The Effect of Customer Deposit on the Performance of Banks in Ghana

William Tawiah Baidoo¹, Regina W. Bagina² and Stephen Tobazza²

¹WT Management and Financial Consult Ltd, Box KS 3590, Kumasi, Ghana, ²University for Development Studies, Tamale, Ghana, ³Bolgatanga Polytechnic, Post Office Box 767, Sumbrungu, Bolgatanga. williambaidoo@gmail.com / reginabagina@gmail.com / stobazaa@ yahoo.com

Abstract

Mobilization of savings from customers for lending to individual and institutions at a margin of interest is the main income generating activity of the bank. The effective generation of income through lending made possible as a result of adequate savings mobilized from customers enhances profitability and capital adequacy of the bank. The paper looks at the effects of customer deposit on the performance of banks with a case study of seven (7) years financial statements of the Barclays Bank of Ghana. The purpose of this study is to determine the effect of customer deposit on the financial performance of banks in Ghana. Using the descriptive research that involves describing, recording, analyzing and interpreting conditions as they exist, also known as statistical research, describes data and characteristics about the population or phenomenon being studied and a correlative analysis of various element of the financial statement of the bank. The study confirmed a strong and positive correlations between the customer deposits and; cash and balance at bank of Ghana, interest income, loans and advances, interest expense, and profit for the year ranging from 0.92 to 1.00, despite, a fairly negative correlation exist between the customer deposit and the current ratio that is the liquidity of the banks. The banks needs to mobilize savings to achieve the lending activities to earn their margin of income but needs to manage the savings mobilized effectively to earn the appropriate margin to maintain a stable liquidity.

*Keywords: **Customer deposit, banking in Ghana, Evaluating Banks, Revenue Efficiency, Profit Efficiency, Bank Financing.***

Introduction

The banking industry in Ghana has been and continues to be in a volatile state. The financial system has seen a lot of changes as there has been issues of banks, microfinance and other financial institutions emerging and liquidating after a year or two of operations. The performance of these banks, microfinance and other financial institutions has been the main cause of the liquidation after years of operation. Recently between the years of 2016 to 2018 has seen the Bank of Ghana (BoG) to put in place stringent measure to curb the problem of banks and microfinance institutions going under which ultimately affects the customers that the banks work with. The financial service industry has seen mergers, takeovers and acquisition of banks like capital bank and UT bank by GCB, and Bank of Ghana taking over of the management of UniBank Ghana. (https://www.myjoyonline. com/business/2018/march-21st/unibank-takeover-7-more-banks-to-be-knocked-off-expert.php)

Customer deposits among others are the source of fund for the operations of the banks to generate income and improve their performance. The banks uses the deposits mobilized to earn their incomes and improve their capital adequacy in the long run. Most of the banks in Ghana depends on customer's deposit to provide loans and advances to its clients. Sharma, 2009, the bank deposits and loans are very closely correlated with each. There is the question of if the loans make deposits or vice versa. Banks, all over the world, succeed on the ability to create income through lending activities. The lending activity is made possible when the banks are able to mobilize enough funds from their customers. Since banks depend on customer depositor as a source of funds means that there are some correlations between the ability to mobilize deposits and the amount of credit given to the customers.

Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank (Mohan S., 2012). Deposit mobilization is an indispensable act or to increase the sources of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different sectors of the economy. The success of the banking greatly lies on the deposit mobilization. The finance literature provides support for the argument that countries with efficient financial systems grow faster while inefficient financial systems bear the risk of bank failure (Kasekende, 2008). Banks take steps to optimize profitability by minimizing the expenditure thereby mobilizing low cost deposits. Currently banks' performance is measured on several indicators, including the CAMELS model, deposit mix and the quantum of low cost deposits among others (Sylvester, 2010).

Purpose of the Study

Banks depend on customer depositors as source of funds and to create enough income through their lending which is the major factor in the success of the banking industry. The ability of the banks to mobilize deposits and the amount of loans given to the customers at the efficient recovery rate directly affects the performance of the bank. In accomplishing high capital adequacy and self-reliance there is the need to enhance the means of mobilizing deposits. (Rutherford, 2000) A large chunk of deposits are idling under pillows and in wardrobe. Therefore commercial banks should increase ways to approach and mobilize the huge deposits lying in the unbanked people to maximize and maintain their portfolios.

Banks performance are also determined by its liquidity. The cash reserve is an element of liquidity reserves which ensures the bank to honor its expected withdrawals and working capital needs. The continuous mobilization of new deposits offsets the withdrawals made from the reserves. The inability to get adequate deposits could result in negative fund reserves which in turn makes the bank insolvent. The level of deposits growth also indicates the bank's performance in relation to customers' satisfaction on interest payout and services rendered.

Materials and Methods

A bank is a financial institution that accepts customers' deposits, grants loans, allows customers to received and make payments through other payment methods

such as Automated Clearing House (ACH), Wire transfers or telegraphic transfer, and automated teller machine (ATM). Banks borrow money by accepting funds deposited on current accounts, term deposits, and by issuing debt securities such as banknotes and bonds and they lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending. Banks raises money for business through the issue of financial instruments like commercial papers, savings account, fixed deposit accounts, treasury bills, bonds, shares, and so on (Baidoo, 2012).

Bank Deposit is money placed into deposit accounts such as savings accounts, checking accounts and money market accounts of a banking institution for safe keeping (Gockel, 2007). The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The deposit itself is a liability owed by the bank to the depositor. A Deposits are made at the opening of an account, in the course of daily business and/ or personal transactions. According to Katang and Ntui (2008), banks accepts deposits from individual and institutional customers and then uses it lend to other customers for the bank to make money by earning more in the margin of the interest rate offered to borrowers and that paid to depositor. Customer deposit is, therefore, one of the vital means leading to efficient financial performance as the effective use of deposit mobilized in generation of interest.

Prasantha, 1997, in his doctoral dissertation titled, "Performance of Public Sector Commercial Banks", has evaluated the performance that performance by selecting certain parameters like deposit mobilization, analysis of advances, credit deposit ratios, interest spreads, employee productivity, customer services, profit as a percentage of working funds etc. It has been brought out that there is a gradual increase in the percentage of profit on the working funds due to deposit mobilization. The World Development Report, (2008), in response to the problem of inability to mobilize enough savings, many banks has devised mechanisms of generating savings. According to Laura, Alfred, Sylvia (2009), to mobilize more deposits, financial institutions offer a range of savings products that are tailored to their particular clientele. They offer the widest variety of specialized savings products, so that their customers have a choice between immediately accessible, liquid products, or semi-liquid accounts or time deposits with accordingly higher interest rates. Simple and clear design of basic savings products enables depositors to easily select the product that best suits their needs. The simple and transparent design of the savings products also enables staff to administer them with ease, reducing administrative costs.

The customer deposits is an element of the working capital of the bank. The effective management of the working capital enhances profitability and financial performance of the bank. The quantitative or qualitative ways to describe and define performance are Performance Measures. These tools includes the financial ratios such as profitability, liquidity, gearing, return on capital, among others. They provide a tool for organizations to manage progress towards achieving planned objectives and goals. Performance Measurement is the process of assessing the progress made towards achieving the predetermined performance goals. Guest *et al* (2003) defined performance as outcomes, end results and achievements arising out of business operations. They argued that it is

essential to measure strategic practices in terms of outcomes. These outcomes vary along a continuum of categories such as: financial measures (Return on Asset, Return on Equity, turnover, Profitability). It is clear that deposits mobilization has an effect on financial performance of banks. Sylvester (2010), deposits mobilization is considered a key tool in financial performance of bank, particularly for commercial banks. He argued also those evaluations of the role of deposits mobilization in financial performance of banks generate mixed results.

The study used secondary data collected form the financial statements of Barclays Bank Ghana. These are audited financial statement published by the bank as public information. Six (6) years financial statements starting from the year 2012 to 2017 were downloaded and used for the study. The research designs used for the study was historical research which uses understanding of past data in predicting present and future occurrence of an event. It helps in providing historical data in support of current and possible future trends on the effect of customer deposit on the performance of banks in Ghana. Using the descriptive research that involves describing, recording, analyzing and interpreting conditions as they exist, also known as statistical research, describes data and characteristics about the population or phenomenon being studied and a correlative analysis of various element of the financial statement of the bank. Microsoft Excel was used to generate financial and statistical ratios which were used for the analysis of the data in the financial statement to identify the effects of customer deposit in relations to other components such as cash balance at the bank of Ghana, interest income, loans and advances, interest expense and profit for the year. Current ratio, average, standard deviation, correlations, min, and max as statistical tools were used to arrive at the analysis.

Findings

The data collected from the six (6) years financial statements from Barclays bank Ghana was analyzed as displayed in table 1 and table 2 in the appendix. In table 1 shows the total customer deposits mobilized between the 2012 to 2017 amounted to sixteen million, two hundred and thirty-five thousand, seven hundred and sixty-seven Ghana Cedis (GH¢16,235,767.00), total cash and balance at the bank of Ghana amounted to three million, two hundred and ninety-two thousand, two hundred and thirty-two Ghana Cedis (GH¢3,292,232.00), total interest income amounted to two million, six hundred and thirteen thousand , five hundred and forty-one Ghana Cedis (GH¢2,613,541.00), total loans and advances totaled ten million, one hundred and twenty-four thousand, four hundred and thirty-four Ghana Cedis (GH¢10,124,434.00), total interest expenses of four hundred and twenty-two thousand, six hundred and forty-four Ghana Cedis (GH¢422,644.00), and total profit for the year amounted to one million, two hundred and ninety-three thousand, seven hundred and twenty-five Ghana Cedis (GH¢1,293,725.00).

The bank's averages over the six (6) years of customer deposit mobilization was two million, seven hundred and five thousand, nine hundred and sixty-one Ghana Cedis seventeen pesewas (GH¢2,705,961.17), of total cash and balance at the bank of Ghana was five hundred and forty-eight thousand, seven hundred and five Ghana Cedis thirty-three pesewas (GH¢548,705.33), of interest income was four hundred and thirty-five thousand,

five hundred and ninety Ghana Cedis seventeen pesewas (GH¢435,590.17), of loans and advances was one million, six hundred and eighty-seven thousand, four hundred and five Ghana Cedis sixty-seven pesewas (GH¢1,687,405.67), of interest expense was seventy thousand, four hundred and forty Ghana Cedis sixty-seven pesewas (GH¢70,440.67), and of profit for the year was two hundred and fifteen thousand, six hundred and twenty Ghana Cedis eighty-three pesewas (GH¢215,620.83). The bank also had an average current ratio of 1.21 over the six (6) years of operations as indicated in table 1. The 1.21 current ratio indicated the liquidity levels of the bank which implies the bank could on an average meet its liability obligations.

The bank over the six (6) years (2012 – 2017) recorded a minimum customer deposit, cash and balance at bank of Ghana, interest income, loans and advances, interest expense, profit for the year, and current ratio of one million, four hundred and fifty-four thousand, two hundred and eighty-six Ghana Cedis (GH¢1,454,286.00), two hundred and sixteen thousand six hundred and ten Ghana Cedis (GH¢216,610.00), two hundred and twenty-five thousand, six hundred and sixty-six Ghana Cedis (GH¢225,666.00), eight hundred and ninety-three thousand, two hundred and sixty-three Ghana Cedis (GH¢893,263.00), twenty thousand nine hundred and twenty-one Ghana Cedis (GH¢20,921.00), one hundred and five thousand one hundred and nineteen Ghana Cedis (GH¢105,119.00) and 1.18, respectively.

The also bank over the six (6) years (2012 – 2017) recorded a maximum customer deposit, cash and balance at bank of Ghana, interest income, loans and advances, interest expense, profit for the year, and current ratio of four million, five hundred and fifty-six thousand, two hundred and ninety-six Ghana Cedis (GH¢4,556,296.00), one million, eleven thousand, seven hundred and fifty-six Ghana Cedis (GH¢1,011,756.00), six hundred and sixty-eight thousand, nine hundred and seventy-one Ghana Cedis (GH¢668,971.00), two million, five hundred and ninety-three thousand, twelve Ghana Cedis (GH¢2,593,012.00), one hundred and thirty-three thousand, five hundred and forty-seven Ghana Cedis (GH¢133,547.00), three hundred and eighty-six thousand, one hundred and seventy-three Ghana Cedis (GH¢386,173.00), and 1.24, respectively.

The correlations between customer deposits and the cash and balance at the bank of Ghana was a perfect correlation of 1.00 that implies that a as the customer deposits increases the cash and balance at the bank of Ghana also increases in a proportion of the deposits. The data revealed a correlations of 0.93 between customer deposits and interest income which implied that there is a direct and strong correlation that exist between the two variable. Interest income represents the margins the banks makes out of the lending activities. The increase in customer deposit would automatically increase in the interest income at a 0.93 correlation. Also the correlation between customer deposit and loans and advances of 0.92 supports the literature that lending can be made available when there is enough customer deposit. A strong correlation of 0.92 between customer deposit and loans and advances indicates that the more the bank can mobilize saving the more they can lend to potential customers to earn a margin to enhance the performance of the bank.

A 0.90 correlations between customer deposits and interest expense was realized in the data analysis. This confirms that there is a positive relation between the cost in mobilizing

saving and the amount of deposit realized to achieve the lending activities to earn a margin. Also a very strong correlation of 0.98 existed between the customer deposit and the profit for the year which implied that the more the banks are able in mobilizing savings the more profit for the year they can realize. Profitability as a tool for performance appraisal in this situation indicates that there is a direct relations with customer deposit.

On the other hand, there is a fairly negative correlation between customer deposit and current ratio of – 0.50. The current ratio as a liquidity ratio is total current assets divided by the total current liabilities of the company. Customer deposit as a liability with a negative correlation indicates that the more customer deposit the less liquidity ratio the bank would be recording. Notwithstanding, the correlation of – 0.5 indicates that customer deposits are the major liability of banks and if well managed to earn the appropriate margin would enhance the profitability and maintain a stable liquidity ratio.

Conclusions and Recommendations

The study looked at the effects of customer deposit on the performance of banks in Ghana using six (6) years the financial statement of Barclays bank Ghana as the data for the study. The literature reviewed in the study presupposed that the banks thrive on customer deposit to generate a margin as interest income. The study revealed that the correlations between the customer deposit and; cash and balance at bank of Ghana, interest income, loans and advances, interest expense, and profit for the year indicated a strong and positive correlations scores ranging from 0.92 to 1.00. This implies that customer deposit is very vital and the banks cannot survive without it.

Despite the positive relations and the need to mobilize more customer deposits also showed a fairly negative correlation between the customer deposit and the current ratio that is the liquidity of the banks. This implies that the banks needs to mobilize savings to achieve the lending activities to earn their margin of income but needs to manage the savings mobilized effectively to earn the appropriate margin to maintain a stable liquidity.

In short, it is recommended that for a bank to develop and be efficiently performing must be able to mobilize customer deposits for lending and effectively manage that deposits to generate appropriate margins.

Appendix

Table 1: Customer deposits, cash and balance at BoG, interest income, loans and advances, interest expense, profit for the year, and current ratio

Year	Customer Deposit	Cash And Balance At Bog	Interest Income	Loans And Advances	Interest Expense	Profit For The Year	Current Ratio
2012	1,454,286.00	218,875.00	225,666.00	893,263.00	20,921.00	105,119.00	1.232
2013	1,592,324.00	216,610.00	293,997.00	1,159,201.00	25,422.00	143,071.00	1.237
2014	2,033,073.00	400,920.00	378,636.00	1,510,112.00	65,756.00	177,811.00	1.192
2015	2,329,201.00	478,106.00	487,549.00	1,875,184.00	83,257.00	177,016.00	1.193
2016	4,270,587.00	965,965.00	558,722.00	2,093,662.00	93,741.00	304,535.00	1.176
2017	4,556,296.00	1,011,756.00	668,971.00	2,593,012.00	133,547.00	386,173.00	1.215
Total	16,235,767.00	3,292,232.00	2,613,541.00	10,124,434.00	422,644.00	1,293,725.00	

Average	2,705,961.17	548,705.33	435,590.17	1,687,405.67	70,440.67	215,620.83	1.21
Standard deviation	1,361,866.23	356,208.28	167,145.65	626,342.32	42,872.83	107,133.39	0.02
Correlations (Pearson)	1.00	0.93	0.92	0.90	0.98	-0.50	
Min	1,454,286.00	216,610.00	225,666.00	893,263.00	20,921.00	105,119.00	1.18
Max	4,556,296.00	1,011,756.00	668,971.00	2,593,012.00	133,547.00	386,173.00	1.24

Source: Barclays Bank Ghana's financial statement

Table 2: Percentage Changes

Year	Customer Deposit	Cash And Balance At Bog	Interest Income	Loans And Advances	Interest Expense	Profit For The Year	Current Ratio
2012	-	-	-	-	-	-	-
2013	8.67%	-1.05%	23.24%	22.94%	17.71%	26.53%	0.37%
2014	21.68%	45.97%	22.35%	23.24%	61.34%	19.54%	-3.73%
2015	12.71%	16.14%	22.34%	19.47%	21.02%	-0.45%	0.04%
2016	45.46%	50.50%	12.74%	10.44%	11.18%	41.87%	-1.41%
2017	6.27%	4.53%	16.48%	19.26%	29.81%	21.14%	3.18%

Source: Calculated from Barclays Bank Ghana's financial statemen

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