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Strategies to Enhance Public Confidence in the Zimbabwean Banking Sector

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Abstract
This research was initiated after realizing that depositors are continually channeling their funds through the informal sector and that deposits in banks are increasing to be transitory in nature, an indication of low public confidence, despite a regulatory system with an interrelated financial safety nets. The main aim was to determine the variables and concepts that regulators and commercial banks might need to target in order to promote public confidence in the banking sector. To effectively determine the relationship that exists between financial safety nets, bank specific factors and public confidence the researcher adopted descriptive and explanatory research designs since the research was based on cross-sectional data. To complement this evaluation, the researcher adapted a probit regression model to determine the determinants of public confidence in the Zimbabwean banking sector. The adoption of this research may lead to a dynamic and proficient financial system, which may lead to increased public confidence in the banking system in Zimbabwe and eventually to growth and development of the entire financial system in the country. Further research could be carried out on assessing the reforms that can be adopted by the central bank to enhance confidence in the Zimbabwean banking sector without printing of notes, the relevance of setting up a financial administrative court, which might enhance confidence in the banking sector.
Keywords: public confidence, financial safety nets, moral hazards, bank runs

1.0 INTRODUCTION

A financial system is a closely interlinked system of financial relationships based extensively on confidence and trust by all participants and in which danger of domino effect, is to be resolutely guarded against by a country's financial safety nets. system (Kelly, 1993:227). This study therefore seeks assess the relationship between Central bank role, Commercial Bank activities, deposit insurance and public confidence in a multiple currency economy. Taking into consideration that Banking confidence has afforded a number of economies an efficient delivery of banking services.

The subject of bank failures worldwide has gathered much attention over the last years with the failures of European banks, American banks and the Asian banking crisis being the most recognized cases. In all these cases the most prevalent issues contributing to the bank failures have been poor financial risk management practices fueling the bank runs in the banking institutions concerned. Similarly, Zimbabwe also experienced a banking crisis in 2003/4 and 2008. Banks are usually a measure of the economic growth of a country. The stability of the banking sector has a positive correlation with the economic growth of that particular country. In addition to the economy's wide challenges, the financial sector had to deal with a number of unique and peculiar challenges. These challenges led to the inability of a number of banking institutions to meet deadlines with the RBZ as they succumbed to the pressure of imprudent lending practices, poor controls and risk management as well as neglect of good corporate governance principles. This inevitably led to the erosion of the trust and confidence that depositors had. This then calls for the supervisors to strengthen on their financial safety nets.

Deregulation of the Zimbabwean banking sector, in the early 1990s exposed the banking to some risk management, corporate governance and other structural vulnerabilities. In an effort to inspire confidence in the Zimbabwean banking sector the Central bank increased the minimum capitals of all financial system players, since capital is pivotal to banks' ability to contribute meaningfully to economic growth and development through effective financial intermediation. To a certain extend capital increases the probability of a bank to attract deposits and acts as a cushion against losses. In contrast, now considering our confidence stricken economic environment, this is not adequate, hence the need to investigate on the strategies that can be adopted to enhance public confidence. Because confidence is liquidity in the banking sector.

According to the July 2012 RBZ Monetary policy, efforts to improve the economy's liquidity were attributed great prominence on improving confidence in the banking sector.

Cull, Lemna and Sorge (2000) completed a similar study on the relationship between DI and depositors confidence and concluded that, increasing depositor's confidence leads to an increase in the deposit levels and overall number of depositors. This was in agreement with Kibirango (1999) who asserts that, a quantitative measure of confidence levels is in terms of deposit increase and number of persons using the banking system. In addition, Diamond – Dybvig (1983) showed that simple DI schemes eliminates bank runs. USAID (2001) in their research in South East Asia also showed that changes in number of deposits are used as a proxy to public confidence in the banking industry. This cannot be concluded for an economy like Zimbabwe, were deposits has since been on an increasing side, but on a transitory nature.

In light of its pivotal role in the financial system safety nets, bank liquidity and public confidence deserves more scrutiny. This paper is to dwell much on what can be done to restore public confidence in Zimbabwe post multiple currency regime. Public confidence in the Zimbabwean banking system has dissolved and depositors pulled their funds out of the banking system and hide them under proverbial mattress, sending the banking system into severe disintermediation. Although there has been an increase in the loan-to-depositor's ratio the banking sector is still under confidence crisis. Our economy is still faced with confidence crisis. This paper is to focus on what can be done to restore public confidence in Zimbabwean banking institutions post multiple currency regime.

Since the introduction of the multicurrency system, the Zimbabwean economy is still crippled the public had lost their trust leaving the financial sector under a confidence crisis. In a bid to restore the lost confidence, in the banking sector the researcher's main thrust is to determine what can be done to restore banking consumer confidence in the local financial institutions.

- ✓ To deduce a model that explains the determinants of public confidence.
- ✓ To evaluate the strategies implemented by commercial banks to restore public confidence.
- ✓ To evaluate the strategies recommended by the supervisory body to restore public confidence.
- ✓ To determine the strategies that can be adopted to restore and induce public confidence in the Zimbabwean financial system.

H_0: There is no relationship between financial safety nets, bank liquidity and public confidence
H_1: There is a relationship between financial safety nets, bank liquidity and public confidence
In order to achieve the major objective of this study, the researcher looks forward to what can be done to restore public confidence in the Zimbabwean banking system post multiple-currency?

- ✓ What strategies are being implemented by commercial banks to restore public confidence?
- ✓ What are the strategies recommended by the supervisory body to restore public confidence?
- ✓ What strategies can be adopted to restore and induce public confidence in the Zimbabwean financial system?

Study time frame is 2009- 2015, because the study had to uncover, strategies that can be adopted to enhance public confidence in the Zimbabwean banking sector. Also that's the time we witnessed a number of bank failures, leading to loss in consumer confidence. It is to be concentrated on insured financial institutions, therefore the POSB is to be left out since it's not insured. To enhance the validity of the results the researcher is going to concentrate on the commercial banks, since they are the ones prone to bank runs.

- ➢ Zimbabwean deposit insurance scheme complies with the core principles and best practices for deposit insurance schemes.
- ➢ All banking institutions comply with prudential rules and regulations that are enforced by the supervisory body.
- ➢ The current political and macro-economic challenges will continue to prevail.

The study will be of great importance to the banking sector in Zimbabwe which seeks to establish confidence in its clients. Researchers are in agreement that once confidence is established in clients it would be very easy to convert them, hence establishing a smooth financial system. There are a few empirics on the Zimbabwean economy, therefore this study will be of value in adding empirical knowledge on this area in the Zimbabwean banking system. Source of new ideas for policy makers and managers in the banking sector. Enhances the depositors and bankers to appreciate the significance of financial safety nets and the mandate they have to undertake to minimize moral hazards. Overally, this study is to be of value since it will uncover some of the safety nets and bank activities that can be adopted to strengthen our banking institutions.

2.0 LITERATURE REVIEW

2.1 Definition of Public Confidence

Public confidence is the faith of the public in its decision makers (regulatory authorities and the Government) and the policies they set. Kelley (1999) noted that there are four important elements needed for public confidence in banks and the banking system as a whole. Bank customers need assurance that:

- Of ready access to their funds and other bank services
- That their records are safe
- Prudential regulation and supervision is in place
- That debits are in place and inviolate

Public confidence, reduces the likelihood that depositors will irrationally panic and withdraw their monies, resulting in development of bank runs. On the other note public confidence enhances an efficient delivery of financial services. Also to ameliorate liquidity challenges, public confidence is the key that is the major purpose of this study to avail strategies that might inspire confidence in the banking sector.

2.2 Financial safety net

According to Ketcha (2008), safety net arrangements are often provided by governments with the public policy purpose of promoting economic growth and financial stability. Information sharing arrangements among safety net players should be formalised either through legislation, memoranda of understanding, legal agreements or a combination of these techniques (FSF:2001:19). The necessity for close coordination and cooperation among safety-net participants (SNPs) stems from the possibility of conflicting mandates. Therefore, there should be a clearly articulated division of powers and responsibilities agreed upon by all the participants to prevent unproductive overlapping and duplication of activities as much as possible. Unfortunately financial safety nets are not always clearly designed, especially when issues outside the clear remit of the Central Bank or bank supervisor are involved (Norton, Lastra and Arner: 2002).

2.2.1 Costs of a badly designed safety net

A bank safety net is difficult to design and operate because it strives to achieve conflicting objectives of protecting against financial crises that can magnify economic shocks while also, avoiding moral hazard problems that give rise to imprudent banking practices. Ironically in many countries the very safety nets that were meant to limit the vulnerability of the financial system have had quite the opposite result, and were indeed identified as the greatest single source of financial fragility. Finding the right balance between crisis prevention and market discipline is the most important challenge facing the policymakers. The benefit of the safety net comes from preventing systematic banking problems, not individual failures. Overly generous protection of banks insulates them from market discipline and encourages them to increase their asset risk, because potential losses will be borne by taxpayers through government bailouts of the banking system while the banks get to keep the gains. This excessive risk taking by banks-moral hazards-becomes worst at the time of adverse economic shocks, which erode bank capital and increase incentives to take on more risk. Badly designed safety nets may exacerbate such problems, introducing greater fragility into the system. Stigilitz (1972) argues that even in the absence of deposit insurance, banks are prone to excessive risk-taking because of limited liability of their equity holders and their high leverage. The cost of these safety nets may end up exceeding their potential benefits.

2.3 The need for public confidence

Keasey and Veronesi (2008), hypothesized the importance of public confidence, they noted that, if depositors have adequate confidence in the financial system the returned fund can be as low as 5-10%. Whereas if depositors lose their confidence in banks anything less than 100% retention maybe insufficient. This hypothesis, present the role of the banks own strategic choices as a maintainer of public confidence. Dymtro (2011) in his thesis on the determinants of trust applied a multinomial logit model. He concluded that respondents who exhibit trust in financial safety nets are consistently the most likely to trust banks. This can only be achieved, thus only if depositors are aware of all the financial safety nets that affects them directly. Thus the importance of this study is to articulate whether the Zimbabwean clients have confidence or not and the applicability of this hypothesis to developing nations like Zimbabwe.

3.0 RESEARCH METHODOLOGY

To effectively determine the relationship that exists on financial safety nets and bank specific factors and public confidence the researcher sought to adopt descriptive and explanatory research designs since the research is based on cross-sectional data. Likert scales are to be utilized to adequately measure the variables in this study. The researcher adopted this design since it allows the researcher to gather data on all variables at once, allows for multiple outcomes and exposures to be studied and it is good for descriptive analysis and for generating hypothesis. The study is to employ Stata 11 backed by Excel in data presentation and analysis, since the research is sorely dependent on primary data and that probit linear regression is to be carried out.

3.1Model Specifications

This study will adapt the empirical probit methodology, proposed by researchers, Knell and Stix (2009). They were determining the determinants of trust in banks. To capture effects of different individual variables on public confidence in the Zimbabwean entire financial system the researcher considered, the probit regression model, that is PUBLIC CONFIDENCE = f (DEMOGRAPHIC, DIS, BANK, CENTRAL BANK, μ).

Model Regression Equation

$$\mathbf{PC = \beta_1 AGE + \beta_2 AWR + \beta_3 BFAL + \beta_4 BCH + \beta_5 LOLR + \beta_6\ ACES + \beta\ _7 AMT + \beta_8\ INTD + \beta\ DEPL_9 + \mu}$$

Where:

PC = public confidence,

AGE = Age

AWR = Awareness

BFAL = Bank Failures

BCH = Bank Charges

ACES = Access to deposits
LOLR = Lender of last resort
AMT = Amount to be saved
INTD = Interest on deposits
DEPL = Deposit lost
β = the constant vector/ is the vector of **n** unknown coefficients
μ = Captures all variables that explain public confidence that are not included in our model.

3.2 Justification of Variables

One of the objectives of this study is to determine the relationship between DI, bank specific variables, other financial safety nets and public confidence. The dependent variable public confidence based on the extent to which the confidence variables of Bank runs, deposit levels and number of depositors are shown using likert. The likert scale will show if each variable enhance public confidence or does not enhance public confidence The independent variables are to be measured in respect of Deposit insurance variables (Insurance coverage, Time delay in reimbursement), bank specific variables (commercial bank liquidity position, Commercial bank capitalization) and the Central bank variable, (Lender of last resort).

3.2.1 Public confidence

Public confidence is the faith of the public in its decision makers and the policies they set. Kibirango (1999) asserts that, quantitative measure of confidence levels is in terms of deposit increase and number of persons using the banking system. USAID (2001) in their research in South East Asia also showed that changes in number of deposits are used as a proxy to public confidence in the banking industry.

3.2.2 AGE

Age tend to have an impact on the confidence of an individual to the banking sector. Modigliani (1970), asserts that consumers are considered to have negative savings when young and with low income, positive savings during their productive years and negative savings when they are old and retired.

3.2.3 Bank failures

Kelly (1993) postulated that, progressive self-inducing collapse resulting from institutional or market failure would cause public to lose confidence in the financial system. Kaufman (1996), described bank failure as a situation when the market value of the bank assets declines below the market value of its liabilities.

3.2.4 Access to Deposit

Bessis (2009) defined, bank liquidity as the ability of the bank to fund increasing assets and meet obligations when due, without incurring unacceptable losses. Rational or irrational liquidity challenges to a bank leads to sudden loss of confidence, leading to the emergency of bank runs. Warsh (2007), postulated that liquidity is confidence, and that bank liquidity position is positively related to consumer confidence.

3.2.5 Amount to be saved

This is the amount of savings an individual is willing to save. Savings are defined as a leakage out of the circular flow of income meaning it is that part of income that has been left unconsumed and thus not given back to the circular flow of income but is rather spared for future use (Mankiw 2007). Amount to save is expected to have a negative coefficient which means that as individuals save less they will be less confident.

3.2.6 Lender of Last Resort

Defined as the provision of temporary lending to the market at such a time of financial crisis, (Schich 2008). Van Dam (1997), showed that lender of last resort function by the central bank has a positive impact on the public confidence. Van Dam (1997) further, pointed that the idea of providing liquidity to troubled banks is to prevent panic among depositors and this avoid bank runs and also perceived dangers stemming from illiquidity developing into full scale contagious bank failures.

3.2.7 Awareness

This is informing, the public on an ongoing basis about the benefits and limitations of the deposit insurance system. Principle 12 of IADI. So as to enhance public confidence in the Zimbabwean banking system. In addition, a successful public awareness should be designed to build public confidence.

3.2.8 Interest on deposits

The interest rate spread the earnings on assets is a measure of financial sector efficiency in intermediation. Chikoko and Pierre 2012, noted that inflation lowers the real rates of return resulting in a smaller pool of savings because lower real rates of return reduce the attractiveness of savings from depositors` perspective. A narrow interest rate spread means low confidence, which reduces the savings, crucial to economic growth. The researcher, in line with the literature expects a positive relationship between higher interest and confidence in the banking sector.

3.2.9 Deposit lost

These are the deposits that has been taken by the reserve bank from the clients, during the transition period to multiple currency. Deposit lost are expected to have a negative coefficient, which then implies that an increase in deposit loss by clients results in the higher probability of confidence loss in the banking sector. During the transition period from using the ZWD to adoption of the USD most bank clients lost their funds, because the RBZ has frozen their accounts.

4.0 DATA PRESENTATION, INTEPRETATION AND ANALYSIS

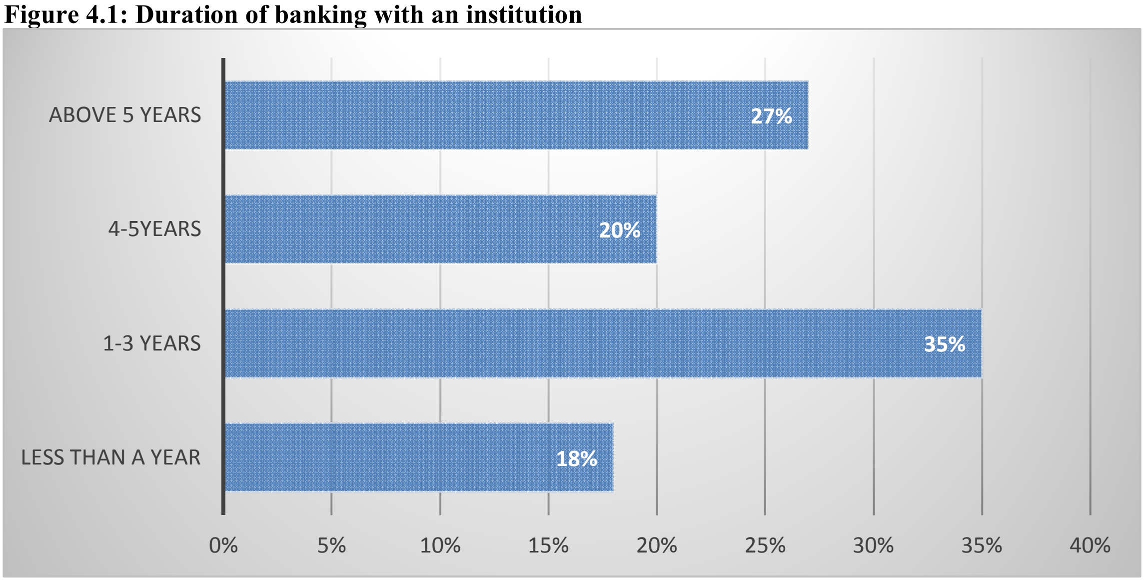
4.1 Confidence in the Zimbabwean Banking sector

Before determining the determinants of banking confidence in the Zimbabwean banking sector, the researcher, first of all determines the level of confidence in the banking sector. The researcher found out that there is low confidence in the Zimbabwean banking sector as evidenced by the, presentations and analysis below.

4.1.1 Duration of banking with an institution

Information on how long depositors have banked with a particular financial institution is indicated in figure 4.3 below.

Figure 4.1: Duration of banking with an institution



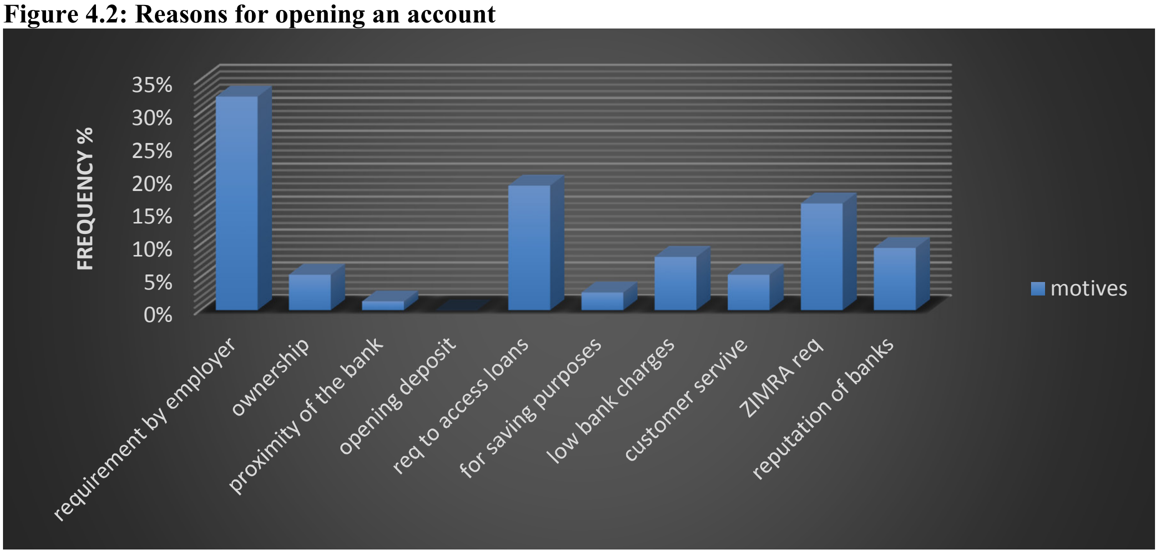
Source: Primary data

Majority (53%) of the depositors in the survey had banked for less than 3 years. This implies that the majority of the respondents are still in their infancy in using the financial institutions, which calls for a safety net and good banking practices in order to increase the depositor's confidence in the banking sector as a whole, thereby leading to the growth of the banking sector.,

4.2 Reasons for opening an Account

Information on what greatly influenced the depositors was sought and findings are presented in fig4.4 below.

Figure 4.2: Reasons for opening an account



Source: Primary data

The above graph shows that of all the responses, requirement by employer, requirement to access a loan and ZIMRA requirements influenced the respondents most in opening up accounts implying that clients have no confidence in the Zimbabwean financial sector. That is why they are not continually transacting with the banks.

4.3. Public confidence in the Zimbabwean Banking Sector

To answer the question whether the public is confident in the banking sector or not, the researcher discovered that, the public is not confident of the banking sector, given the reasons which clients considered when opening an account. The results indicated that (32.43%) of the sampled clients open accounts as a requirement by employer as compared to (3%) and (9.46%) attributed to saving purposes and the bank soundness respectively. The analysis is further summarized in table 4.1 below. The researcher further applied the net promoter score, recommended by the Gallup research, to determine the level of confidence in the Zimbabwean banking sector. Score in the Detractors region, in this study, region one to four entails that clients are unhappy, and can damage the confidence of others, through negative word of mouth, because, these clients once lost their monies in the banking sector and are the victims of the failed banks who are still looking for their deposit compensation. Those on the Passive region are satisfied but unenthusiastic customers who are vulnerable to competitive offering that is the informal sector, as indicated in this study region five to seven, these clients are interested on the interest earned on their hard earned dollar, and are discouraged to save because of exorbitant bank charges prevailing in the Zimbabwean banks. Lastly, Promoters, thus region nine to ten, are loyal enthusiastic who will keep utilizing the formal financial system, because they believe that the banking system is safe not considering other external factors like politics, and are willing to save through the bank.

Table 4.1: Confidence in the Zimbabwean banking sector

Net Promoter scale										
		Detractors				Neutral			Promoters	
Score	1	2	3	4	5	6	7	8	9	10
Driver Frequency	24	14	12	1	4	6	0	4	7	2
total		51				14			9	
percentage		68.92				18.92			12.16	

Source: Survey

The researcher's results indicated that, 68, 92 % of the clients lies in the detractor's region, followed by 18, 92% on the neutral zone and only 12,16 % are the promoters, an indication of low public confidence in the Zimbabwean banking sector. From the above results, clients are not confident and are not willing to transact with the bank.

The researcher, thereby adapted a probit model to determine the determinants of public confidence in the Zimbabwean banking sector, considering that there is low confidence in the sector, because of the transitory nature of deposits and the fact that much is circulating in the informal sector.

4.3.1 Probit regression results

To satisfy the objective of developing a model that explains confidence in the Zimbabwean banking sector, below is are the results from the probit regression.

Table 4.3: summary of probit regression results

Variable	Coeff	standard error	z-score	Probability
Failures	-0.4623672	0.1941435	-2.38	0.017
Awareness	1.282919	0.4791677	2.68	0.007
Int depo	0.6447815`	0.2248764	2.87	0.004
Access	0.3670315	0.1731879	2.12	0.034
Depo los	-1.061308	0.5252213	-2.02	0.043
Age	-0.0330602	0.040449	-0.82	0.414
BCharges	-0.4623672	0.1966786	-0.61	0.540
LOLR	0.7041175	0.5737466	1.23	0.220
Amt_save	-0.0000385	0.0005264	-0.07	0.942
Constant	-0.49762	1.640837	-0.30	0.762

Source: Survey

Probit regression

Number of observations

LR chi2 (9) =37.83

Prob>chi^2 = 0.0000

Log likelihood = -31.6977 99 PseudoR^2 = 0.3737

Estimated regression model

$PC = \beta_1 AGE + \beta_2 AWR + \beta_3 BFAL + \beta_4 BCH + \beta_5 LOLR + \beta_6 ACES + \beta_7 AMT + \beta\, INTD + \beta\, DEPL + \mu$

Confidence predicting model for the significant variables

The equation of the final model of significant variable is:

PC = -0.49762-0.4623672BFAL+1.282919AWR+0.6447815INTD+0.3670315ACES`-1.061308DEPL

If a bank for example has a client with the following: client's age=32 years, awareness increases, low to no bank failures, increase in access to deposits, zero deposit loss, bank charges reduced and deposits earning interest and the LOLR restored and have a savings account, then there is a higher probability that the client would save USD$ 436.22, per month.

4.3.2 Interpretation of results

Likelihood ratio (LR) test examines the significance of the whole model and is conducted under the null hypothesis that all the slope coefficients are simultaneously equal to zero, against the alternative that at least one is not equal to zero. LR statistics is (37.83) and the p-value is (0.0000). However, the researcher, rejects the null hypothesis and conclude that all explanatory variables are significant on determining public confidence in the Zimbabwean banking sector.

Gujarati (2004) noted that Pseudo ratio, measures the proportional improvement in log likelihood or the predictive capability of the model. Pseudo R2 can be utilized to measure goodness of fit although it is not particularly meaningful in binary models. The probit results, hence, showed that Pseudo R2 is (0.3737) implying that 37.37% of the variation in the model is explained by the explanatory variables.

The researcher interpreted the signs of the regression coefficient and their statistical significance. This was in line with the emphasis by Gujarati (2004), that it is the sign of the regression coefficient and their statistical significance that are vital on the interpretation of the results. Maddala (1983), also supported that the signs of the coefficients are the most important along with their economic meaning.

4.3.3Constant

This constant explains what would happen to the banking public confidence in the absence of the explanatory variables adapted in this probit model. The negative sign implies that public confidence would be decreased by (-0.49762) (49.762%) in the absence of the adopted variables.

4.3.4 Failures

Bank failures (Failures) has a coefficient of (-0.4623672) which is negative as expected and a z-score of -2.38 and therefore significant, thus in line with the 2-t rule of thumb. In addition, the significance is complemented by the low p-value of 0.017. The results implies that an increase in bank failures results in the higher probability of confidence loss in the Zimbabwean banking sector. This is in line with the results of Kelly (1993), who found out that progressive self-inducing collapse resulting from institutional or market failure would cause public to lose confidence in the financial system. The other issue to note in our economy is that, most bank failures are as a result of poor corporate governance, and depositor funds misuse and there is absence of a financial administrative court that has to deal with the problem individuals. In developed countries individuals who contribute into bank failures through fraud or poor corporate governance are seen sentenced, this would help to stabilize the banking sector.

4.3.5 Awareness

Awareness, which is the Deposit insurer's awareness, has a z-score of 2.68, which makes it significant in line with the 2-t rule of thumb and this is reaffirmed by a p-value of as low as 0.007. The positive sign indicates that an increase in DPC awareness results in an increase in the probability of gaining public confidence in the banking sector because a successful deposit insurer, invest much on its awareness, hence in line with the IADI, Nov 2012, awareness report. This is in agreement with the IADI principle 12, that a successful public awareness be designed to build public confidence.

4.3.6 Interest on deposits

Interest on deposits has a coefficient of (0.6447815) which is positive as expected and a z-score of 2.87 and therefore significant, thus in line with the 2-t rule of thumb. In addition, the significance is complemented by the low p-value of 0.004. The results positive sign implies that an increase in interest on deposits results in the higher probability of gaining confidence in the Zimbabwean banking sector.

4.3.7 Access to deposits

Access to deposits has a coefficient of (0.3670315) which is positive as expected and a z-score of 2.12 and therefore significant, thus in line with the 2-t rule of thumb. In addition, the significance is complemented by the low p-value of 0.034. The results positive sign implies that an increase in access to deposits results in the higher probability of gaining confidence in the Zimbabwean banking sector. These results tally with the expected results that, liquidity is confidence, and bank liquidity position is positively related to consumer confidence, (Warsh (2007).

4.3.8 Deposits lost

Deposit lost has a coefficient of (-1.061308) which is negative as expected and a z-score of - 2.02 and therefore significant, thus in line with the 2-t rule of thumb. In addition, the significance is complemented by the low p-value of 0.043. The results imply that an increase in deposit loss by clients results in the higher probability of confidence loss in the Zimbabwean banking sector.

4.3.9 Insignificant variables

Lender of last resort has a coefficient of (0.7041175) which is positive as expected, high p-value of 0.220 and a z-score of 1.23 but it had failed to explain public confidence in the Zimbabwean banking sector, thus it had failed to satisfy the 2-t rule of thumb. The results depict that there is a negative relationship between age and public confidence in the Zimbabwean banking sector. From the results, age has a z-statistic of -0.82, high p-value of 0.414. This is in line with what Chikoko et al (2013), found, that age reduces the probability of saving, which in turn is contrary to the paradox of thrift which asserts that an individual becomes thrifty with age. For the purpose of this study, increase in savings is related to increase in public confidence. Amount to save has a coefficient of (-.0000385) which is negative as expected and a z-score of -0.07 and high p-value of 0.942. Furthermore, the results depict that there is a negative relationship between bank charges and public confidence in the Zimbabwean banking sector. From the results bank charges has a z-statistic of -0.61according to the 2-t rule of thumb z-statistic bank charges and the z-score is less than 2 and this is confirmed also by a high p-value of 0.540.

4.4 Strategies implemented by commercial banks to restore public confidence

The researcher found that commercial banks have employed various strategies, to enhance confidence in the banking sector. Among these strategies, commercial banks are investing in: As a result of bank failures, the researcher found that, the same banks were continually failing for example Trust, Royal and ZABG failed in 2003-2004 as well as TN bank, have had a bad image on the market, thus the researcher revealed that ZABG, rebranded to Allied bank, TN to Steward bank all these were efforts to rebuild the lost confidence in clients. The researcher found that, these banks did not end on rebranding, TN bank repositioned itself as a leading technological bank, offering high proficient technologies to its clients, through partnering with Econet wireless. This is an act of maintaining the relationship of the bank and the client, through client onsite visit, calling, updating clients on all the bank activities and building new business. This has gone a long way in bank customer retention, but had failed to adequately answer the major question, that is the transitory nature of deposits made. These products, had been made available to the once unbanked markets, the researcher found out that all banks now have a division offering loans to the low salaried employees, (through their microfinances). This has resulted in increases in the numbers of clients, but rather on the contrary fueling to the growth in the amount of money circulating in the informal sector. It is thus a challenge, to why the economy is still faced with liquidity shortages whereas IADI denotes that liquidity is confidence.

In addition, the researcher, found that commercial banks have since adopted matching strategies in their treasury lending activities since deposits are volatile, which was a major cause of the recent bank failures among poor corporate governance issues. In a bid to mobilize and prolong deposits, commercial banks are offering free banking services to Churches and Schools. This strategy had a positive bearing to client's access to their deposits, thus raising the client's confidence in the banking sector, since access to deposits has been increased. Although a few banks in 2014 between January and April have had some challenges to meet the liquidity needs of their client's banks are trying all their best to ensure clients access their funds on demand. This challenge has been viewed as the major cause to the Zimbabwean public to prefer trading in the informal sector, since clients have had lost their funds, since 2003 to 2014. The results showed that all operational commercial banks are making efforts to be fully capitalized. The researcher found that banks are sourcing for external investors, so as to enhance their stability. As most clients were viewed to be interested in stable financial institutions. Overally, these strategies that are being implemented by commercial banks are complemented and enhanced by those structured and recommended by regulatory bodies. The researcher therefore found that, the RBZ and DPC are employing various strategies to curtail the confidence crisis.

4.5 Strategies and RBZ recommendations

The RBZ only ensures that those that fail exit the market in an orderly manner that help to minimize systemic risk. The findings also revealed that the RBZ has enacted the TBRF in 2005, which is still operational, where all distressed banks are amalgamated, so as to retain and maintain confidence in the banking sector. In addition to this, the RBZ is currently conducting close monitoring through on-site and off-site supervision utilizing risk based supervision. The reserve bank still lacks proactive regulations which have been viewed in other jurisdictions as major drivers to boost confidence in the banking sector. The reserve bank, has also recommended for banks to be placed under curatorship, but this has been instrumental in reducing the severity of bank failures, but has also been viewed to be a cause of low trust in banks, this is because the strategy has been poorly implemented. Since some banks are placed under curatorship for periods of more than a year. This has a bearing to the client's confidence because the deposit insurance is not allowed to reimburse clients their funds.

4.6 Role of DI in promoting public confidence

The researcher found that the survey, DPC website and the annual reports, all confirmed that the insurer, ensures that it fosters confidence and financial system stability through ensuring that:

- ✓ Depositors do not lose all of their hard earned savings.

- ✓ Public awareness campaigns regarding when and how reimbursement of the deposits will be made.
- ✓ It deals with bank failures expeditiously and reimburses depositors promptly

In contrast, looking at its performance since its inception in 2003, DPC have managed to reimburse only three financial institutions. This they said is not attributed to them for they had argued that they only reimburse after they are granted the permission to do so by the prime regulator, RBZ. An analysis on the findings, revealed that DPC attributed this to the delays by the owners of the failed institutions and the absence of a financial administrative court, to deal with these problem banks promptly than the way they are being handled by the High court of Zimbabwe. This is an indication of its challenge to deal expeditiously and reimbursing depositors of their amounts. This also has gone against the recommendations by the IADI, November 2012, report that prompt payouts help to reinforce Public confidence.

Insurance cover

DPC (2012) annual report, attributed that, a coverage of US$ 1000.00 would provide full cover to at least 90% of depositors in the sector. This is in line with this study which revealed that the current insurance cover of USD$500.00 is not sufficient to foster confidence in the Zimbabwean banking sector. These results were also in agreement to WDGI (2001) that if coverage is too low it will fail to enhance public confidence. Although Demirguc-Kunt and Huizinga (1999), in their cross country research found that higher coverage reduce market discipline.

Table 4.9: Proposed insurable amounts by bank employees

Variable |	Obs	Mean	Std. Dev.	Min	Max
insured_amt |	23	1021.739	336.3663	500	1500

Source: Primary Data

The findings, revealed that the mean coverage (USD$1021.74) is in line with Ketcha (2008), who advises that coverage should be set in the region of two times per capita GDP. According to the World Bank (2013), Zimbabwe GDP per capita is currently at USD$428.54, implying a coverage of (USD$1021.74) sufficient to induce confidence in the banking sector.

The study revealed that there is low confidence in the Zimbabwean banking sector, through the net promoter scale. The researcher also run a probit regression and found out that public confidence is explained by, variables under the Central bank, Deposit Protection and Commercial banks in Zimbabwe. The study revealed that bank customers and employees are ill-informed about the existence of a deposit insurance scheme in Zimbabwe. However, all the respondents revealed that restoration of an effective lender of last resort, compensation of the lost ZWD balances, Capitalisation of banks and deposit insurance are vital in promoting confidence in the financial sector. Overally the results noted that the economic instability is the major cause, to the lost confidence. This was in line with Chikoko and Nyamutamba, (2013) results that confirmed that the existence of DPC helps in enhancing public confidence. The researcher's results in terms of public awareness and demand for deposit protection were in line with previous researches by Safakli and Güryay, (2007).

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this study the researcher evaluated the strategies that can be adopted to enhance public confidence in the Zimbabwean banking sector. To determine this, the researcher evaluated the factors that had fueled the loss of public confidence in the banking sector. Literature highlighted that series of bank failures induced by bank runs around the globe resulted in savers losing their deposits, loss of confidence in the banking systems and banking instability. To effectively determine the relationship that exists on financial safety nets and bank specific factors and public confidence, the researcher adopted descriptive and explanatory research designs since the research was based on cross-sectional data. To achieve this the researcher evaluated the strategies that have been implemented by commercial banks and the recommendations made by the supervisory bodies (RBZ and DPC). To complement this evaluation, the researcher adapted a probit regression model to determine the determinants of public confidence in the Zimbabwean banking sector. The probit results and the interview and questionnaire results, were run in Stata and excel. They indicated that bank failures and deposits lost during the transition into the multiple-currency environment had a negative relationship to public confidence which was in agreement to the literature that, increase in Bank Failures and Deposit loss results in low public confidence. In addition, the interviews and questionnaires distributed identified these variables as the major variables to the loss in public confidence.

Furthermore, the probit regression revealed that DPC awareness, interest on deposits and access to deposits, had a positive relationship to public confidence. This was also supported by the available literature that confidence results from availability of knowledge and that bank liquidity is confidence. In this study, LOLR resulted with a positive relationship to public confidence but according to the 2t rule of thumb it was insignificant and that as the amount to be saved increases the confidence of clients decreases, an indication of low confidence in the banking sector.

5.1 Conclusions

The Reserve Bank, deposit protection cooperation, ministry of finance and commercial banks are all concerned and are contributing in resolving the case of inspiring confidence in the Zimbabwean banking sector. Findings revealed that they all need to deal with causes of bank failures in the system that in turn resulted in the major loss of confidence in the Zimbabwean financial sector. The researcher concluded that confidence results from the availability of knowledge, thus from the regression results, the awareness has a positive impact to the public's confidence. Also the supervisory bodies and the banks were all lacking in disseminating the required information to the clients so as to enhance public confidence.

Public confidence in the Zimbabwean Banking Sector

The researcher discovered that, the public is not confident of the banking sector, considering the reasons which the clients attributed to the opening of their account. The researcher applied the net promoter score, to determine the level of confidence in the Zimbabwean banking sector. The results thereby indicated that, there is low public confidence in the Zimbabwean banking sector, and the factors that had been identified to cause loss in confidence, included but not limited to policy reversals and inconsistency, effectiveness of board and senior management, the financial performance of the banking sector and delay in compensating ZWD balances and people still see the vulnerabilities of the pre-dollarization era. In addition to this, Performance of the economy and Macroeconomic instability were attributed to the loss in public confidence. Lastly Bank charges, low interest rates, Information asymmetry and instability of banks were the resultant factors causing low public confidence.

5.1.1 Determinants of public confidence

The researcher noted that an increase in savings is related to increase in public confidence. Therefore, results indicated that Zimbabwean bank customer confidence = f (bank charges, interest on deposit, deposit loss, bank failures, awareness, depositor access to deposits). (PC = f (β-β**BFAL**+β**AWR**+β**INTD**+β**ACES**-β**DEPL**+**μ**)). This is because:

- An increase in DPC awareness, results in an increase in the probability of gaining public confidence in the banking sector.
- An increase in interest on deposits results in the higher probability of gaining confidence in the Zimbabwean banking sector.
- An increase in access to deposits results in the higher probability of gaining confidence in the Zimbabwean banking sector.
- An increase in deposit loss by clients and bank failures results in the higher probability of confidence loss in the Zimbabwean banking sector.
- Low bank charges would increase the significance of the interest on deposits, thereby enhancing depositors to save.

Confidence was also found to be determined by: the regulatory and government policies, commercial bank capitalisation, the insurance cover and the reimbursement time by the deposit insurer. Conclusively, confidence is liquidity and liquidity is financial system stability and it is determined by various variables over time.

5.1.2 Strategies currently implemented to restore public confidence

The researcher found that commercial banks and supervisory bodies are currently working on restoring the Confidence in the banking sector. The strategies that they have implemented comprised of Customer relationship management, increasing the banks' capital position through mergers and acquisitions and compliance to the newly prescribed capital requirements. Also the RBZ enacted the troubled bank resolution framework. The researcher concluded that, though they are doing all that, there are still some key confidence issues to be addressed. The policies that are being implemented are against building confidence and the costs of funds are also to some extend hindering the banks to charge low and ensure that deposits earn interest as these have been identified as key determinants of public confidence. Moreso, not all deposit taking institutions contribute to the DPC fund. These contributions are expected to meet the deposit reimbursement in the event of a bank failure. The researcher also noted that, the DPC is now working on increasing public awareness, though the clients are not currently aware. The researcher on the contrary discovered that, DPC and commercial banks are not currently working closely together, that is why, the awareness campaign are not effective.

5.1.3 Compliance of DPC with IADI core principles

The researcher discovered that DPC is not complying with some of the recommended core principles of deposit insurance. Conclusions indicated that this has a bearing to the execution of its mandate and also its contribution to the baking of the national cake, Public confidence in the banking sector.

5.1.4 Challenges faced by the DI

Drawing from the findings, the Legal system is not transparent, because owners of failed banks seem to have control over the court judgments, filing petitions against liquidation of banks for example Trust Bank, in April 2014, filed a petition, that in turn result in the delay of creditors and depositor's funds settlement. In tandem with this, the researcher noted there is poor information dissemination from banks and RBZ to the deposit insurer on problem banks since it is vital in their planning purpose, and reimbursement arrangements. The researcher concluded that the board of directors of the DI in not properly represented because it is dominated by representatives of the banking institutions, implying that the voting rights are attributed more to the banking sector. They end up advancing policies in the best interest of the banks rather than its primary mandate of safeguarding the depositor's interest. In addition to all this, non-contributory institutions to the deposit insurer's funds who at times cause a spillover effect on the confidence in clients, if they fail or if their banks fail, is concluded as a major challenge for the insurer and the RBZ to effectively build and maintain public confidence.

5.1.5 Capitalization of the safety nets

The results of the research confirmed that more capital entails more stability in the financial system, hence increased confidence. It also provides safety net for depositors in case of a bank failure. It has been explained as the last line of defense in times of illiquidity and solvency challenges. The researcher found that the more liquid a bank is, the more likely it is to attract more business thus gaining stakeholder confidence. A strong capitalized Central Bank has been viewed to be able to fulfil its mandate of being a lender of last resort. The researcher noted that if the Central Bank is well capitalized the public will be assured that if their bank is trapped in liquidity the central bank will be there to assist. Furthermore, an undercapitalized bank would be insufficient to undertake its role of maintaining financial and banking stability which ultimately affects public confidence negatively. A capitalized DI, has been viewed to assist in providing the safety net to the public, which in turn boost confidence. Overally, the study revealed that the level of the deposit protection fund is the major determinant of the maximum insurable amount. The researcher, also noted that their fund is not adequately funded. Thus to a limited extent a well-capitalized DPC enables the institution to perform its mandate considering that it also works in conjunction with other safety net.

Conclusively, the researcher, found out that there is low, public confidence in the banking sector, due to various reasons. Among them are, policy inconsistence and reversal, deposit loss, time to reimbursement, high bank charges characterized with insignificant interest on deposit. All these factors have resolutely send the banking sector to severe disintermediation, because deposits have remained to be of a transitory nature. In light of these factors impacting on customer confidence, the study revealed that, clients have since resorted to saving their money in the informal sector. The researcher, thereby draw some recommendations to ensure that confidence is improved in the banking system.

5.2 Recommendations

In light of the research findings and conclusions made by the researcher, there are various strategies that can be adopted to enhance public confidence and stability in the Zimbabwean banking sector. Strategies that can be implemented to restore Public confidence:

5.2.1Commercial banks

A stable banking system can only be achieved if commercial banks are taking part in maintaining banking confidence in the sector, thus the researcher made the following recommendations to the commercial banks.

5.2.2 Capitalisation of Banks

The researcher's conclusions confirmed that, more capital entails more stability in the financial system, hence increased confidence. It also provides safety net for depositors in case of a bank failure. It has been explained as the last line of defense in times of illiquidity and solvency challenges. Also the researcher noted, the public knows that a well-capitalized bank can absorb losses arising from their activities on an ongoing basis. Overally, well capitalized banks are at an advanced level to withstand internal and external shocks and have low probability of failure. Thus the researcher recommends, banks should be well capitalized.

5.2.3 Customer access to deposit

The researcher recommends that, bank capital, should be constituted with 5% as cash reserve to cater for instances of random shocks. Like in other jurisdictions it should be constituted by at least 5% being cash, because most Zimbabwean banks, present their capital as illiquid assets, i.e. buildings**.** The study concluded that if a bank cannot meet maturity of deposits and withdrawals, then confidence is eventually lost. Because, the more liquid a bank is, the more likely it is to attract more business that is gaining stakeholder confidence.

5.2.4 Bank products

Considering that most clients have since resorted to saving and circulating their funds in the informal sector, the banks had to come up with some innovative products (lending to groups, group savings just like in Bangladesh and rotational savings should be formalised), which are less costly to the clients. In addition to this, they should ensure that pricing of products is communicated to clients transparently. Also account opening requirements in banks should be relaxed. Deposits should be allowed to earn a noticeable interest. Overally, products should be customer-centric and there should be increased awareness on financial literacy (bank products/services) and savings options.

5.2.5 To the Reserve bank

Regulation is viewed as the key to building and maintain confidence in the banking sector, therefore taking in consideration the pivotal role undertaken by the RBZ, in regulating banks, the researcher recommends:

5.2.6 Central bank capitalisation

A strong capitalized central bank has been viewed to be able to fulfil its mandate of being a Lender of last resort. They argued that capital provides the cushion needed to meet liquidity needs hence capital affects confidence via liquidity. The findings revealed that if the Central bank is able to perform its Lender of last resort function, it improves the banks liquidity hence positively impacting on public confidence. However, the researcher, noted that if the central bank is well capitalized the public will be assured that if their bank is trapped in liquidity the central bank will be there to assist. Furthermore, an undercapitalized central bank was viewed not to be able to undertake its role of maintaining financial and banking stability which ultimately affects public confidence negatively.

5.2.7 Capitalisation of DIS

A capitalized DI, had been viewed to assist in providing the safety net to the public, which in turn boost confidence. DPC officials added that the level of the deposit protection fund is the major determinant of the maximum insurable amount, they also noted that their fund is not adequately funded. Where, Demirguc-Kunt and Detragiache (2000) in their research findings showed that explicit DI tends to fuel bank fragility. In contrast the research findings for this research, are in agreement with Cull, et al (2000), in their study, showed that there is a positive relationship between DI and depositors confidence. Thus to a limited extent a well-capitalized DPC enables the institution to perform its mandate also considering that it works in conjunction with other safety net.

The researcher further recommends that:

- ✓ Increase in the maximum insurable amount (currently set at $500) will also go a long way in enhancing depositor confidence and that the premiums should be risk adjusted premium, to ensure that a moral hazard is not created.
- ✓ The insurer should partner with financial institutions to enhance public awareness. Increased awareness on the availability of deposit protection scheme (which is free for bank depositors as cover is automatic on account opening) targeting:
  a) Legislators, such that when formulating their policies they would take into consideration the fragility of the sector.
  b) Students, such that when they leave school they will be well informed about the importance of utilizing the banking system.
  c) Pensioners, since they hold in them a larger chunk of funds.
  d) media , such that when they would be reporting they report taking into consideration the best interest of clients and non- depositors

5.2.8 The legislators (Ministry of Finance and the Government)

The researcher recommends that Policies should be consistent and that deposit insurance should have a greater role in dealing with commercial crimes. Be consistent on the statutory instrument that depositors of a bank under curatorship be reimbursed their funds and that DPC be the curator for failed banks, to ensure that there is no time-delay in reimbursing clients since time has been considered as a major aspect to loss in confidence. In addition to this, Political policies should not affect the capacity of the economy to attract foreign investment and the ability of the economy to benefit from funding from international bodies like IMF, World Bank and Basel Committee. A policy should be crafted to formalize the credit societies and money lending institutions such that they start contributing to the fund, since they were identified as the major causes of the loss in confidence.

5.2.9 Establishment of a Financial Administration Court

The findings revealed that there is no clear and precise regulations on how to deal with those who contributed to bank failures, through misuse of client's funds and fraudulent activities. Apparently the researcher recommends that, a financial administrative court with the mandate of dealing with those who misused the depositor's funds, e.g. Renaissance and Royal Bank cases would be dealt with accordingly. This would in turn induce confidence in the Zimbabwean banking sector.

5.2.10 Relaxation of statutory obligations

On the other note, the researcher also recommends that, statutory bodies like, ZIMRA provide incentives (e.g. tax breaks, etc.) for someone who formalises their business operations, reduce tax thresholds for SMEs, increase awareness of how tax issues are handled (e.g. filing of returns, etc.) and do workshops where these informal traders are e.g. Mbare, Chitungwiza, high density areas, etc. There is need to automate the tax filing systems like what South African Revenue Society does so as to make the process as painless as possible and easy to understand for the common man in the street or trader.

The above recommendations may lead to a dynamic and proficient financial system, which may lead to increased public confidence in the banking system in Zimbabwe and eventually to growth and development of the entire financial system in the country.

However, further research could be carried out on assessing the reforms that can be adopted by the central bank to enhance confidence in the Zimbabwean banking sector without printing of notes. Lastly, is the relevance of setting up a financial administrative court to an economy like Zimbabwe.

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Marginal effects

The command reports the change in the probability for a marginal change in each continuous and the discrete change in the probability for the dummy variables.

Marginal effects after probit regression

y = Pr (pc) (predict)
= .61645665

Table 4.4: Marginal effects after probit regression

Variable	dy/dx	standard error	z-score	Probability
Failures	-.1765417	.07199	-2.45	0.014 -.
Awareness	.489846	.19054	2.57	0.010
Int depo	.2461914	.08138	3.03	0.002
Access	.1401405	.06541	2.14	0.032
Depo los	-.4052302	.19573	-2.07	0.038

Source: Survey

Interpretation of results

Marginal effects results confirm that a unit increase in bank failures will result in a unit decrease in the probability of gaining public confidence by -0.1765417, ceteris-paribus. On average, a unit increase in the awareness campaigns by DPC would result in a unit increase in the probability of gaining PC by 0.489846, thus holding other variables constant. In addition, interest on deposits leads to 0.2461914 percentage points increase on public confidence in the Zimbabwean banking sector, ceteris-paribus. Furthermore, access to personal savings leads to 0.1401405 percentage point's increase on public confidence, holding other variables constant. Lastly deposit lost leads to a unit increase into the probability of losing PC by -.4052302, ceteris paribus.

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