

# The Banking Sector in Ghana: Factors Responsible for the Dominance of Retail Banking.

\*George Dominic Ewur Rabi Sidi Ali

Takoradi Polytechnic, School of Business, Marketing Department, P.O. Box 256, Takoradi, Ghana.

\*Email: [ewurg@yahoo.co.uk](mailto:ewurg@yahoo.co.uk)

## Abstract

In an effort to encourage competition, growth and liberalise the Ghanaian banking industry for economic development, the Central bank of Ghana introduced the “Universal banking licence” to allow banks to operate in commercial, development, and investment or merchant segments without the need for separate licences. In spite of this, the banks in Ghana seem to be focusing largely on retail banking. The study therefore aims to investigate why the banks in Ghana are focusing mainly on retail banking to the detriment of other banking segments. Retail banking was defined and primary research was conducted on eight selected banks in Ghana to determine their motives for engaging in retail banking. The researchers principally used interview and questionnaires to obtain descriptive data for analysis and also made use of secondary data. The finding shows among other things that, huge capital requirement, high risk and advantages enjoy by state owned banks, couple with the absence of large corporate entities gives no option to privately owned banks but to focus on retail banking. This work is relevant for the least developing economies where competition in the banking industry is at its lowest due to governmental interference and where the banking industry is pivotal in their economic development.

**Keywords:** Banking Sector, Dominance, Retail Banking, Factors, Universal Banking.

## 1.0 Introduction

The banking industry in Ghana like any developing country is increasingly becoming highly competitive and diversified. This stems from the fact that, entry has been liberalised which has attracted foreign banks and investors into the financial services industry. Not only has competition become intense in the industry, but has also led to strong business practices, products, technology and risks management systems.

However, unlike the developed countries where the competition cut across all banking segments, the competition in Ghana seems to revolve around the retail segment. Not even has the introduction of “Universal banking licence” in the first quarter of 2003, which allows banks to operate in commercial, development, and investment or merchant without the need for separate licences has helped the situation.

This trend of affairs made a former governor of the Central Bank of Ghana to opine that, “surprisingly, most of the new banks that have entered the industry have not done things differently as retail banking products continue to dominate the innovative products and services offered” (Bank of Ghana: Press Release, 2008). This has prompted the researchers to investigate into the reasons as to why all the banks in Ghana seemed to be focusing on retail banking.

### 1.1 Organisation of Study:

This piece of work is structured as follows; Chapter One comprises of the introduction, statement of the problem, research aim and objectives as well as the definition of retail banking, Chapter Two consists of Research Methodology, Chapter Three comprises of data analysis, findings, summary, conclusion and recommendations of the study.

### 1.2 Statement of the problem

Ghana has been undergoing a financial sector restructuring and transformation, with the view of ensuring that the country attains emerging market status. As part of this process, the Central Bank introduced the ‘universal banking’ licence in the early part of 2003. The idea was to enable banks to undertake commercial, development, investment or merchant banking without the need for separate licences. These reforms have been beneficial, as the country is counted among the most viable financial services centre in sub-Saharan Africa. The reforms have since transformed the financial sector from a regime characterised by controls to a market-based regime. The recent changes in the nation’s banking environment have encouraged foreign banks and investors, noticeably those from Nigeria, South Africa, India etc, to invest and transact business in the country. The enactment of Act 678 has helped the new banks in the country in delivering wide range of products to customers.

Amazingly, almost all the new banks that have entered the industry have not done things differently as retail banking products continue to dominate the innovative products and services offered. It is in this light that this study is being carried out to ascertain as to why almost all the banks in Ghana seem to be focusing on retail banking.

### **1.3 Research Aim**

The general aim of this research is to find out as to why all the banks, both the new entrants and the already existing ones' seemed to be focusing on retail banking as opposed to other segments. Hence the researchers would seek to achieve the under-listed **research objectives**:

- i-** To investigate the reasons as to why every bank in Ghana seems to be focusing on retail banking.
- ii-** To identify the factors responsible for the dominance of retail banking in Ghana.

### **1.4 Defining Retail Banking**

Retail banking is defined as the personal banking services and products offered to customers acting solely or jointly and include basic banking activities such as deposit, loan and payment services, financial investments, foreign exchange, and other financial activities such as insurance (Menon and O'Conner, 2007). The notion of retail banking used in this study referred to banking services that are supplied by banks to individual customers. It excluded all forms of banking business and related financial products and private banking. Retail banking has been broadly classified under the following headings:

- Transaction and payment products: e.g. are cheque payments, and debit cards.
- Investment products, such as savings accounts, fixed deposits and unit trusts; credit.
- Borrowing products, such as credit cards, home loans, overdrafts and car finance; and
- Financial planning products such as, retirement annuity plans and education policies.

## **Methodology**

### **2.0. Introduction**

This part seeks to reveal how the researchers conducted the research to be able to investigate the reasons for the dominance of retail banking in Ghana and make recommendations to both the banks and the government regarding how best they could improve their performance.

#### **2.1. Research Methods**

The researchers made use of both primary and secondary data, which were gathered from diverse sources, including the management of the banks under- study, archival sources, text books, journals/articles (both published and unpublished), companies' annual reports, directories, government statistics and internet sites.

#### **2.2. Primary Research**

The primary research is tailored to suit the needs of the research. This research involves the collection of raw data, which forms the main basis for achieving the research objectives. An attempt was made at collecting and analyzing primary data which has gone a long way to validate the findings and conclusions drawn from the research. The researcher adopted both quantitative and qualitative research methods in order to achieve triangulation. The idea behind the adoption of these two methods is to achieve credibility and findings that would be more generalize with high validity. Furthermore, both qualitative and quantitative methods were considered necessary in this research as the distinction between these methods have become less important (Bryman, 2004).

It has been observed that the use of multiple data collection methods, such as observation, interviews, document analysis and questionnaires are very important (Patton and Appelbaum, 2003). With the importance of multiple sources of data very vital to the reliability of this research (Stake, 1995) two primary sources of evidence were used: questionnaires, and interviews.

Saunders et al. (2007) opined that the method for collecting research data is linked to research approaches adopted. The two data collection methods proved useful in providing detail information needed for the studies. The survey questionnaires were self-administered.

The self-administered questionnaire method was employed because of its cost effective nature relative to interviews. Large number of participants can be involved and a lot of data collected in a relatively shorter time and at less cost.

With the same length of questions and objectives, Fink (2003) stressed that self-administered questionnaires by mail cost 50% less than telephone interviews and 75% less than personal interviews.

Although participants in this method are more likely to abandon the research in the course of responding, its privacy and anonymity promotes genuine answers. The less pressure on participants was also considered as a better way of convincing respondents to participate fully. With this method, interviewer biases are non-existent (Gratton and Jones, 2004). However, problems can arise if questions are unclear, as the respondent cannot check what the researcher intended.

A well-designed questionnaire was therefore important, especially ensuring that it was worded in simple English and an unambiguous manner to avoid this problem. To be able to fully obtain the needed primary data for analysis, the researcher designed questionnaire and adopted the under listed methods to administer it.

**I-Postal Surveys;** The researchers adopted these methods to administer questionnaire to the representatives of the eight banks (8) under-study.

ii- *Telephone Surveys*; This medium though costly, was adopted to get in touch with the respondents who are busy and find it difficult to have enough time to go through the questionnaires, which therefore help speed up the access to their views regarding the issues under discussion.

iii- *E-mails*; The researchers again adopted this method to administer questionnaire to respondents who have access to internet and can access it. Prepared closed-ended and semi-open ended questions were developed. The semi-open-ended questions placed no restrictions on how research participants could respond to the questions. Participants responded in their own words and were not constrained to select their responses from a list of choices like the closed ended questions. This allowed respondents to say many things that would not have been said with only closed-ended questions.

The closed ended questions were meant to provide quantitative data for easy comparison (Gratton and Jones, 2004). The questions included Likert scale questions, where respondents were asked to rate their opinions on various statements.

Another set of interview questionnaires were personally administered to the management. The personally administered questions were meant to allow the researcher to probe further on issues relating to this research although not captured in the questionnaire. Although slightly different set of questions, the interviewing method was to complement the mailed questionnaires and to cross-check the data whether there are similarities. It was also to allow for participants to have the opportunity of clarifying any ambiguous questions. It was also meant to go in line with the objective of finding if management has any reasons for focusing on retail banking as opposed to the other banking. Probing for further information makes this method one of the most flexible and effective types of qualitative research.

Purposive sampling was used to select the ten (10) interviewees at the management level. This is a technique that involves selecting certain units or cases 'based on a specific purpose rather than randomly' (Tashakkori & Teddlie, 2003a, p. 713). The researchers expected particular information from the selected people so there was no need to sample them randomly.

### 2.3 Secondary/ Desk Research

The researchers also made use of some secondary data. An extensive work on existing studies on retail banking were undertaken which helped to put the research into perspective. Existing information on related issues were sourced and critically analysed. The researchers also made sure that data collected and its sources were of high level quality, reliable and valid. The researchers observed the benefits of secondary data which includes:

- i-The insight it gives to the researcher towards the issues to be addressed,
- ii-And also forms the basis for comparison with the primary data, which helps the researchers in putting issues in context, and according to Ghauri and Gronhaug (2005), the main benefit of the secondary data is the saving of resources. Yet its existence at times do not effectively address the issues at stake, mainly because the purpose for which it was designed might be for something else.

### 2.4. Sample Size

The population under-study which consists of Management of all the banks and the entire customers of these banks in Ghana are incredibly large, making it impossible to interview and administer questionnaire to the whole population. As a result, a part of the population referred to as sample was taken for the study. On the part of the banks, forty (40) representatives from eight banks consisting of thirty (30) junior staff and ten (10) management members were surveyed. Data was analyzed through the use of range of graphical and statistical Techniques.

## DATA PRESENTATION AND ANALYSIS

### 3.0 Introduction

The authors are interested in identifying the motives for concentrating on retail banking by Banks operating in Ghana as opposed to the other banking segments such as Investment, Corporate and Development Banking. In pursuant of that, the authors relied on both the questionnaire administration and telephone interviews in collecting data from bank workers and management of the eight banks under-study.

**Table 1**

**Respondents Profile:**

**Age of respondents: (Bank's junior staff )**

Age	Number of Respondents	Percentage
20-29	11	36.66%
30-39	8	26.66%
40-49	5	16.66%
50-59	4	13.33%
60 and above	2	6.66%
<b>TOTAL</b>	<b>30</b>	<b>100</b>

Source: Field Survey (2015)

The results of age profile indicate that respondents are predominantly below the ages of 50-59. From the above table, out of the 30 respondents, 36.66% were between the ages of 20-29, 26.66% were between the ages of 30-39, 16.66% falls within the ages of 40-49, 13.33% of the respondents were between the ages of 50-59, while the remaining 6.66% falls within the ages of 60 and above category.

**Table 2**  
**Respondents Educational Background :( Bank’s junior staff )**

Education	Number of respondents	Percentage
PhD/ DBA	0	0%
MBA/MSc/MA	0	0%
Prof. Accountancy/Law	4	13%
BA/ BSc /LLB	3	10%
Diploma	12	40%
GCE O&A level	11	37%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

Source: Field Survey (2015)

From the above table, 13% of the 30 respondents have Professional Accountancy and Law. ; whilst 10% , 40%, 37%, , 0%, 0% have BA/BSc/LLB, Diploma, GCE O&A Level, MBA/MSc/MA and PhD respectively.

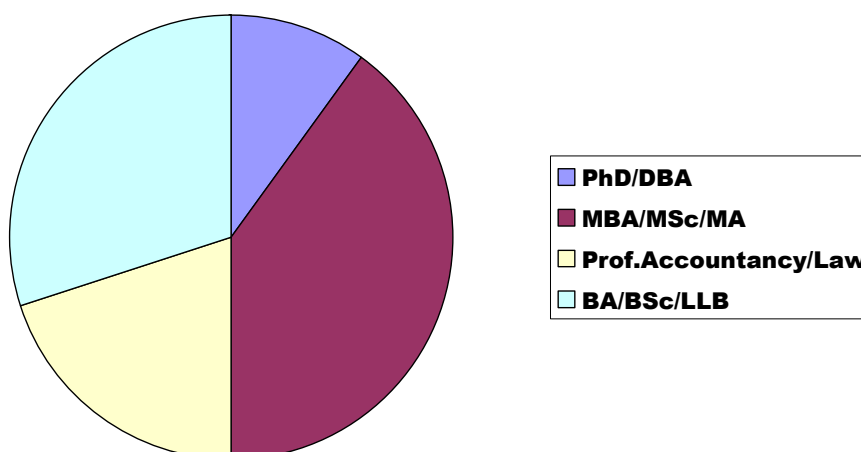
**Table 3**  
**Education profile of interviewees (Management of the Banks)**

EDUCATION	NUMBER OF RESPONDENTS	PERCENTAGES
PhD/DBA	1	10%
MBA/MSc/MA	4	40%
Prof.Accountancy/Law	2	20%
BA/BSc/LLB	3	30%
<b>TOTAL</b>	<b>10</b>	<b>100%</b>

Source: Field Survey (2015)

**Figure 3**

**EDUCATION PROFILE OF INTERVIEWEES  
 (Management of the Banks)**



The educational profile of the interviewees in table 3 above shows that only one of the respondents has Doctoral degree, 4 having Masters degree, 2 having either professional Accounting or Law qualification and 3 having Bachelors degrees, representing, 10%, 40%, 20% and 30% respectively.

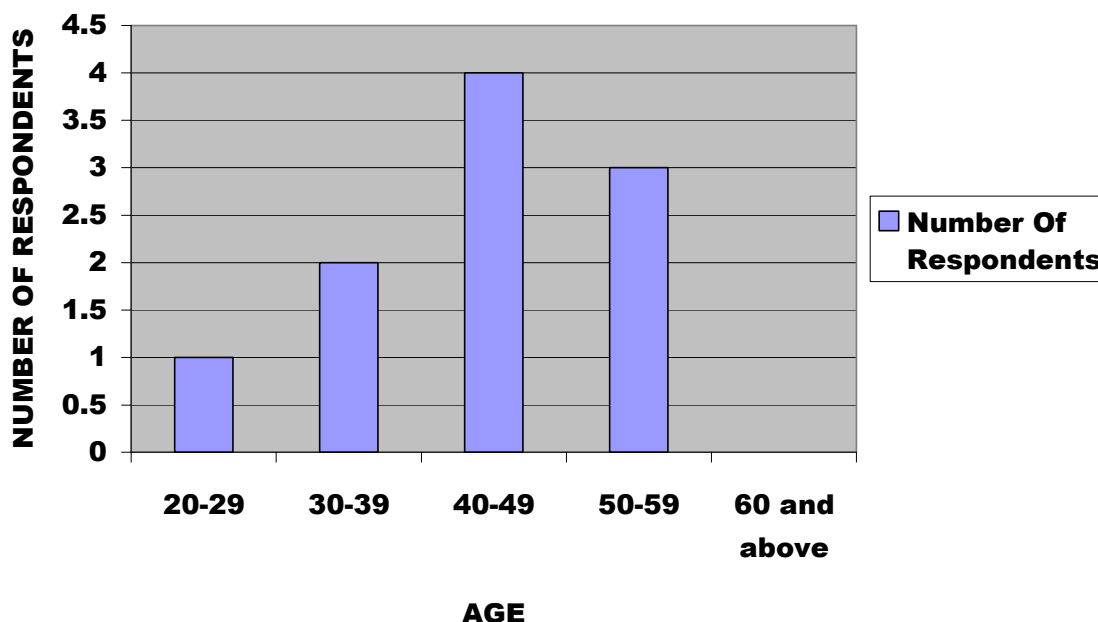
**Table 4**  
**Age of Interviewees (Management of the Banks)**

Age	Number Of Respondents	Percentage
20-29	1	10%
30-39	2	20%
40-49	4	40%
50-59	3	30%
60 and above	0	0%
<b>TOTAL</b>	<b>10</b>	<b>100%</b>

Source: Field Survey (2015)

**Figure 4**

**AGE OF INTERVIEWEES (Management of the Banks)**



The age profile of the respondents described above indicates that out of the 10 respondents only 1 of them is in the age group of 20-29, 2 respondents are of the ages 30-39, 4 are between the ages of 40-49, 3 are between the ages of 50-59, representing 10%, 20%, 40% and 30% respectively.

### 3.1 Factors influencing the surge in Retail Banking in Ghana

In order to determine as to why there is a surge in retail banking in Ghana, the researchers surveyed management and junior staff of eight banks operating in Ghana with larger market share of the retail segment. To achieve this, telephone interview was conducted as well as administering questionnaire on management and junior staff of Barclays Bank Ghana, Standard Chartered Bank Limited, Ghana Commercial Bank Limited, United Bank for Africa Limited, Agricultural Development Bank, Ecobank Ghana Limited, Cal Bank and SG-Social Security Bank Ghana Limited.

In all, ten (10) people were interviewed, and questionnaires were administered to another thirty (30). The response seemed to be similar, but differs on emphasis and on how the influencing factors were rated at some point. Interestingly, twenty-five (25) out of the forty (40) people surveyed are of the view that, huge capital requirements and high risk associated with other banking segments is preventing banks from fully engaging in all the segments.

Regarding capital requirements, it was made clear that unlike retail banking, where the customers' are the "givers" of the money, the other segments require banks to give out huge sums of money to the customers due to

the nature of businesses they are engaged in. This puts financial burden on the banks and therefore is disincentive to the banks that have the desire to engage in those segments.

On the high risk, it was said that due to huge sums of money involve in transacting business with customers in the other segments, it is imperative to have adequate information on the credit worthiness of prospective customers and this they said is virtually non-existing in Ghana. It was further revealed that, there is absence of a well structured system which makes it extremely difficult to track people and organizations in case of default in payments of loans.

They also observed that, due to corrupt nature of the administrative procedures in registering companies, it is not secured enough for banks to rely on the registration certificates of firms to transact business with them.

These in their view are inhibiting banks from venturing into these other segments.

Twenty (20) respondents noted that the state of the economy, size of corporate entities and institutions in their view are responsible for the reluctance of the banks to focus on these segments. On the size of the economy it was made obvious that, the nature of the economy being a lower middle income economy does not lend itself to a successful banking in all the segments other than retail banking.

This in their view stems from the fact that, there is limited number of customers in the other segments since about 60% of the populace is mainly subsistence farmers with very low incomes. The few who are employed in the formal sector also according to them have low income levels which make retail banking inevitable. They also noted that, unlike the developed economies where the economies are vibrant and therefore entrepreneurs, viable firms and reputable investors abound, the economy of Ghana is not that viable hence the limited number of entrepreneurs, viable firms and respectable investors to transact business with.

They further stated that, closely related to the state of the economy is the number of corporate entities in the country. They argued that there are a limited number of corporate entities and entrepreneurs due to the state of the economy unlike the developed economies where institutions like schools, universities, hospitals, service firms, manufacturing firms, etc abound which make doing business in all banking segments lucrative, the situation in Ghana does not make it prudent for banks to do same. All these according to the respondents are impediments on the way of the banks in their attempt to spread their tentacles into the other segments.

All the forty (40) respondents pointed out that, the monopoly of the largely government owned banks over the corporate or institutional segment of the banking sector and high operating expenses have been the bane of the banks in their quest to operate in these segments. With respect to monopoly by the largely government owned banks, it was revealed that the few corporate entities and institutions such as schools, Universities, District and Regional administrations, hospitals, ministries, state corporations etc available in the country are mandated by the government to transact business with the said banks. This in their view denies the other banks access to the few customers in these segments. The only option left is to concentrate on the retail segments which the government influence is not much pronounced they noted.

Regarding operating expenses, it was pointed out that unlike the retail segment, the administrative procedures involve in dealing with customers in the other segments are complex and expensive as well. This they said inter alia includes ascertaining the viability of the projects of individual entrepreneurs, putting in place reliable and efficient monitoring mechanisms for monitoring the entrepreneurs as well as managing efficiently the risk associated with the huge sums of money lend to firms and individual entrepreneurs so as not to jeopardize the success of the bank.

Interestingly, ten (10) of the people surveyed, opined that the lucrative nature of the retail segment explains why the banks in Ghana are concentrating on that segment. When probed further they said majority of the customers in the banking sector of the economy fall in the retail segment with its attendant low risk as compare to the other segments making it highly profitable in terms of market share, low risk and less operating expenses.

Surprisingly, two (2) of management members interviewed observed that they are focusing on retail banking because they want to serve and meet the retail needs of the populace. When probed further, they said as largely government owned banks; they are operating in consonance with their mission of serving and meeting the banking needs of the ordinary Ghanaian. They further noted that the philosophy of their banks reflect the customer groups to be served, the values and aspirations of the bank among others. In our case, the emphasis is on serving the people than making profit.

### **3.2. Findings**

- The findings revealed that huge capital requirements and high risk in other areas (segments) of operation in the industry is among the reasons why banks in Ghana are mainly concentrating on retail banking.
- Again, it was revealed that high operating expenses in other areas of operation (segments) is preventing banks from fully engaging in those areas.
- The findings again revealed that, the undue advantage and privileges enjoy by state owned banks in Ghana as a result of government policy and the absence of large corporate entities, leave the privately owned ones



with no option but to concentrate on individuals and few small and medium scale (SME's) businesses for operation, hence the need for focusing on retail banking.

- The study revealed that, almost all the banks in Ghana seemed to be focusing on retail banking due to the huge capital requirements and high risk associated with the other segments, and advantages enjoy by state owned banks, couple with the absence of large corporate entities gives no option to privately owned banks but to focus on retail segment.
- Conclusively, the results of this study among other issues suggest that, although banks in Ghana have the desire to operate in all the segments, huge capital requirement, high risk, such as inability to track people and organizations in case of payments default, and difficulty in checking the credit worthiness of prospective corporate customers, fraudulent corporate registration procedures among others prevents them from doing so.

### **3.3. Recommendations**

The researchers recommends the under- listed steps in trying to address the above issues.

- The Ministry of Works and Housing should put in place a well structured residential address system, which could help the banks to easily trace and track people and organisations in the event of payments default.
- The Registrar General's department must review the procedures and the process for company and other entities registration and to put in place pragmatic measures to reduce and curb bogus and fake registration.
- There should be a policy direction change on the part of the government of Ghana. The government should create a level playing field for all the banks to operate and compete and desist from giving preferential treatments to state owned banks.
- The Ministry of Finance, with the Central Bank of Ghana must also establish a well structured and reliable credit checking system, to help the banks to check the credit worthiness of prospective customers with ease.

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