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Banking Crisis in Ghana: Major Causes

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Abstract
The concept of banking crises is a global phenomenon and many nations of the world has suffered one or more banking crises. The economy of Ghana in recent times has been greatly shaken due to the banking crises that has overwhelmed it's banking sector. Over the past decade, Ghana has been hit by diverse banking crisis that has seen some banks and savings and loans institutions being collapsed with many others also being consolidated. This paper outlines the main causes of the banking crises that occurred in Ghana, such as poor corporate governance and high non-performing loans. The study revealed that the banking crisis that Ghana suffered recently could very well be avoided if the regulatory body – Bank of Ghana performed its duties effectively and efficiently. From the study, it can be concluded that if the "banks in question" practiced a well vexed internal control system – the crisis could have been averted or reduced to the barest minimum.
Keywords: Banking System, Cooperate Governance, Non-Performing Loans, Banking Crisis

Introduction

This paper shows the major causes of banking crises in Ghana. Banks are financial organizations that tender an array of financial services such as provision of credit, reception of deposits, payment systems and employ extensive but diverse financial intermediary functions in any business economy. Every country needs to economically develop and banks can play a role as financial intermediaries which cannot be overemphasized (PricewaterCoopers PwC, 2016).

Banking is defined as the business activity of receiving and safeguarding money owned by individuals and organizations, and the lending out this money for the purposes of conducting economic activities to make profit or simply cover operating expenses. A bank is a financial institution that collects funds from society and distribute those funds for credit and provides other banking services. A bank is any financial institution that has acquired license in order to receive deposits and give out loans. Banks are mostly grouped into two, these are; commercial banks and investment banks. The Bank of Ghana (2018) stated that it has been given the mandate by law to ensure there is safety, soundness and stability of Ghana's financial system and to protect the interests of depositors.

According to the World Bank (2016), banking crises occurs when several banks in a country are in serious solvency or having problems with liquidity with the same time frame. Banking crises is when the corporate and financial sectors of a nation experience a huge number of defaults. Banking crises have hit many countries around the globe. Njamike (2019), supports this by asserting that bank crises have occurred in well-developed economies as well as developing countries and even countries with struggling economies. Laeven and Valencia (2010) identified one hundred and forty-seven (147) banking crises across the globe within 1970 to 2011. Their research also showed two hundred and eighteen currency crises and sixty-six sovereign debt crises over the same period. Over the past decade, Ghana has been hit by diverse banking crisis that has seen some banks and savings and loans institutions being collapsed with many others also being consolidated. In this paper, the researcher briefly outlines some causes of this banking crisis.

Literature Review

A. Structure of Ghana's Banking System

Banking in Ghana began in the then Gold Coast. It started in the colonial era with the purpose of providing financial services for the colonial administration and its enterprises. The first bank to be opened in Gold Coast was the Bank of the British West Africa (now Standard Chartered Bank) in 1896.

The success of the bank attracted other banks such as the Colonial Bank, the National Bank of South Africa, Anglo-Egyptian Bank and Barclays Bank merging to become Barclays Bank. The Bank of British West Africa and Barclays Banks operated in Ghana as the only two banks within 1920 – 1950. The first indigenous bank to be established was done in 1953 and named as the Ghana Commercial Bank.

After Ghana's independence, the Bank of Ghana was established to run the affairs of managing the country's currency. From then many other banks both foreign and indigenous have been established in the country Currently, the banking system comprises of a national network of financial institutions that are licensed and statutory financial institutions. These banks engage in their operations under the banking laws of Ghana.

All these banks are regulated by the Bank of Ghana, which is the central bank. "Towards the end of 2012, there were twenty-six (26) Deposit Money Banks and about fifty-two Non-Bank Financial Institutions in Ghana".

According to a report of the BoG in 2017, there had been a significant growth in the sector with 36 banks of which 19 of them were controlled domestically. The remaining banks were controlled by foreigners and these banks are Barclays, GT Bank, Stanbic Bank, Access Bank, among others. At the end of 2017, there were more than 1300 networked branches of banks in Ghana.

According to Amertei in 2014, "Over the past two decades, the banking system in Ghana passed through some substantial reforms such as liberalization and deregulation in the form of privatization of nation owned banks. Reforms such as the universal banking and listing of banks on the Ghana Stock Exchange has been a great avenue for getting more international investors as well as local investors. Universal banking in the Ghanaian context has been defined as the business of accepting deposits and other repayable funds from the public".

The recent banking system growth of Ghana can be traced to the implementation of the FINSAP in 1986 and the 2003 FINSSP. "Some of the policies implemented are liberalization of interest rate, restructuring of financially distressed banks, strengthening of the regulatory and supervisory framework, privatization of state-owned banks, liberalization of the foreign exchange market, establishment of capital market and reform of the legal framework". All these reforms contributed to the vibrant growth of Ghana's financial sector.

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B. Banking Crisis in Ghana

The recent banking crisis in Ghana has led to the revocation of the licenses of more than 400 financial institutions that were licensed under Act, 2016 (Act 930). In Ghana, the Bank of Ghana, has the mandate by law to ensure safety, stability and soundness in the nation's financial system and also protect the interests of depositors (BoG, 2018). In the year 2018, the then Governor of the Bank of Ghana, Dr. Addison led the central bank to put measures in place to address legacy problems in the banking system. The measures were enforced to also help restore the stability and resilience of the financial system (Bank of Ghana Press Release, 2019). The banking crises that affected Ghana was very severe between August 2017 to January 2020.

There was a need for these interventions due to some weaknesses that the central bank of Ghana had noticed in some banks and financial institutions in the country. The shortcomings that were observed pertains to macroeconomic factors, poor risk management, poor corporate governance, regulatory lapses, undercapitalization, non-performing loans and many others. These issues had sprout out many years ago and hence led to a significant buildup of vulnerabilities that threatened the entire banking system of the nation if not dealt with.

According to an Asset Quality Review of banks conducted by the Bank of Ghana in 2015 and 2016, there were a couple of indigenous banks that were identified as vulnerable with their three main challenges being high levels of non-performing loans, undercapitalization and weak corporate governance. In 2018, the Bank of Ghana also noticed that there were some banks that were licensed in 2016 and started its operations in 2017 but were showing signs of distress. This was attributed to the possibility of falsifying documents to attain their licenses from the central bank.

As part of the interventions of the Bank of Ghana, five banks, namely; BEIGE, Sovereign, Construction, uniBank and Royal Bank were merged into one called Consolidated Bank of Ghana. Each of these banks had reasons for the crises that had wrecked their operations and institutions.

The Bank of Ghana put in place many reforms to address the nation's banking crisis. After the recapitalization of the banks and the new capital requirement, the number of banks in the country reduced from thirty-six to twenty-three. This took place as nine banks were collapsed and there were three mergers. Also more than twenty financial instituitions had their licenses being revoked and given to a receivership. Ghana invested more than twelve billion Ghana cedis for this clean-up exercise in the banking sector.

List of some financial institutions that were also affected by the banking crises in Ghana.

Table 1
List of Some Affected Intuitions

SN	Instituition	SN	Institution
1	Accent Financial Services Ltd.	11	First Ghana Savings and Loans Ltd.
2	Adom Savings and Loans Ltd.	12	FirstTrust Savings and Loans Ltd.
3	AllTime Finance Ltd.	13	Global Access Savings and Loans Company Ltd.
4	Alpha Capital Savings and Loans Ltd.	14	GN Savings and Loans Ltd.
5	ASN Financial Services Ltd.	15	Ideal Finance Ltd.
6	CDH Savings and Loans Ltd.	16	IFS Financial Services Ltd.
7	Commerz Savings and Loans Ltd.	17	Legacy Capital Savings and Loans Ltd.
8	Dream Finance Company Ltd.	18	Midland Savings and Loans Company Ltd.
9	Express Savings and Loans Company Ltd.	19	Unicredit Savings and Loans Ltd.
10	First Allied Savings and Loans Company Ltd.	20	Women's World Banking Savings and Loans Company Ltd.

C. Causes of Banking Crisis in Ghana

According to a report by the Bank of Ghana in 2018 and research by Frimpong in the same year, KPMG the official administrator after the takeover of uniBank made certain discoveries. KPMG was tasked by the Bank of Ghana to ascertain the assets and liabilities of the bank and evaluate options for making the bank function again. They discovered that some of the causes of the banking crises are high non-performing loans, risk management, compliance and management, corporate governance and unlawful transactions.

Poor Cooperate Governance

Corporate governance is basically the system by which companies in this case banks are directed and controlled. OECD (2004) defines Corporate Governance as an institutional structure and medium that write and establish the goals and objectives of an organization as well as overseeing the performance monitoring of that organization. Parkinson (1994) similarly defined corporate governance as an arrangement used by an organization to guide its operations, serving as the mechanism that the organization uses to secure the interest of their investors and stakeholders.

Boards of Directors and some strategic shareholders are responsible for the governance of their companies. Poor corporate governance was one of the major causes of Ghana’s banking crises. Many researchers such as Aboagye and Otieku (2010) and Nathan and Ribiere (2007) asserts that poor corporate governance plays a role in causing distress and destabilization of a country’s banking system during crises.

Wheelock (1998) in his research, asserts that boards of banks that were affected by bank crises and their senior managerial team shown certain deficiencies such as inexperience, poor judgment and lack of integrity. Graham and Homer (1988) had also asserted earlier that about 60% of banking crises were caused by poor decisions by the boards of director usually springing from lack of experience and from uninformed decisions. Jayaraman et al (2010) attributes the deficiencies in the knowledge of the boards of some banks to the internal culture of the bank where essential information is not promptly provided to them. In addition to these, Lehner (2004); Barton and Wong (2006); Charan (2005) also attributed the deficiencies in the board of directors as these;

a. Ineffective decisions made by managers
b. Inadequate supervision
c. Lack of effective internal control systems
d. Lack of internal performance management sisters.

The liabilities of Capital Bank outwAccording to an article "How Capital Bank Misapplied BoG cash (2018)" Capital Bank (one of the banks that had crises) mismanaged Six hundred and twenty million Ghana cedis of liquidity support given by the central bank. The Bank of Ghana report went further to assert that the owner of Capital Bank used an amount of Eighty million cedis from the liquidity support given and used it to invest in non-banking businesses locally, in Zimbabwe and South Africa as well. These most likely caused the banking crises in some of the other collapsed banks. There was also the lack of independence and integrity among Chief Internal Auditors in most of the collapsed banks, leading to cover-ups for executive directors during review processes.

Regulatory Lapses

The Central Bank of Ghana is the main regulator of Ghana's banking system. They are tasked with prescribing the legal and regulatory framework for the financial sector of the country. The buildup of the vulnerabilities that led to some of the crises faced by some of the collapsed banks was as a result of regulatory non-compliance, and poor supervision with regards to questionable licensing processes and weak enforcement of the policies of the Central Bank of Ghana.

The banking sector in Ghana experienced several compliance issues which resulted in the closure of some major retail banks and the downgrading of others into savings and loans (Rafiq, 2018). Wilmarth (2011) mentioned that anytime a banking crisis happens, it shows the deficiencies and the lack of effectiveness of the banking regulation system at that time. Barth et al (2013) observed that the efficiency of banks reduced by 3% if the banking regulations increased or became tougher. Zou et al (2011) also established that the regulatory implementations can have positive and negative effects on the return of assets of banks.

Adombila (2019) asserts that what caused the failures of the banks was as a result of the lack of regular and routine engagement and enforcement of regulations by the Bank of Ghana. Frimpong (2018) also asserts that the lack of oversight and supervision, lack of enforcement of regulatory compliance, undue political influences and lack of continuous reporting played several roles in the regulatory lapses that caused the failure of the collapsed banks.

Daumont et al (2004) opined that the Central Bank, monitors the efficacy of the banking industry, enforces financial data compliance and general adherence of banks to the banking act of Ghana. That said, the weak supervision or lack of it by the Bank of Ghana resulted in issuing universal banking licenses to banks that did not have the required capital or resolve – thereby ultimately leading to the closure of these banks due to insolvency.

High Non-performing loans

The high rate of non-Performing loans played a part in the crises that hit Ghana's banking sector. Non-performing loans are loans that the borrowers are in default in the repayment of both the principal and interest for a specified period. According to the Bank of Ghana (2019), most of the collapsed banks had huge non-performing loans on their balance sheets. These non-performing loans increases operating costs which leads to decrease in profitability. It also caused reduction in the bank's capital and hence undercapitalization of the said bank.

Financial mismatch has increased the rate of non-performing loans in Ghana. For instance, some companies apply for short term loans and use it to fund long termed projects. They are therefore forced to start paying up the loan even though that which they invested it in has not started generating returns. This makes it difficult for them to pay up timely and thus fall on overdraft for their working capital.

Changes in government and government policies can cause the increase of non-performing loans. Most at times when there are changes in government, there are some sectors that get affected if the government didn't prioritize them in their manifesto. For example, contractors who have executed government projects and have their funds locked up with the government suffer undue delays in the payment of their contract sums especially when there is a change in government. These causes the said contractors to default in the payment of their loans and hence increase the non-performing loans of the banks they borrowed from.

Non-performing loans have negative effects of the bank's profitability and sustainability. If no strategies are put in place to remedy these loans, it builds up and finally causes the bank in question to plunge into a banking crisis.

Macroeconomic and Microeconomic Instability

Both microeconomic and macroeconomic factors influence the performance of organizations. Macroeconomics has a strong impact on the financial situation of firms. The macroeconomic stability affects the banking system in Ghana and the world at large in several ways.

For instance, for the effective running of the day in day out activities of a bank, the importance of its liquidity cannot be over emphasized. According to Singh et al (2016), Commercial bank liquidity is crucial because it enables banks to carry out its functions and particularly helps banks to meet its obligations in cases of expected or unexpected monetary demands by clients.

Agenor et al (2010) confirms this and adds on that it is also an important indicator of stability in the financial system since it measures the ability of banks to fund their purchases and meet their obligations. Lllewellyn (2002) notes that macroeconomic factors can lead to a liquidity crisis since banks often act as a linkage of numerous economic activities in an economy. This means that the stability of the macroeconomic variables in Ghana stabilizes the liquidity of banks and helps in sustaining them.

The economies of nations experience some cyclic fluctuations in the Gross Domestic Product (GDP), which happens to be a macroeconomic variable. Athanosoglou et al (2005) asserts that in periods of booms, an economy is thriving and demand for credit is high and the opposite is true recession. In their banking sector report, Ongore and Kusa (2013) argues that when the Gross Domestic Product (GDP) growth is declining – the demand for credit falls significantly and this negatively affects the profitability of banks.

Being able to stabilize the Gross Domestic Product (GDP) growth positively will help in stabilizing banks and positively influence the effectiveness of banks. In addition to the above other macroeconomic factors such as economic growth, inflation, taxes, recession, interest, exchange rates among others influence the performance and effectiveness of Banks. Stabilizing these factors in the long run will position banks on a pinnacle of success and productivity.

As indicated by Talavera, Tsapin and Zholud (2006) banks make out more loans during periods of boom and reduced level of macroeconomic uncertainty and curtail lending when the economy is in recession. Nier and Zicchino (2005) concluded that when there are economic downturns banks experiences loses. This tends to eat into the capital and result into bank capital requirements becoming binding in recessions. When this happens, banks turn to choose curtailing lending over issuing new capital.

D. *Interventions*
In order to save some indigenous banks that were at a risk of collapsing due to defaulting on loans, they Central Bank of Ghana allowed them to be taken over by private companies. The central bank assigned the GCB bank Ltd to take over UT Bank Ltd and Capital Bank Ltd due to the crisis they were facing which was mainly due to insolvency in the month of August, 2017. The Central Bank of Ghana in its quest to intervene in the banking crises of the nation consolidated five banks due to insolvency as well and named them as the Consolidated Bank of Ghana (CBG). The banks that were consolidated are Beige Capital, UniBank, Royal Bank, Sovereign Bank and Construction Bank.

This became the last resort as the managers of the banks in question failed to meet up to the capital requirements established by the central bank. According to the BoG (2019), these were the best ways through which the deposits of customers could be protected.

The Covid-19 pandemic threatened to worsen the banking crises that had affected Ghana. The Central Bank once again intervened by reducing the primary reserve requirements of banks from the then 10% to 8%. The idea was to enable banks to free up their locked-up liquidities.

Bank of Ghana has also introduced a reduction in capital requirements, guidelines for the cooperate governance within the banks as well as models to help manage enterprise risks of banks. Unfortunately, it appears these interventions have not fully achieved its desired results. Within the past decade, the following interventions/reforms have been initiated by the central bank of Ghana.

a. 2010 - The guideline for licensing and operations of Credit bureaux under the Credit Reporting Act 2007 (Act 726) was published by the Bank of Ghana.
b. 2011 - Introduction of collateral registry in Ghana backed by Act 773
c. 2011 - Reduction in the Net Open Position (NOP) of Banks to make the cedis attractive
d. 2012 - BOG's notice for the requirement of the minimum stated capital of GH¢120 million to maintain Class 1 (Universal) Banking status
e. 2013 - Introduction of the gh-link mobile by GhIPSS
f. 2013 - Introduction of the limit on over-the-counter cheque payments to third parties
g. 2016 - Adoption of IFRS-9 for Banks in Ghana
h. 2017 - BOG's notice for the requirement of the minimum stated capital of GH¢400 million to maintain Class 1 (Universal) Banking status

Research Methodology
The population of this research was made up of all the banks and financial institutions that had been licensed to operate in Ghana by the Bank of Ghana. However, there was a bias to focus more on those that had been significantly affected by the banking crises by having their licenses revoked. This comprised of twenty-three universal banks, twenty-five savings and loans companies and one hundred and thirty-seven microfinance institutions.

Due to the limitation of getting access to the managers and key persons in the institutions that had their licenses revoked, this study was conducted using a non-probability sampling

approach. From this approach, five banks, five finance houses, five savings and loans companies and five microfinance institutions that have been closed were selected.
The respondents, after a fact finding at the Chartered Institute of Bankers in Accra, were permanent staffs of the institutions whose licenses had been revoked. The respondents comprised of five staffs from each of the institutions, i.e., making a total of one hundred respondents.
Contact was made to the respondents through emails, interviews via phone calls and visits. Out of the one hundred respondents reached out to, only the data from ninety-four were usable. The remaining six respondents failed to respond to the emails sent them as reminders for the filling and submission of the questionnaires.
The questionnaires were designed and generated through the use of google forms and disseminated to the respondents. The questions in the questionnaires were close-ended questions that solicited for the opinions of the respondents concerning the major causes of the banking crisis. Close-ended questions were used because they are easier to answer and analyze without making much of errors.
The answers to the questions were designed using a 5-point liker scale defined as 5 – Strongly agree, 4 – Agree, 3 – Neutral, 2 – disagree and 1 – Strongly disagree. The demographic data, age, employment level and category (bank, savings & loans, etc.) were collected as well.

Results and Discussion
The aim of this study is to find out the major causes of the banking crises in Ghana based on the personal and working experiences of some workers of the banks and financial houses that were mostly affected by the crises. The study examined twelve independent variables in a multiple regression model.
The variables were categorized into three main groups, i.e. macroeconomic variables, bank-specific variables and banking-industry specific variables.

Table 2
Banking-Industry Specific Causes of the Banking Crisis

	Monetary Policy Rate	Ghana Reference Rate	Treasury Bill Rate	Regulatory & Supervision
Strongly disagree	4%	14%	0%	0%
Disagree	36%	44%	25%	7%
Neutral	42%	36%	39%	16%
Agree	18%	5%	36%	57%
Strongly agree	0%	1%	0%	20%
Mean	2.74	2.35	3.11	3.90
Std Deviation	0.827	0.823	0.797	0.796
Cronbach Alpha	0.817			

The table above is a summary of the frequencies and means of the causes of the banking crisis in Ghana under the banking industry-specific variables. From the study, it was observed that highest score was on the Regulatory and Supervision with a mean of 3.90. This was followed by the Treasury bill rate which had a mean of 3.11, then the Monetary Policy Rate with a mean of 2.74 and the Ghana Reference Rate having the lowest score of mean 2.35.

Based on the values recorded, the Cronbach's Alpha for the variables under the banking industry-specific was 0.817. The Regulatory and Supervision factor being the highest supports the assertion by Noy (2004) that banking crises can be mitigated in developing countries when the bank's regulation and supervision is improved.

Table 3
Macroeconomic Causes of Banking Crises

	GDP Growth Rate	Inflation	Foreign Direct Investment	Exchange Rate
Strongly disagree	5%	0%	20%	11%
Disagree	17%	16%	43%	27%
Neutral	41%	11%	29%	42%
Agree	37%	64%	8%	20%
Strongly agree	0%	9%	0%	0%
Mean	3.10	3.66	2.25	2.71
Std Deviation	0.803	0.826	0.871	0.916
Cronbach Alpha	0.850			

The table above is a summary of the frequencies and means of the causes of the banking crisis in Ghana under the macroeconomic variables. From the study, it was observed that highest score was on the Inflation with a mean of 3.66. This was followed by the GDP Growth rate which had a mean of 3.10, then the Exchange Rate with a mean of 2.71 and the Foreign Direct Investment having the lowest score of mean 2.25.
Based on the values recorded, the Cronbach's Alpha for the variables under the banking industry-specific was 0.850. The findings of the study supports the assertion by Belkhir (2020) that banking crises can be mitigated if the macroeconomic factors are prudent.

Table 4
Bank-Specific Causes of Banking Crisis

	Bank Size	Profitability	Bank Capital	Corporate Governance	Credit Risk	Liquidity Ratio
Strongly disagree	0%	0%	0%	0%	0%	0%
Disagree	31%	5%	17%	1%	24%	19%
Neutral	42%	36%	13%	2%	34%	16%
Agree	27%	59%	59%	78%	42%	56%
Strongly agree	0%	0%	11%	19%	0%	9%
Mean	2.96	3.54	3.64	4.15	3.18	3.55
Std Deviation	0.736	0.746	0.889	0.579	0.796	0.878
Cronbach Alpha	0.879					

The table above is a summary of the frequencies and means of the factors under the Bank-Specific variables. From the study, it was observed that highest score was on Corporate Governance with a mean of 4.15. This was followed by the Bank Capital which had a mean of 3.64, then the Liquidity ratio followed with a mean of 3.55, Profitability was also 3.54, Credit Risk had a mean of 3.18 and then finally Bank Size having the lowest score of mean 2.96.

Based on the values recorded, the Cronbach's Alpha for the variables under the banking industry-specific was 0.879. This findings was in line with the research of Kamason (2020) which asserts that bank-specific factors such as the size, corporate governance, etc play diverse roles in determining the causes of banking crisis.

Conclusion

This study revealed that Corporate Governance plays a leading role in causing banking crisis or not. It is imperative for the board of directors or managements of financial institutions to govern their affairs according to national and international standards. The study revealed that Regulatory and Supervision was the second highest factor that causes banking crisis. If the Central Bank of Ghana, puts adequate measures in place to regulate the banks and financial houses as well as supervise their operations, banking crises will be mitigated. Inflation was the third leading cause of the crisis according to the respondents of this study. Below is a pictorial representation of the causes of the banking crisis in Ghana according to this study in a descending order.

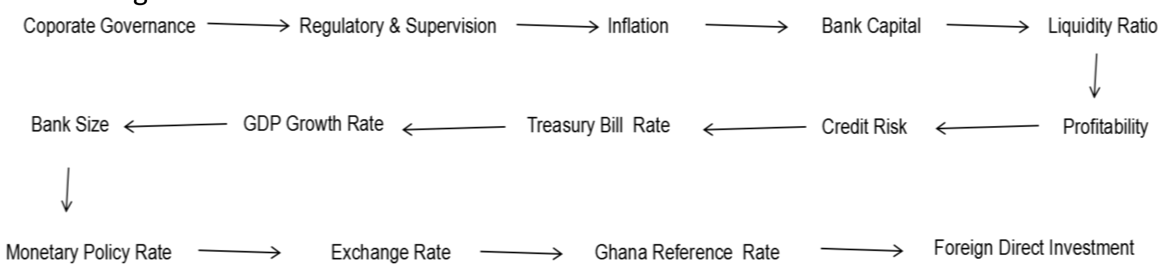

Figure 1-Factors causing Banking Crisis in a descending order (Source : Researcher)

Theoretical and Contextual Contribution

The findings of this study would be useful to policy makers, the Central Bank and the management of banks in Ghana and other countries that are quiet similar to Ghana economically. Based on these findings, stakeholders can make interventions that would mitigate the current banking crisis in the country.

For instance, under the bank-specific causes of bank crisis; it was observed that poor corporate governance played a key role in the banking crisis. Banks can put in the right measures to have a formidable corporate governance that can work in mitigating bank crisis. Another area that this study also contributes to, is in the area of risk management. The Central Bank should periodically emphasize the need for banks to manage all potential risks effectively. This study focused more on the banks that had been significantly affected by the crisis. Future researches should be directed on addressing all financial institutions operating in Ghana under ACT 930.

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Declaration of Interest

The author has no conflict of interest. Only the author is responsible for writing the paper.

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