How to choose a Bank

Details
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Following the bank closures and financial institution warnings in 2015, Wafula became highly concerned with the safety of his deposits in Kenyan entities. In response, he disbursed his funds into smaller deposits held at multiple institutions. However, usage of a multitude banks proved inconvenient for him. So after reading the value of small banks article in Business Talk last week, Wafula determined to investigate the health of various banks so as to ascertain which bank to put the bulk of his deposits.

The choice of a financial institution revolves around a customer’s unique needs. Besides the financial security of the bank, clients must also decide on the level of convenience required, fees desired, and product sophistication.

The safety of one’s deposits often features most prominently on consumers’ minds, but is often not understood. Start off by investigating whether the financial institution carries an external rating from Standard & Poor’s, Moody’s, and Fitch for commercial banks or Microfinanza or Planet Rating for microfinance banks. Despite the failings of ratings agencies in the global financial crisis of 2008, accountability to external ratings agencies should still provide you substantial levels of comfort regarding your savings. In microfinance, ratings agencies even conduct extensive onsite due diligence before issuing their opinions.

Also, check whether major equity or debt institutional investors from respectable entities partner with your bank, such as Helios Investment Partners, African Development Bank, among others. Microfinance bank customers should look for AfriCap, Soros Fund, Kiva Microfunds, or Oikocredit as an example. Check Microfinance Gateway for the strength of microfinance banks and funders in Kenya. Large external partners hold powerful sway to keep financial institutions accountable that numerous small investors and depositors cannot muster.

Additionally, seek data on a bank’s concentration of loans to major borrowers. If the majority of funds are lent out to a few borrowers like the industry saw in the past, contrary to Central Bank of Kenya requirements, then your deposits are at substantial risks.

Additionally, regulators in the United States came up with the CAMELS assessment. The acronym encompasses capital adequacy, asset quality, management, earnings profitability, liquidity and funding, and sensitivities to market risk. Most of the aspects feature ratios rather than absolute values as also utilised by the Central Bank of Kenya. The more risky an asset, then the higher the capital required in
ratio requirements. You may quickly calculate capital adequacy, liquidity and funding, and market risk sensitivity ratios by looking at your bank’s financial statements and the formulas on Credit & Finance Risk Analysis. You need your bank to provide back your savings on demand and retain enough liquidity to do so.

An institution’s portfolio-at-risk represents the extent of repayments at the bank and is one of the snapshots for asset quality. When a loan exceeds 90 days without a full payment, then the bank must consider the entire outstanding loan balance outstanding as at complete risk of loss. Global international standards hold that portfolio-at-risk should comprise less than 5% of total loans outstanding while in Southeast Asia the acceptable figure exists as less than 2%, but here in Sub-Saharan Africa the desirable portfolio-at-risk should total less than 10%.

Under the management section, an argument in favor of selecting a larger bank often revolves around the competency of staff. The best and the brightest often desire to enter the banking sector after graduation and go into large commercial banks. However, often not discussed, is that later in their careers, seasoned professionals frequently desire the flexibility and creative freedom of working in a smaller financial institution and switch banks. When choosing a bank, strong correlations exist between the experiential diverse track record of its senior executives and the institution’s success.

Consumers may often notice earnings profitability shortfalls when product sophistication lacks. Their banks fail to renovate old branches, limit telephone banking hours, lack functional mobile apps, internet banking crashes or is non-existent, or delays loan decisions and disbursements. Such external signs often signal internal profitability struggles. Also you can casually ask your branch staff about the timeliness of salary payments or adequacy of employee benefits.

Next, determine your convenience level that you require. Are you comfortable waiting more than five minutes in a branch queue? Do you need late branch opening hours and 24 hour telephone support? How many kilometers are you willing to travel to utilize branch services?

Further, look into the fees charged by your bank. Do not merely look at the monthly charge per account. Investigate wire transfer fees, check costs, etc, based on the services that you will regularly require. Banks know that consumers psychologically look mostly at the monthly costs while businesses look at the various transaction costs and then place higher charges in the opposite categories per customer classification. Such convenience and fee factors commonly play a role in customer selection of banks, whereas financial health of institutions and product sophistication do not feature as prominently.

Many of us either love or hate our financial institutions. We should not base our decision solely on the pleasantness of branch staff or that a friend works there, but additionally on the above factors for our
own safety and convenience. Conduct a personal audit of your banking needs and reexamine your financial institution relationships. Discuss bank horror stories and triumphs with other readers through #KenyaBanks on Twitter.

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