

DEPOSIT MOBILIZATION STRATEGIES AND THE CHALLENGES OF DEPOSIT MONEY BANKS IN NIGERIA: AN EXPLORATORY DISCOURSE

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ABSTRACT

Deposit mobilization strategy is a sin-qua-non in banking business. This is because liquidity is globally acknowledged as one of the performance indicators in the business of banking. Liquidity of Nigerian banks have grossly been challenged, in lieu of the fact that deposit strategies of some banks have been challenged- no wonder deposit is said to be as essential in banking industry as oxygen is essential to human beings. This study is therefore an expository discourse of deposit mobilization strategies that are indispensable to Nigerian deposit money Banks and its associated challenges. It is discovered from the study that these challenges have brought about a decline in the overall deposit of Nigerian deposit money banks to the tune of N370.3 billion in the first quarter of 2009. It is submitted conclusively from the study that among other variables, global financial meltdown and non-compliance to the code of corporate governance contributed the highest percentage of the spate of deposits decline cum deposit mobilization challenges in Nigerian banks. The study recommended among other things, that Management of deposit money banks should address their operations pattern and reconsider some internal problems associated with deposits mobilization strategies such that depositors in any bank should not be allowed to spend more than five minutes in order to make deposits or withdraw already deposited money.

Keywords: *Deposit, Strategies, Mobilization.*

INTRODUCTION

Deposit mobilization in banking industry is indispensable and inevitable in the contemporary banking business world over. Deposit mobilization is funds campaign. The central ideology of banking business is deeply rooted in the financial intermediation - interceding between the surplus unit and the deficit unit of the economy (Nzotta, 2006). The primary obligatory function of banks is the promotion and mobilization of deposit. This in turn, no doubt increases the chances of employment of idle cash or resources that can be channeled to viable economic sectors for productive purposes. Attracting these deposits from the surplus unit of the economy nowadays have become not only difficult but also very challenging arising from the stiff competition in the banking industry. As a matter of fact, banking industry has been on their toes with head bend on devising different strategies of deposit mobilization. But the attractiveness or otherwise of any strategies depends much on the reputation and operational response of the bank to customers banking requirements. Importantly, Ebohodagha (1996) contends equivocally that effectiveness and efficiency of any bank to mobilize deposit is directly proportional to the confidence of customers in the bank. This is reflected in the demand for money and the proportion of money in circulation that will be outside the banking system due to the fact that banks are no longer viewed as depositories. In the same way, Ezirim (2006) posits that;

Deposit mobilization and investment are the hallmarks of financial operation of any financial institution especially banking industry. Funds or savings mobilization represents the supply side of the intermediation function whereby the institutions go out of their way to source, generate and acquire monetary resources from the saving surplus units in form of loan and advances.

From the foregoing, it simply means that deposit mobilization strategies partly answer the question of how to raise the needed funds in the banking industry. Although the stiff competitiveness in the banking industry is so absorbing because of the changing circumstances cum the problem of liquidity and solvency. Yet the need to strategize for deposit mobilization cannot be overemphasized. Idam (2002), argues that the health of any bank is to large extent determined by its deposit base, which has direct bearing on liquidity position of the bank. Accordingly, he further maintains that sufficient cash is inevitable for healthy operation of a bank, and so mobilization of deposits becomes an important strategic planning variable which receives management attention on consistent basis. In view of the above, it is not hyperbolic to state that deposit mobilization is as essential in banking business for survival as oxygen is essential for human beings for same

survival. Surprisingly, a plethora of forces and challenges immensely confronts Nigerian deposit money banks in their strategies to mobilizing deposits, from the esteemed customers. Basically, it is against this background that this study sets out to pedagogically investigate the strategies that are popularly adopted by Nigerian deposit money banks and the associated challenges.

LITERATURE: CONCEPTUAL FRAMEWORK OF DEPOSIT MOBILIZATION

Various authors and scholars have made unreserved effort to conceptualized deposit mobilization as it relate to banking business. The efforts have been to subject deposit into a scientific definition. These efforts were not hundred percent successful, though this is common to many social science and management concepts. However, etymologically, deposit taking in banking business as generally known today according to Agwu (1998), Okoro (2003) started by the Italian Goldsmiths who settled down into business in London in about the seventeenth century. According to them, they began by acceptance of gold coins and other valuables from their customers for safekeeping purposes. Ibe (2002) while supporting the above statement opines that acceptance of deposit constituted a major banking business activities served by early banks. In the assertion of Idam (2002), the cheque system originated with the Goldsmith who started by accepting money (gold) from merchants on deposits against their receipts. The depositors soon depended on the Goldsmiths for payment to third parties. At first, merchant would add a letter of request to Goldsmith authorizing payment to a creditor of sum due. Soon after, the merchant debtor draws his bills or notes in favour of modern bankers by accepting sums at interest by making loans and by providing their customers with facilities for making payments to their party. Anyaele (1987) in his contribution states that because of costly nature of gold the Goldsmith had a place called his strong room in which gold and other valuable commodities and documents were kept for safe custody. With this strong room, Goldsmiths started receiving valuable commodities from different people for safekeeping. Receipts were issued to those who deposited their valuable as evidence, and they paid the Goldsmiths for his service. But when Goldsmiths discover that not all that were deposited were at the same time needed at any particular time, they started giving out part of the money deposited to interested borrowers by way of loans. They however changed some amount of interest for money borrowed. Meanwhile, the need to keep wealth especially gold, in safe custody led to the development of the popular function of banks-that is getting things from customers and keeping for them. But the competitive nature of banking business have outgrown the method of waiting for customer to come to bank, and deposit money for safe keep, instead nowadays banks plan different ways of convincing customer on the dangers and the need of lodging in any idle cash in their hand as deposits with their banks-hence deposits mobilization. However, the analysis made above could mean somewhat the synopsis of historical origin of banks deposit mobilization from the early days of crude economy to the contemporary banking system. Unarguably, the whole lot of activities of commercial banks is anchored on intermediation function and investment. Meanwhile, on empirical literature, several authors have carried out studies focusing on aspects of savings and deposit mobilization. Among this studies are Ezirim (2007), Muradoglu and Taskin in (1996), CGAP study group (1998), Ogaki, Ostry, and Reinhart (1996), Tunzi and Zee (1998) and Prinsloo (2000). Among these scholars, it was Muradoglu and Taskin (1996) that hypothesized deposit mobilization from household sector to be a function of income, wealth and rates of return, inflation, foreign saving and demographic variables. In their analysis using the Ordinary Least Square techniques, they observed that determinant of savings behaviors for industrial countries are not valid for developing countries and vice versa. CGAP study group (1998) in their study of four microfinance banks (MFBS) identified three major challenges of deposit mobilization by MFBS. These according to the study include: a hostile macroeconomic and financial sector environment, where the MFBS mobilization interference exists through interest rate control and subsidized credit. The second problem according to the study is the absence of regulatory framework tailored to the special characteristic of MBFS. The third is the need for sophisticated management capabilities to be able to match assets and liabilities. Prinsloo (2000) contends that one of the central issues in analyzing the mobilization behavior of banks is the relationship between changes in real interest rate, saving, investment and economic growth. To him, the general conclusion is that higher deposit mobilization rate may not be forthcoming, even with relatively large increase in real interest rate. Tanzi and Zee (1998) show in their studies that changes in income tax including capital income and wages have far more negative effect on the household saving rate than on consumptions expenditure. They observed that tax incentive directed to influence saving or deposits mobilization behavior are more likely to influence flow of various forms of saving, rather than to have lasting impact on overall saving rate of the economy.

TYPOLGY OF DEPOSITS

Deposit generally is used to describe the money that customers of all kinds leave with the bankers on both current, savings and any other account as may be determined by depositor (Okoro, 2001 and Idam, 2002). Deposit in banking operation could be either demand deposits otherwise called current account, or savings or time deposits. However, types of deposits according to Idam (2002) are as following:

- (a) **Fixed Deposit Account:** This is a fixed financial contract as to some amount of money, interest and maturity between a customer and a banker or other financial intermediaries. The holder of fixed deposit account is issued with receipts bearing expiration dates of the deposit and possibly with the interest rate allowed by the banks. The unique feature of fixed deposit account is that the terms of the contract is always fixed, and while the interest of savings fluctuates according to the direction of regulators of the financial system, that of fixed deposit is not changed until after the maturity date.
- (b) **Savings Deposit:** The design and package of savings deposit account is made to cover the yawning gaps between the blue chip customers and the small savers. The familiarity of savings deposits to that of fixed deposit is the single fact that both of them attract interest rate. The operation of savings account is dominantly with the aid of passbook, except occasionally where ATM can be used for withdrawal of funds. As a matter of fact, savings account is a personalized account. In other words, a holder of the account makes a withdrawal and in person. However, bank ceilings officially control withdrawal in savings account.
- (c) **Current Deposit Account:** In banking business current deposit account is known as principal account that can make qualified customer for any contractual obligations of the bank. The operation of current account is done with the use of chequebook. Basically, current account is often called demand deposit, and holders are paid on demand.
- (d) **Deposit Account:** This is special deposit account. It is also called short-term deposit account. This type of account is opened when a customer want to earn some interest on his money. It does not go with specified time deposit or expiring date; rather a seven-day notice is required before withdrawal. No chequebook or passbook is required. The holder can deposit or withdraw using standard deposit and withdrawer forms.

THE CONCEPT OF DEPOSIT MIX BANKING

In Nigerian banking industry, the concept of deposit mix became more pronounced as health of banks became a struggle for the survival of the fittest, on who mobilizes what. Simply put, deposit mix is use to describe the combination and source wise analysis of various deposits/account in which a particular bank can subscribe for, at any point in time arising from their managerial decisions (Mohan, 2008). Deposits mix emphasis the percentage share of each deposit to the overall/total deposit of a particular bank. In other words, the concept of deposit mix answers the question of which deposit or account contributed the highest percentage to pool of the banks mobilized deposits. For instance the table below shows bank deposit mix as Reported by NDIC, 2007.

Table 1: Banks Deposits Mix

Types of Deposit	2002 N M	2003 N M	2004 N M	2005 N M	2006 N M	2007 N M
Savings Deposit:	232998.15 (19.00)	299898.00 (19.16)	355932.04 (17.96)	443351.82 (17.96)	5942.10 (17.41)	75899.80 (4.21)
Demand Deposit	542727.00 (44.24)	619352.50 (43.73)	799884.23 (44.08)	1197778.41 (48.51)	1914865.33 (56.12)	2986318.58 (55.95)
Time/Term Deposits	440898.97 (36.76)	496535.36 (35.07)	658929.17 (36.31)	827939.48 (33.5.3)	903165.87 (26.47)	1592255.95 (29.83)
Total	1226624.12 (100)	1415785.8 6 (100)	1814745.44 (100)	2469069.71 (100)	3412273.30 (100)	5337174.33 (100)

Source: NDIC Annual Reports and Accounts (Various years)
 Figures in brackets are common size percentage.

The table shows the amount of money that is mobilized from different sources of deposits/ accounts from 2002-2007. For instance, in 2007, demand deposits contributed the highest percentage (55.95%) of total

deposits. A close look at the table confirms it maintained same within the year under review, followed by savings deposits and thirdly time/term deposits.

BANKS DEPOSIT MOBILIZATION STRATEGIES IN NIGERIA

The following have been identified as deposit mobilization strategies:

i.) **Cash Evacuation Facility:** Under normal business life, an esteemed bank customer has the responsibility to lodge in their cash into their account at will or whenever the need arises. However, deposit money banks nowadays in beat to mobilized deposit offer cash evacuation facilities to blue-chip customer. In this way, bank staff are sent to customers' business office with the banks official bullion van for the purpose of evacuating their cash which are lodged into their bank account. Cash evacuation method however is the aftermath of the new strategies where deposit money bank contends that evacuating the customers' cash with their vans instead of the customer coming to deposit such money reduces the risk involved in cash and money movement.

ii) **Exploitation of Big Prospective Account:** Exploitation as used here is used to describe purposeful and well – coordinated effort made to persuade an identified potential customers to open account with the bank. This strategy involves bank and this increases the deposit positions of the bank (Idam, 2002).

iii) **Use of Cash Offices:** This strategy is aimed opening of cash offices *in the premises of customers' cluster where the prospect of recouping such the cost of the expenditure is high.* For instance, a bank may decide to open an office in Ochanja main market premises. Simply because it will be easier to attract deposit arising from fear of moving to the main office with cash. Off course, such a place must be a market with high cash transaction, where necessary conditions for establishing bank will not be met.

iv) **Special Deposit Schemes:** Banks float different deposit mobilization packages because of the necessity to attract deposits. However, such deposit is tied up with a promising benefit on a specified sum of money in the form of N20,000, 50,000 and 100,000 deposits. Example of such schemes are promo-deposit scheme, kiddies Account, Vantage account, two in one account, three in one account, premium student account, work time account, happy customer account among others. Meanwhile, given the correlation between cost of deposit and length of time, an effective deposit mobilization strategy must be a long term deposit that must reduce cost since the payment of interest on current accounts with specified minimum balance at relatively low interest rate are mainly design to sustain minimal sum of money in the account of prospective customer.

v) **E-payment Mechanisms:** This is the use of IT- enable devices such as ATM, DOS terminal and mobile phone banking application in combination with debit cards. These packages are designed specifically to reach out to low and high-income earners.

vi) **Payment of Interest on Current Account:** In banking business traditionally, banks are not supposed to pay interest to current account holders. Recently, the special needs to attract deposit have made many banks to pay interest to current account customer who maintains a reasonable balance in their bank account.

vii) **Variable Interest Payment:** The variability in interest payment implies a situation where banks negotiate interest rates particularly on fixed deposit accounts. However, rates negotiated depend on banks treasury position, length of time and other intervening factors. Meanwhile, the higher the amount involved and the period, the higher the interest rate. Thus banks vary interest rate in response to the changing conditions in the money market and the financial market (Mohan, 2008).

viii) **Marketing of Banking Services and Provision of Foreign Services:** Marketing of Banking services have gone far and wide. It is no longer news that bankers move around to market their services. All these are strategies in which banks use to attract popular attentions to their banks with the primary motive to getting deposits from customer or public. Therefore marketing has become an essential strategy in which the bank uses in one hand to sale their products in the form of loan and advances and on the other hand to solicit deposit from such customers.

DEPOSIT MOBILIZATION CHALLENGES IN NIGERIA

The level of deposit decline among deposit money banks in Nigeria is not only challenging but also alarming. For instance, it was currently reported in vanguard with such headings as "scarcity of funds hits banks, as deposits fall by N370.3billion in the first quarter of 2008 and liquidity ratio down to 33.2%. This challenging situation was justified by the actions of CBN in January 2009 when CBN returned N4.2 billion to banks for CRR credit. This implies a decline in bank deposit by N210 billion. In February the same year, the CRR credit to banks was N1.5 billion implying decline in bank deposits by 75.3 billion. Also, in the second week of April, the same year, the CBN posted a CRR credit of N1.5 billion to banks representing another decline in Banks deposits by N25 billion. On the whole, the banking industry recorded deposit decline of N370.3 billion. See table 2 below:

Table 2 The Level of Deposit in Nigerian Banks

CBN Deposit to Banks (CCR)	Jan 2008	Feb-mar 2008	April 2008
	4.2 Billion	1.5 Billion	1.5 Billion
Level of Decline	210 Billion	7.5.3 Billion	85 Billion
Total Decline	370.3 Billion		

Source: Vanguard Newspaper Vol 25 no 608, 18th April, 2009.

CONCLUSION

From the expository discuss and analysis of the available data, it is clear state that deposit mobilizations among Nigerian deposit money banks have been challenged inspite of the banks various modified strategies identified by the study. However, the truth of the matter is that money does not suddenly disappeared in the banks, it just that people are now holding on their money, they are not spending and they are not taking to the bank as deposit and banks are also afraid to lend because loans and advances given out are not being recovered the way it should be recovered. It is also concluded in this study that non-application and observation to the code of corporate governance is attributable to these challenges of deposit decline among Nigerian deposit money banks.

RECOMMENDATIONS

From the study, following are recommended policy options:

- Deposit money banks management should address their operations pattern and reconsider some internal problems associated with deposits by customers. Depositors in any bank should not be allowed to spend more than five minute in order to make deposits or withdrawal of already deposited amounts. Also calling attentions of responsible bank officers should be very cordial while in operation.
- Proper channeling of the mobilized deposit (saving) to the needed sector of the economy should be amplified.
- It is also socially recommended for more-law-cost deposits and avoiding high-cost-borrowing. Additional spends from excess crude account should be utilized to stimulate the economy through diversification.
- Finally it is recommended that Nigerian Deposit money banks should observe the ethics and principles of good corporate governance mechanisms.

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