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Ghana Banking System Failure: The Need for Restoration of Public Trust and Confidence

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ABSTRACT

The recent bank failures in Ghana are the results of a combination of factors such as regulatory lapses, ineffective corporate governance, lack of ethics, and the value system. These deficiencies, which are not in line with the core values of banking operations, are not isolated occurrences. These deficiencies are punctuated events in a spectrum of behaviors that exist in a complex culture with competing and conflicting values and interest that create a moral dilemma for bankers and employees throughout the banking system. From mainstream commercial banks to microfinance institutions, there has been an opulent display of incompetence, unethical behavior, and sheer disregard of precise regulations and operational procedures causing loss of depositors' funds. This paper explains failure of regulation in Ghana banking industry, lack of corporate governance, and lack of ethical practice. This paper also provides some recommendations that may be considered when restructuring the banking system in Ghana.

Keywords: Central Bank, Corporate Governance, Ethics, Ghana, Sustainability, Value System.

1. Introduction

Globalization has greatly impacted business environments and systems, with Ghana not being an exception (Akuffo, 2014). Alhassan and Biekpe (2016) observed "the Ghanaian banking industry consists of 27 banks under the supervision of the Central Bank" (p.564). The dynamics of a banking environment demand the presence of robust and credible regulatory systems to function efficiently and effectively. As the regulator of the banking system, the Bank of Ghana has responsibilities to use various monetary and economic tools to stabilize price and promote the growth of the economy (Adams, Debrah, Williams & Mmieh, 2015). Yet the Bank of Ghana is not improving the banking systems that are in place in Ghana. This paper explains failure of regulation in Ghana banking industry, lack of corporate governance, and lack of ethical practice. Also, this paper provides some recommendations that may be considered when restructuring the banking system in Ghana to restore public trust and confidence.

2. Failure of regulation

Since the Bank of Ghana consolidated Unibank, Sovereign Bank, Royal Bank, the Beige Bank Ltd., and the Construction Bank into the Consolidated Bank, the central bank has given different reasons

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behind the consolidation of these banks. Notwithstanding the challenge against the consolidation, the central bank has not formulated any comprehensive and measured policy to successfully control the operations of the banking industry. The Banking Act 2004 (Act 673) outlined entirely the process of licensing banks in Ghana (Part 11), Capital and Reserves (Part 111), Restrictions on Lending (Part VI), Powers of Supervision and Control (Part VII), and Accounts and Audit (Part VIII). These acts provide the Central Bank with clear guidelines on how to regulate the activities of the banks and enforce the provisions of the law.

Failure of not adhering with these acts can result in turmoil in the banking and financial system as well as creating hardships to bank users (Bawumia, Owusu-Danso, & McIntyre, 2008). It is not clear why the Central Bank of Ghana failed to abide by the aforementioned acts because there are adequate regulations in place to help them regulate the activities of the banking system (Adams, Debrah, Williams & Mmieh, 2015). If the rules and regulations are inadequate due to systemic change then there is need to strengthen the rules to counter any inherit weakness as a result of changing dynamics within the banking system (Owusu, & Odhiambo, 2012).

In the United States (U. S), the financial crisis caused by Enron and the WorldCom scandal resulted in the enactment of the Sarbanes-Oxley Act 2002 (Gupta, Sami, & Zhou, 2018; Hearit, 2018). This act was aimed at public-held corporations and their internal financial controls, as well as financial reporting audit procedures as performed by external auditing firms. Also, the 2008 financial crisis that began in the U.S and resulted in mortgage meltdown which negatively impacted securitization (mortgage backed securities), shook the foundation of the world's financial market (Kashian & Drago, 2017). Many banks including Lehman Brothers and Bradford and Bingley failed. These failures resulted in new laws that were enacted to protect the mortgage industry and home owners.

The Central Bank views of how some banks failed because they had flawed licensing process speaks of incompetence of equilibrium on the part of the Central Bank and the failed banks (Abugri, Osah, & Andoh, 2016). Ghana's fragile developing economy needs its financial sector to be robust, stable, and predictable to attract private foreign investments (Koto, 2015). Therefore, the Central Bank needs to ensure a sound and stable financial system that protects account holders by controlling the unlawful and improper practices of the banks (Alhassan & Biekpe, 2016).

3. Lack of corporate governance

Corporate governance and stakeholder theory have transformed the operations of businesses in the global marketplace (Bushee & Noe 2000). Businesses that implement corporate governance perform better and benefit highly from the concept's framework. A strong corporate governance framework integrates viable elements of governance by setting its cardinal goals and actions (Cooper, 2007). As far as corporate governance is concern, the board of directors of an organization is responsible for establishing structures that would benefit investors, managements, and regulators (Mensah, Aboagye, Addo, & Buatsi, 2003). The board also advises management in the areas of strategic prioritization, which is aligned with the vision and mission of an organization.

Furthermore, the board of directors prompts management to adopt policies that comply with regulation and ethical standards. The board of directors also evaluates risk in the areas of strategic, tactical, operational, and financial, compliance and marketable exposure. After the worldwide financial problems of 2008 (Hearit, 2018), corporate governance has received a lot of attention, and Ghana needs to maximize the inflow of foreign private investments (Alhassan, Tetteh, & Brobbey, 2016). The Security and Exchange Commission requires compliance with banking regulations, yet corruption exists in the financial, economic, and socio-cultural systems (Debler, 2018).

The challenge of corporate governance in Ghana is centered around the shareholders' perspectives whereby the organization focuses on individuals who have monetary shares in the organization, thus increasing the intrinsic value and maximizing the shareholders' return on investment (Boateng, 2013). Ghana's corporate ownership structure and control tilt the balance of corporate governance in favor of institutional investors owing block or majority shares (Mensah, & Abor, 2014). The investors and shareholders function as monitors and controllers of managers who sometimes compound the problem by having a say on who a financial institution's management should appoint as the key persons in the organization.

The investors and shareholders also have frequent access to the information process of the organization. Controlling shareholders induces management to make decisions that maximize shareholder value and help reduce agency problems (Mensah & Abor, 2014). The pervasive influence of management decisions cuts across all organizations listed on the Ghana Stock Exchange and they have the incentives to use up resources to monitor and control management in order to make sure their interests are catered to. Assertively, large shareholders in Ghana are considered as important and a vital corporate governance mechanism; they by many means influence the course of effective corporate governance.

4. Lack of ethical practice

Ethics reflects integrity, accountability, honesty, fairness, and responsible citizenship (Adda & Hinson, 2006). This means choosing right over wrong, good over bad, and fairness over unfairness. These tenets are basic professional requirements for banks and their staff. Ghana banking maxim is "honesty and integrity" (*probitatis* and *integritas*). Nonetheless, Ghanaian banks do not uphold these tenets.

For many years Ghanaian society has ignored the value system that allows society to grow into a common platform of honesty, truthfulness, integrity, love for each other, and love for country. Rather, the Ghanaian society glorifies mediocrity, richness, and inordinate ambition (Boateng & Boateng, 2014). This phenomenon has given rise to the "get rich quick" attitude, to the larger extend that bribery, corruption, nepotism, and complete moral degradation are endemic in Ghanaian society today. There is a common mindset that one needs to be rich in other to be recognized in the society, therefore young and old have resulted in enriching themselves through fair or foul means to the detriment of the society. For example, some DKM Financial Services customers lost their entire deposits due to fraudulent activities by the managers.

There has been a complete breakdown of morals in Ghana that people care less about the consequences of their actions and would do anything to get rich and become famous. The moral breakdown in Ghana has reached a trajectory that requires the enforcement of strict laws and punishment of a preventative nature for those who break the law. Failure to uphold moral and ethical standards and principles can create hardships for people.

5. Recommendations

The government has injected millions of cedis (the local currency) into the banking system because of the failure of the banks to ostensibly pay the depositors. Consideration should be given to the establishment of the National Depositors Insurance Corporation (NCID) as established in the United States and other parts of the world. The NDIC can potentially strengthen the financial safety net of Ghana. The Bank of Ghana should adopt a system to provide additional layers of protection to depositors and stabilize the financial system to complement the role of prudent management through stringent supervision of the banks to minimize risk as well as provide a framework for orderly failure resolutions that will improve public confidence.

Innovation is the hallmark of any developing economy and with the help of sound minded individuals, the economy of Ghana can once again be strengthened. In this era of smart technology, virtual frontiers and cyber security, innovations are likely to outstrip regulation. Therefore, the Bank of Ghana should be proactive in adopting measures that will protect the banking and financial systems.

6. Conclusion

This paper has cast some light on the failure of regulation in Ghana banking industry, lack of corporate governance, and lack of ethical practice. This paper also provides some recommendations that may be considered when restructuring the banking system in Ghana.

The free market system and the socio-economic development of Ghana require a stable and sustainable banking system that attracts foreign private investment (Boateng, 2013). There is a need for adequate regulation and oversight responsibility by the Bank of Ghana to ensure efficient operation of the banking system. Good corporate governance practices must be strengthened and encouraged with the government by taking adequate measures to combat the socio-cultural misconceptions, fraud, corruptions, and forgeries.

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