Banking the Unbanked in Ghana

By

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Abstract

Financial inclusion is considered an emerging priority for many economies across the globe today because of its potential to speed up economic growth. Banking the unbanked in Ghana is a research endeavour seeking to provide wider access to financial products and services to the estimated 70 percent unbanked population in the country. For the purpose of this study, the research combined both qualitative and quantitative methodologies. The mixed-methods approach was used in order to present a descriptive account and an in-depth investigation of the factors accounting for people's decision to bank. Data was collected by the use of questionnaires administered to unbanked participants as well as face-to-face interviews with selected individuals. The findings of the study revealed that social factors and firm factors both had significant and positive effects in predicting an individual's intention to bank. On the contrary, however, personal factors were not found to be significant in predicting banking propensity. The study proposed three key strategic recommendations.

Keywords:
Banking; unbanked; Financial inclusion; Financial access; Financial literacy

Introduction

The issue of banking the unbanked has dominated global debates as a means to poverty reduction. In many developing countries, the population of the unbanked far exceeds the banked as compared to the developed world where the ratio of the unbanked to the banked is rather lower as compared to the developing world. Ghana's banking system has developed systematically over the years following the introduction of a series of new legislations during the past two decades by the central bank – Bank of Ghana. These reforms by the Bank of Ghana were intended to make it easier for banks to engage with their customers, and expand their products and services to promote economic growth. Following this development, competition within the industry has since increased, accompanied by growth in the financial market as well as innovation and technological advances to make banking more convenient to customers and attractive to the unbanked.

However, despite these positive developments within the financial sector, Ghana's economy is characterized by the influx of many financial institutions including banking and non-banking institutions across the country, the unbanked population reached over 70 percent in 2014 (Bank of Ghana, 2014). This represents a large untapped area for banks. This makes it very essential for the banking industry to come out with innovative approaches to tap into these market segments so as to mobilize the huge pool of funds to propel economic growth. Given the indication that access to banking and formal financial services in Ghana is still underdeveloped, there is a need for research to come up with new strategies to bring the unbanked into the banking system which is the focus of the present research.

In spite the fact that some studies have been conducted in other countries by Oluba (2010) and Al-Hawari, Hartley and Ward (2005) to assert that banking the unbanked cannot be achieved among banks in Africa if they continue with the same strategies that shut out a potential customer base. This assertion has received agreement from some scholars like Srinivasan and Meyer (1986) and Koku (2015) who reveal that in developing economies, accessibility to financial services is often limited and therefore, the provision of wider access to such services can positively impact the financial industry in general.

The Pew Health Group (2011) defines an unbanked individual as “a person who does not have a traditional bank account and uses alternative financial services” (p. 2). Anderson-Porisch (2006) also explains the unbanked as an “umbrella” term describing a diverse group of individuals who remain outside the banking mainstream; meaning that they do not have a checking or savings account. These two definitions imply that being unbanked is a situation where an individual does not have any form of banking relationship with a bank or a similar financial institution in any capacity and as such the individual relies on cash transactions to meet their financial needs.

This research, therefore, seeks to investigate the factors that account for the high unbanked population in Ghana. The study takes into consideration cultural, economic, legal, educational and technological factors that may have contributed to restraining people from having a formal banking relationship.

Methods and Participants

This research adopts a mixed method approach. This approach is deemed necessary in order to enrich findings, increase the credibility of the findings, increase the depth and the breadth of the study and test a theory or a model (Hanson, Creswell, Clark, Petska & Creswell, 2005). This method involves the researcher basing his claims on pragmatic grounds (Creswell, 2013). Creswell (2013) further suggests that employing the mixed method approach may help neutralize the biases and limitations encountered in the two methods.

The use of mixed methods allows researchers to employ a diversity of approaches to answer research questions that cannot be addressed using only one method (Doyle, Brady & Byrne, 2009). The choice of a mixed design is to ensure an in-depth, exploratory investigation of the factors accounting for the high unbanked population in Ghana. Therefore, the mixed methods approach will allow for the use of both qualitative and quantitative techniques of data collection, analysis and inference for the purpose of gaining a breadth and depth of understanding of why the unbanked population is still high despite the phenomenal growth in the number of financial institutions in the country. Using the mixed method will ensure that the qualitative research provides a rich and thorough exploration of the nature of the problem being investigated. While the quantitative research will provide the researcher with strong scientific support for making inferences as well as serving as a research tool in testing the hypothesis that will result from the qualitative study

Research Design

With focus on initial interviews conducted and subsequent administration of questions based on themes of the research, the sequential exploratory research design was adopted, following the example of Ivankova, Creswell and Stick (2006). This approach begins with a qualitative data collection and analysis, followed by a quantitative data collection and analysis. Finally, there is an interpretation of the entire analysis. This approach is suitable for this study because an area like banking the unbanked is an under-researched area in a context like Ghana. Hence, the qualitative phase is to confirm the model developed from the literature before testing it on a large scale in the quantitative phase.

Research Approach

The current study is divided into three phases: the conceptual phase, the qualitative phase, and the quantitative phase. The conceptual phase involves the development of the conceptual model for the study based on an extensive review of the literature. The qualitative phase follows, which will be used to confirm and improve the conceptual model, if necessary. At this stage, in-depth interviews will be conducted on people of banking age but who have no bank accounts in the Volta Region of Ghana to find out the factors which account for the decision not to bank. The interview will also attempt to find out some of the factors which promote financial inclusion. The unbanked population was selected as the unit of analysis because they are in the best position to furnish us with information relevant to the research questions (Gephart, 2004). The interviews also seek to investigate the role of personal, social and firm-level factors in promoting the plan to bank the unbanked. This data thus collected will be coded and thematically analysed. The emerging themes will then be compared to the initial model to confirm and amend where necessary. The subsequent quantitative phase tests the confirmed or improved model on a larger scale among a sample of more than 200 respondents

Population and Sample

According to Rubin and Babbie (2001), the target population is the theoretically specified aggregation of study elements. The target population of the study will comprise all citizens and businesses in Ghana who make a living and yet do not have a bank account. The researcher envisaged difficulties in selecting probability samples from the populations chosen. Therefore, convenient sampling was employed in this study for the qualitative research. A convenient sample is one chosen by the researcher because it is available to him (Bryman & Bell, 2011). Bryman and Bell further suggest that convenient sampling is very commonly used and very prominent in the field of business and management research. Also the researcher used purposive sampling for the quantitative research. The sample was taken from the Greater Accra Region of Ghana to represent the urban population and the Ketu South and Akatsi District in the Volta Region to represent the rural population.

The sample also included twenty- three (23) respondents who have bank accounts to enable the researcher to understand what informed their decision to bank and what their current perception about banking is. The main reason why these regions were chosen was that Accra, as the capital city of Ghana, is more populated, with all the banks in Ghana having presence in most of the communities in the city as compared to the other regions in Ghana. Also, the Ketu South and Akatsi districts were chosen because of the significant economic activities that take place in those two districts to represent the views of the rural population of the study. The selection of these locations thus ensured the solicitation of divergent views about why people remained unbanked from both the urban and rural perspectives.

A total of three hundred and fifty (350) questionnaires were distributed and all were returned except four (4). This represented a response rate of 98.86 percent. The 346 questionnaires were analyzed with the use of the Statistical Package for the Social Sciences (SPSS). The researcher ensured that the data was cleaned to make sure there are no missing variables which is likely to affect the output of the entire research work. The bio-data of the respondents were also analyzed to understand the characteristics of the sample respondents used in the study.

Methods of Data Collection

With the qualitative research method, a face-to-face interview was conducted. Both open-ended and close-ended questions were asked. The main aim of the exploratory interview was to understand why they earned an income and yet did not utilize a bank account even though there were financial institutions around them.

Measure Development and Assessment

Items measuring the factors associated with decision to bank was factor-analyzed to determine their underlying dimensions.

Table 1. *Measures*

Variables alpha	No. of Items	Mean	SD	α
Personal Factors	4	4.03	0.53	0.732
Social factors	4	4.13	0.41	0.798
Firm factors	8	1.89	0.88	0.945
Banking decision/ propensity	3	2.50	0.73	0.743

Items with significant cross-loadings were eliminated. Based on factor interpretability, an eigenvalue greater than one, a factor solution accounting for 75% of the total variance was judged best. The factors were interpreted as: (1) personal factors, (2) social factors, (3) firm factors, and (4) decision to bank. Appendix A shows these constructs with their rotated factor loadings.

Social Factors

The social factors that influence people's decision emphasized on the fact that people are social creatures, therefore social factors can influence how decisions are made. Meghana, Thorsten and Mohammad (2012) assert that individuals often make financial decisions based in part on their primary influence groups such as friends, family members, work colleagues, religion and cultural norms. Accordingly, a person's financial decisions can be influenced by the experiences of people around them. We adopted a 4-item scale, developed specifically to measure the social factors that influence the decision to bank.

Personal Factors

The personal factors focused on the characteristics that consistently influence the way individuals respond to situations. According to Mikulincer and Shaver (2015), the differences in characteristic patterns of thinking, feeling and behaving forms an individual's distinctive character. We adopted a 4-item scale, developed specifically to measure the personal factors that influence the decision to bank.

Firm Factors

The firm factors focused on consumers' perspective of an organization and how it impacts on individuals' decision to use its services. Assessing individuals' perceptions of service delivery by organizations improves understanding of factors that can motivate people to adopt a product or service. Furthermore, understanding the expectations of potential consumers of a product or service can inform strategies to attract non-users (Solo & Manroth, 2006). We adopted an 8-item scale, developed specifically to measure the firm factors that influence the decision to bank.

Decision to Bank

We adopted a 3-item scale, developed specifically to measure people's decision to bank. Respondents were asked to indicate the circumstances under which they are likely to make a decision to bank on a five-point Likert scale of 1 in indicating not likely and 5, indicating very likely. Some of the items were, "How likely are you to have a bank account in the next 6 months – 1 year", "How likely are you to use a bank account if the product and service offered meet your needs".

Analysis and Results

The hypotheses were investigated using multiple regression. The maximum variance inflation factor (VIF) associated with the main constructs under study in the regression analysis was 1.66, which is well below the 10 cut-off recommended by Neter, Wasserman and Kutner(1983) indicating little influence of multicollinearity on the results. Table 2 shows the results of the regression analysis.

The control variable (gender) was entered in Model 1. Both the control variable and the main predictors or independent variables were entered in Model 2. From the results, gender significantly and positively impacted banking propensity in both Model 1 ($\beta = 0.28$, $p < 0.001$) and Model 2 ($\beta = 0.15$, $p < 0.001$) lending support to hypothesis 4. This means that females are more likely to patronize banking services than their male counterparts. This is diametrically opposed to what Ogenyiejye (2007) found in a study on gender – based decision to bank in Nigeria. The study explored gender differences in consumption of banking services and revealed that males were more likely to consume banking products than their female counterparts for the reason that men were more confident and willing to take more risks in managing their funds, including the use of formal financial institutions. On the other hand, the study revealed women were rather security - oriented in money handling and the fear of engaging with financial institutions was high.

In Model 2 social factors had significant positive effect on banking propensity ($\beta = 0.08$, $p < 0.05$). Similarly, firm factors significantly and positively predicted intention to bank ($\beta = 0.70$, $p < 0.001$), contrary, personal factors ($\beta = -0.09$, $p < 0.05$) which significantly and negatively predicted banking propensity. Thus while hypothesis 1 and 2 were supported, hypothesis 3 was not supported.

The results further reveal that firm factors were the biggest predictor of banking propensity compared to social and personal factors. In addition, both the control and independent variables ($R^2 = 0.60$) accounted for 60 percent variations in banking propensity, out of which the main independent variables contributed 52 percent (Change in $R^2 = 0.52$). Both models were also jointly significant at 0.1 percent level of significance as shown in Table 2.

Variables	Banking propensity	
	Model 1 (β)	Model 2 (β)
Gender	0.28 (5.34)**	0.15 (4.34)**
Social factors		0.088 (2.07)
Personal factors		-0.09 (-1.98)*
Firm factors		0.70 (16.47)***
R^2	0.08	0.60
Adjusted R^2	0.07	0.59
Change R^2		0.52***
F-test	25.54***	128.05***

Table 2. *Linear Regression Analysis*

Note: $^{*}p < 0.05$, $^{**}p < 0.01$

Findings

The findings of this study provide empirical insight into the factors that would potentially influence a person's decision to bank.

In the study, it was revealed that the social factors which could influence a person's decision to bank include high interest rate, security for funds, bank tenure, and bank reputation. According to Meghana et al.(2013) since people are social creatures, they can be influenced to make financial decisions based on their primary influential groups such as friends, family members, work colleagues, religion and cultural norms. From the current study, the social factors contribute 63.05% to individuals' decision to bank. Also, from the interviews conducted, one of the paramount issues which came out strongly as being the major reason for people being unbanked, was the fear of being unable to access the funds. The respondents indicated that they are unwilling to use banking services because of the fear that in an emergency or bank closure, they might be unable to access their funds.

Again, the respondents said trust is very crucial when it comes to patronizing the services of financial institutions and by this reasoning, the longer the institution had been in existence, the better it influences their decision to bank with such a financial institution. Going by this claim, well-established financial institutions with existing track records may influence the decision of the unbanked to bank, if such institutions are able to make their products and services accessible to them. Under economic factors, the income status of the unbanked is found to influence the establishment of account relationships with banks. The survey shows that the unbanked consider that their income is only enough to meet their daily needs, with no excess to bank. The respondents have the opinion that the patronage of banking products and services is the preserve of those who earn more than they can spend.

The study further shows that majority of the unbanked population still consider that owning a bank account is a privilege for the educated working class. This finding is due to the extensive documentation needed to be completed before establishing an account, and subsequently, the requirements of filling out forms to deposit or withdraw funds. This accounts for the low interest of uneducated individuals in utilizing banking services. This, therefore, requires banks to adopt various strategies in helping the less educated to become more comfortable in using bank products and services. Thorough education on banking products is an important strategy. The banks should avoid the use of complicated terminology to properly communicate to potential customers in simplified language for easy understanding.

The outcome of the quantitative survey on firm factors also indicated that proximity to a bank strongly influences the decision to bank, where closeness of the financial institution to the individual's home is found to have a greater propensity to influence their decision to bank with that bank. This recorded the highest mean of 2.31. In this study, it is of a great concern to note that the inability of respondents to access loan facilities contributed strongly to their decision to patronize banks and their services. For some of these unbanked individuals, when they need short-term loans to meet emergencies, they find informal sources of credit or turn to high-cost formal-sector lenders such as small-loan companies where interest rates are generally quite high. This is because large banks might not, in most cases, be able to provide traditional loans to financially hard-pressed individuals, as in the case of most unbanked people, due to the short-term high-cost associated with disbursing and monitoring such loans. This outcome was reaffirmed by the quantitative survey results, indicating that if product offerings by banks closely match or appeal to the needs of individuals, it would influence their decision to bank. This finding, recorded a mean value of 2.29 on a scale of 5, indicating that close to half of the respondents agreed with this assertion. To help meet this need, banks can offer deposit-secured loans to customers who are unable to pass standard credit-risk assessments. For example, financial institutions can issue deposit-secured loans to customers or make loans against the balances that customers have accumulated in their savings account.

As regards social factors, it emerged that all the factors tested had a positive influence on one's decision to bank. These include high interest rates, security for funds, bank tenure, and bank reputation. Explaining this, Meghana et al. (2013) said that since people are social creatures, they can be influenced to make financial decisions based on their primary influential groups such as friends, family members, work colleagues, religion and cultural norms. For instance, the reputation of a bank, which is found to be one of the social factors that significantly affects the decision to bank, shows that individuals who want to bank tend to critically take into consideration how long the bank has proven to be reputable throughout its period of existence. As such, the drive towards banking the unbanked needs to be championed by well-established banks that have been in existence for several years with a solid track record of performance. This suggests that if major banks in the country could make the effort of establishing branches and agencies across the country, patronage of banking services would improve, as well as help in the quest to bank the unbanked. This finding is important because some of the unbanked individuals expressed that they have some fears that their funds are not safe in their personal possession and they think that if they had banking facilities at their disposal, they would use it as a mean of safeguarding their hard earned funds. For such respondents, access to financial institutions was their major challenge; re-emphasizing the need for expanding banking services across the country.

Furthermore, from the interview, it was revealed that the long standing assumptions indicating that "banking is the preserve of the rich", "people are uncomfortable in banking halls" and "banking is for the educated and the working class" were some of the socio/cultural issues found to be keeping individuals from utilizing formal banking services. In terms of legal factors, regulatory requirements also accounted for the high unbanked population in Ghana; as some reasons cited by respondents in the survey had a direct link to this. For instance, in Ghana, while granting loans without adequate collateral is an infringement of Bank of Ghana's regulatory requirement, a number of the respondents expressed their desire for banks to offer them loans without collateral.

Overall, the findings of the study show that the factors that contribute to the high unbanked population in Ghana are related to personal, firm-oriented, social, cultural, economic, legal, educational and technological factors. In all these, three factors are highly recognized (social, firm, and personal factors). The study shows that social factors have a significant positive effect on banking propensity ($\beta = 0.08$, $p < 0.05$). Most interesting is that while firm factors significantly and positively predicted intention to bank ($\beta = 0.70$, $p < 0.001$) at 0.1 percent level of significance, personal factors ($\beta = -0.09$, $p < 0.05$) had a significant and negative prediction of banking propensity. Nonetheless, the results reveal that firm factors are the greatest predictors of banking propensity compared to social and personal factors.

More so, gender in this study had a significant positive effect on banking propensity; indicating that females were more likely to patronize banking services than their male counterparts. This finding diametrically opposes what Ogenyiejye (2007) found in a study conducted in Nigeria, which showed that males were more likely to consume banking products than their female counterparts for the reason that men are more confident and willing to take more risks in managing their funds, using formal financial institutions. Unlike the findings of this study, Ogenyiejye's (2007) study revealed that women are rather security-oriented in money handling and the fear of engaging with financial institutions was high. Finally it emerged that respondents expected a simplification in the banking process that could eliminate certain bureaucratic procedures, which make transactions cumbersome and stressful. Therefore, the adoption of technology to simplify manual processes to bring about speed and efficiency is expected to influence their decision to bank.

Implications of the Study

This study provides important insights and implications for institutions, regulators, policymakers, and managers in the banking sector. The findings imply that there is a need for a strong collaboration between financial institutions, financial technology (FinTech), and mobile network operators (MNOs) to reach a broader base of the unbanked in Ghana. The growing interest in mobile money, sets the trend for even more radical transformation of the Ghanaian banking system, with both banks, FinTech and MNO firms bridging their strengths and weaknesses to provide a win-win opportunity. Whilst banks can provide funding and access to financial products and services, the FinTechs and MNOs can offer the most innovative and efficient solutions for better financial service delivery; thus, providing a far broader opportunity to re-engineer the infrastructure and banking processes within the Ghanaian banking industry. The motivation for advocating for a stronger collaboration is influenced by the Bank of Ghana's recent guidelines, which allowed Telcos, after acquiring their license as mobile money operators, to go to banks for partnerships.

Additionally, the results from the study show that in communities where banking facilities are not available, people are more comfortable keeping their funds at home under their pillows, thereby increasing the rate of the unbanked. There is, therefore the need to adopt the agency banking model in order to improve outreach and financial access to the unbanked. Rolling out an agency banking model would enable banks to partner with institutions such as retail shopping centres, fuel retail stations, pharmacies, supermarkets and post offices to deliver this service. They will act as third party agents to provide cash-in-cash-out transactions and other services in compliance with laid down guidelines to create a wider reach for the many unbanked individuals. This will help resolve the issues of customers having to travel long distances to access financial services. The deployment of a agency banking would offer a number of banking services, including cash deposits and withdrawals, funds transfers, bill payments, payment of benefits and salaries, and the collection of account and loan applications. Also, transactions can be carried out in real time, driven by technology via mobile phones, point of sale (POS) systems, telephone banking or internet banking, and must be reflected immediately on the bank's side in the core banking system.

Thirdly, there must be a focus on financial education through financial literacy programs. It emerged from the study that due to the lack of financial literacy, some of the unbanked have developed various myths and perceptions about banks and their services; resulting in their mistrust and unwillingness to engage their services and products. In line with this, it is strongly proposed that a curriculum be developed by banks to be used as a model to provide financial education to the unbanked population. These strategies advocated above are not only likely to better meet the needs of the many unbanked people in Ghana, but are also likely to build mutual trust between the unbanked and financial institutions, which is considered key in promoting financial inclusion. Additionally, financial institutions stand to benefit from better returns through enhanced deposit mobilization while improving economic growth.

Again, findings from the survey and literature review revealed that cost has a significant negative effect on the decision to bank, as it can impact the perceived ease of use and perceived usefulness of banking services if it takes so much to patronize banking services. This therefore emphasizes the need for increased collaboration between banks and Telcos in the provision of mobile and agency banking services to rural communities. This will effectively reduce the cost of providing banking services because partnerships would mean shared cost of operation between banks and Telcos, which will ultimately reduce the costs incurred by users.

The study concludes that while economic factors exert substantial influence on the propensity to engage in banking, firm factors exert the greatest influence in a unbanked individual's decisions to engage in banking. This would require banks to shift their focus from using product development and service quality as their primary means of attracting new customers, to strategies that will address the unbanked population.

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Appendix A

Factor analysis results

Construct Measures and Loadings

Scale and Items	Factor loadings
Firm Factors[b]	
1. Digitization of banks-mobile banking, cards, internet banking, telephone banking.	.936
2. How close the bank is to my work	.925
3.The opening hours of the bank	.888
4. The banking hall is decorated exclusively – very expensive decor	.923
5. How close the bank is to my home	.836
6. A standard looking banking hall, just like how your living room would look like	.837
7. Benefits enjoyed by customers of the bank	.812
8. Product offerings closely match or appeal to your needs	.786
Social Factors[b]	
1.A bank that gives high interest on savings	.914
2. Fear of money being stolen when funds are with you	.577
3. The bank has been in existence over a long time. 20 years and above	.739
4. Reputation of the bank. Your money is safe with them	.898
Propensity/Decision to Bank[b]	
1.How likely are you to have a bank account in the next 6 months – 1 year	.931
2. How likely are you to use a bank account if the product and service offered meet your needs.	.854
3. How likely are you to use a bank account if your friends and family save with the bank?	.758
Personal Factors[b]	
1. Bank accounts are for high income earners	.857
2. Bank accounts are for highly educated persons	.832
3. You believe the bank is trust worthy	.722
4. The bank that gives high interest on savings	.585