.

As a result, under the current regulatory regime where banks are expected to meet certain capital adequacy requirements, profit is an important determinant for the expansion of a bank's portfolio of risk assets and also becomes an important barometer of a bank's sustainability in the long run.

Credit risk also plays a role in the profitability equation. Poor asset quality resulting in non-performing loans is a key element in bank failures. Given the above, it is, therefore, not out of order for one to associate poor quality loans with negative profitability ceteris paribus.

It is also safe to conclude, therefore, that banks can improve their profitability by improving screening, monitoring and forecasting of credit facilities, thus, in the process reducing the risk of failure.

Empirical literature has tended to find a negative relationship between credit risk and earnings (Athanasoglou et al., 2005).

All factors explaining possible reasons for bank failures having been looked at, there are still some critical questions that have been raised but not adequately addressed. These are questions relating to the organizations' cultures, codes of conduct, human resource policies and performance reward systems. Do these fully support the business objectives and the risk management and internal control systems of banks?

Do the people in the organizations (and in its outsourced services) have the knowledge, skills and tools to support the achievement of the company's objectives and to manage effectively risks?

Discussing some of the benefits associated with effective risk management that were adopted from a document produced by The Institute of Chartered Accountants in England and Wales (ICAEW, 1999) to aid the implementation of the Turnbull report, the publication sites that "good effective risk management results in companies becoming aware of "Changing markets, service delivery and morale". It adds that "external perceptions of a company are affected by the level of the risk that it faces and by the way its risks are managed.

(Source: The Management of Risk Guidance for Practitioners 2007, March 2007).

Staffing plays a pivotal role in risk management and so does the structure that should support the risk management strategy in play. In a structure, the external players can read the organization' attitude towards risk and the organization' ability to deal with that risk.

6. Justification of the study

Zimbabwe had a fairly diversified financial services sector comprising 26 banks, 16 asset management companies and 172 microfinance institutions under the supervision of the Reserve Bank.

However, as of the end of June 2015, at least thirteen banks had collapsed in Zimbabwe and there is no indication that this trend is likely to stop any time soon.

There is a need for an understanding of the true causes of these failures with a view of coming up with recommendations to both government and policymakers on modalities of ensuring that this trend is stopped as soon as possible as the financial sector is the backbone of any economy.

7. Objectives of the study

The objectives of the study are as follows:

- Establish the main causes of bank failures in Zimbabwe from 2003 to 2015.
- Establish whether supervisory authorities in Zimbabwe contributed to the collapse of the banks during the same period.
- Stimulate debate on the subject of bank supervision and encourage more research on bank failures in Zimbabwe.

8. Data and methodology

This is a deskbased study supported by a mini survey which was conducted within the Zimbabwe banking Sector to argument the gathering of information on the sentiments on supervision and staffing practices of key regulators using a 5-point anchored Likert scale questionnaire.

The author did not carry out a full research on the subject due to budgetary constraints.

Personal interviews through a guided questionnaire were used in the collection of data on staffing practices of key regulators during the period of 2003-2015. These interviews were conducted with a selected target population of key office bearers at selected regulatory institutions during the months of January and June 2015 (Cooper & Schindler, 2006).

For purposes of this study, the key regulators have been confined to the following 4 types of institutions:

- The Reserve Bank of Zimbabwe.
- The Risk management departments of four commercial banks in Zimbabwe.
- The Financial Traders association of Zimbabwe.
- The Deposit Protection Scheme.

The aim was to interview at least ten senior officials from each of the institutions and augment that with another forty from different stakeholders.

The interviews were successfully conducted with one failing to take place within the stipulated time frame. Of the interviews that were successful, The Reserve Bank of Zimbabwe and the Financial Traders association, and three commercial banks and the deposit protection scheme were represented. The Reserve Bank is the biggest regulator within the Zimbabwe banking sector and the Financial Traders association is the second biggest in terms of influence.

9. Scope and limitations

This paper reviewed common sources of bank failures in Zimbabwe.

These sources reviewed are not exhaustive but are deemed as major contributors to the bank failures in Zimbabwe.

Due to time constraints and budgetary limitations the researcher did not conduct a full field research but remains confident that the reviews and other research activities undertaken are sufficient enough to make the results a fair reflection of the state of affairs within the banking sector in Zimbabwe.

The research participants were required to share information on their recruitment practices on senior personnel. The documented interview results were presented and reported on accordingly. Some researchers believe that qualitative data should not be analyzed (Strauss & Corbin, 1998). A detailed analysis of the results was, therefore, deemed not necessary.

10. Results and discussions

10.1. Scale reliability. The internal consistency of the survey instrument items was examined based on Cronbach's alpha criterion. Technically, the scale reliability test was undertaken to statistically determine the degree to which the chosen set of survey items measured a single one-dimensional latent construct. In other words, the Cronbach's alpha coefficient was used as a statistical measure to assess the extent to which if the same questions are asked to the same respondents under different conditions at different time periods, the same responses can be obtained.

Table 1. Reliability statistics

Cronbach's alpha	Cronbach's alpha based on standardized Items	N of items
0.971	0.978	60

The value of Cronbach's alpha coefficient (α = 0.971) for the selected eighteen items exceeded the minimum acceptable (α = 0.6) score condition of overall reliability. The results, therefore, indicate that the survey instrument's items were statistically reliable; thus the survey items measured a single unidimensional latent construct of the study.

NB: Statistical analysis of structural validity of the research instrument's items could not be performed because the total number of research questions asked was more than the total number of respondents surveyed during the study. Only officials in high positions were deemed suitable for interviews, hence, the sample size was small based on their availability.

Table 2. Item-total statistics

	Mean	Std. dev	N
In your opinion, did lack of supervision contribute to the many bank failures in Zimbabwe over the last 5 years?	4.67	1.155	60
Laws that govern banks in Zimbabwe are adequate	4.17	1.586	60
The level of bank skills within the Central Bank affect how the laws are enforced	4.58	.515	60
The enforcement of supervisory laws is weak in Zimbabwe	4.00	1.044	60
In your opinion, is there willingness on the part of supervisory authorities to arrest the short comings of management in the banking sector?	2.83	1.337	60
There are other factors that caused bank failures in Zimbabwe but the main one is lack of proper supervision	4.50	1.243	60
There is no mechanism to arrest operational risk within the regulatory framework at the moment	3.08	1.621	60
Do you think the structure at the department of supervision within the Reserve Bank should be changed	4.00	1.477	60
The level of skills in departments that manage risks in banks are poor	3.42	1.311	60
In staffing the department of supervision, experience should be a priority	4.75	.452	60
There is enough skills in the market to cater for the needs of the market	3.67	1.497	60
There is a lot of on the job training for most of the staff than man the supervisory department	2.50	1.243	60
Those that are involved in supervision require special skills	4.08	1.084	60
Do you think the structure of the department of risk management in banks needs to be changed?	3.67	1.371	60
In your opinion, is there political influence or interference with the supervision of banks in Zimbabwe?	4.50	.905	60
The high level of corruption within the banking sector in Zimbabwe is also a key contributor to bank failures	4.33	.492	60
The high number of banks in Zimbabwe also contributed to the number of banks going under	2.58	1.084	60

Proceeding further, the item-total statistics analysis performed to determine whether any item or research question in the research questionnaire could statistically be eliminated or deleted from the results presented above indicate no evidence of significant statistical rationale to remove any of the items from the data set for further analysis. The results indicate no justification to eliminate any question from the research instrument. Accordingly, all eighteen questions were retained and reliably used for analysis in the study.

10.2. Descriptive statistics. This section provides and discusses descriptive statistics on the major causes of bank failure in Zimbabwe grounded on the responses from the 12 participants surveyed. The statistics were computed based on the 5-point anchored Likert scale questionnaire used in the research study. Based on the approximate mean statistics, the responses on the causes of bank failure in Zimbabwe were presented per each primary dimension or construct as provided below.

Table 3. Supervision related causes of bank failure – descriptive statistics

	N	Mean		Std. dev
	Statistic	Statistic	S.E.	Statistic
In your opinion, did lack of supervision contribute to many bank failures in Zimbabwe over the last 5 years?	60	4.67	.333	1.155
Laws that govern banks in Zimbabwe are adequate	60	4.17	.458	1.586
The level of bank skills within the Central Bank affect how the laws are enforced	60	4.58	.149	.515
The enforcement of supervisory laws is weak in Zimbabwe	60	4.00	.302	1.044
In your opinion, is there willingness on the part of supervisory authorities to arrest the short comings of management in the banking sector?	60	2.83	.386	1.337
There are other factors that caused bank failures in Zimbabwe but the main one is lack of proper supervision	60	4.50	.359	1.243
There is no mechanism to arrest operational risk within the regulatory framework at the moment	60	3.08	.468	1.621
Do you think the structure at the department of Supervision within the Reserve Bank should be changed	60	4.00	.426	1.477
Valid N (list wise)	60			

Based the mean statistics results in Table 3 above, respondents on average strongly agree (mean statistic nearly = 5) that lack of supervision contributed to bank failures in Zimbabwe over the last five years. On average, the respondents also generally agree (mean statistic approximately = 4) that some of the factors that caused bank failures in Zimbabwe include the level of skills within the Central Bank which affect how laws are enforced (mean statistic = 4.58); weak enforcement of supervisory laws in the country (mean statistic = 4.00); lack of proper supervision (mean statistic = 4.50); and absence of mechanism to arrest operational risk within the regulatory framework at the moment (mean statistic = 4.00). The respondents also generally were of the view that the structure of the Supervision Division in the reserve bank should be changed (mean statistic = 4.00). However, respondents on average remained neutral as to whether there is or there is no willingness on the part of the supervisory authorities to arrest the short comings of management in the banking sector (mean statistic = 2.83). The standard deviations indicate that the individual responses are generally close to the mean statistic while the low standard errors provide evidence that the mean statistics results are reliable.

Table 4. Skills levels related causes of bank failure – descriptive statistics

	N	Mean		Std. dev
	Statistic	Statistic	S.E.	Statistic
The level of skills in departments that manage risks in banks are poor	60	3.42	.379	1.311
In staffing the department of supervision, experience should be a priority	60	4.75	.131	.452
There is enough skills in the market to cater for the needs of the market	60	3.67	.432	1.497
There is a lot of on the job training for most of the staff than man the supervisory department	60	2.50	.359	1.243
Those that are involved in supervision require special skills	60	4.08	.313	1.084
Do you think the structure of the department of risk management in banks needs to be changed?	60	3.67	.396	1.371
Valid N (list wise)	60			

The respondents generally remained neutral (mean statistic = 3.42) as to whether or not the levels of skills in departments that manage risks in sectors are poor; and whether or not (mean statistic = 2.50) there is a lot of on the job training for most of the staff than man the supervisory department. On average, respondents agreed that there are enough skills in the market to cater for the needs of the market (mean statistic = 3.67); those that are involved in supervision require special skills (mean statistic = 4.08); and that the structure of the department of risk management in banks needs to be changed (mean statistic = 3.67). Respondents, generally, strongly agreed (mean statistic = 4.75) that in staffing the department of supervision, experience should be a priority. The low standard errors and standard deviations indicate that the mean statistics results on responses of research participants are reliable and close to the overall average responses.

Table 5. Political influence related causes of bank failure – descriptive statistics

	N	Mean		Std. dev
	Statistic	Statistic	S.E.	Statistic
Political Influence				
In your opinion, is there political influence or interference with the supervision of banks in Zimbabwe?	60	4.50	.261	.905
The high level of corruption within the banking sector in Zimbabwe is also a key contributor to bank failures	60	4.33	.142	.492
Valid N (list wise)	60			

The mean statistics results in Table 5 above show that respondents generally agree (mean statistics approximately = 4) that is their political influence or interference with the supervision of banks in Zimbabwe (mean statistic = 4.50) and that the high level of corruption within the banking sector in Zimbabwe is also a key contributor to bank failures (mean statistic = 4.33). The standard deviations indicate that the individual responses are generally close to the mean statistics while low standard errors reveal that the mean statistics results are reliable.

Table 6. Other factors that caused of bank failure – descriptive statistics

	N	Mean		Std. dev
	Statistic	Statistic	S.E.	Statistic
The high number of banks in Zimbabwe also contributed to the number of banks going under	60	2.58	.313	1.084
Valid N (list wise)	60			

Cited among other causes of bank failures in Zimbabwe, the respondents surveyed generally remained neutral as to whether or not the high number of banks in Zimbabwe also contributed to the number of banks going under. The low standard error (S.E. = 0.313) and standard deviation (SD = 1.084) indicate that the mean statistics results on responses of research participants are reliable and close to the overall average responses, respectively.

Conclusion

The study results seem to suggest that the failure of banks in Zimbabwe during the study period was largely due to poor application of supervisory tools. This could reverse the gains of financial liberalization and entrench the oligopolistic nature of the sector. There is a need, however, for a robust regulatory framework to ensure that banks are fully capitalized and have strong credit risk management and good corporate governance systems, and that there is no concentration of bank ownership, while keeping in check the adverse impact of moral hazard.

The RBZ, citing international best practice, issued stringent corporate governance directives that forced owner managers out of their businesses despite the controversies, contradictions and lack of consensus that fill the literature on corporate governance. Barth et al. (2001, p. 3), after empirical research on bank regulation and supervision, categorically state, "There is no evidence that the best practice currently being advocated by international agencies are best, or even better than alternative standards, in every country".

The OECD issued its Principles of Corporate Governance in 1999 and comments, thus, about these principles (This comment applies to both the Kings Report and the Cadbury Reports on Corporate Governance): "Corporate governance arrangements and institutions vary from one country to another, and experience in both developed and emerging economies has shown that there is no single framework that is appropriate for all markets, so the Principles are not prescriptive or binding, but rather take the form of recommendations that each country can respond to as best befits its own traditions and market conditions. As Raymond Ackerman, pioneering founder of Pick & Pay, RSA so cogently argues, "corporate governance around the world is being subjected to a scrutiny so remorseless and to regulation so onerous that executives everywhere wonder if it will be possible to continue running their companies at all".

The central bank insisted on banks focusing on core business and issued stringent guidelines. However, Barth et al. (1999, pp. 6-12), after carrying out an extensive cross country research on bank regulation, conclude that:

- countries with greater regulatory restrictions on securities activities, e.g., real estate, insurance and securities, of commercial banks, have a higher probability of suffering a major banking crisis.
- there were no beneficial effects observed from restricting the mixing of banking and commerce. In actual fact, forbidding this is associated with a greater financial fragility and bank instability.
- restricting banks to core business raises the net interest margin, resulting in negative bank efficiencies.

The regulatory authorities in Zimbabwe caused a depositor flight, refused to accommodate banks, issued stringent regulations and directives, which weakened the banks' profit margins as well as restricting their ability to mobilize resources. They, further, plunged the financial services sector into chaos by withdrawing huge amounts of funds from the financial market during a tight liquidity crisis, further worsening the situation.

On the basis of available evidence it can be argued that by its actions, the Central Bank initiated a well calculated and premeditated collapse of the distressed institutions making a mockery of the entire supervisory process.

Recommendations

The staffing of most regulatory bodies seems to be influenced by politics and patronage. This robs these bodies of much needed skill and expertise and most incumbents tend to adopt autocratic approaches to solving problems. In most cases the bodies that are occupying positions at these institutions are inexperienced in the trade of some of the products on which they exercise regulation. It would, therefore, benefit all if the staffing of key regulatory bodies is independent from political influence.

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