Be Careful About The Menace of The Banks and Microfinance Companies

Hello, reader! I promised you last time to come your way with strategies which could help you to save at least GH¢1.00 a day to be able to accumulate some substantial amount for the future. However, I want to discuss with you how the banks and other non-banking financial institutions operate in the country.

Currently, according to the Ghana Banking Survey 2010 by PriceWaterHouseCoopers, there are twenty six (26) registered banks with over 740 branches operating in the country offering several products designed to attract the average Ghanaian (with more in the pipeline because of the oil flow). Some years ago (may be 10 years or more), there were very few banks in the country with their products mostly designed towards the elite few. It was a common thing to see very long and winding queues extending several kilometres outside the banking halls of most of these banks. Especially the Ghana Commercial Bank (GCB), the Social Security Bank (now SG-SSB) and Agricultural Development Bank (ADB), which are mostly state-owned at those times. In Ghana as in most parts of Africa, public sector workers receive their pay usually at the end of the month through the banks. And with the low bank charges and also being state owned GCB, SSB and ADB were usually very crowded at the end of every month.

For example, it was common to see GCB next-door to Barclays bank, whereas long queues used to the norm outside the banking hall of the former, the latter’s banking hall was (is still) less crowded. The reason was that for many years, the banking sector was dominated by Barclays and Standard Chartered banks. These imperialists’ banks exploited Ghanaians by charging exorbitant bank charges for every little service rendered. For some times ago, the minimum deposit in a current account acceptable to these two foreign banks was ¢1million. How many Ghanaians could afford to lodge ¢1million in a current bank account considering the general low incomes public sector worker earn? But what we see today is completely different from those elite-centred behaviour of these imperialist banks and have now adjusted to the new rhythm in the financial sector. Their claim to been leaders in the financial sector is seriously threaten by the inflow of several banks from the neighbourhoods. In fact, Barclays and Standard Chartered banks are now opening their doors to Ghanaians within the low income group. This group of Ghanaians have been neglected by these banks for far too long. The low income group did not matter because with the few elites and other investments, these banks still declared fabulous profits annually.

Ghana can, today, boost of several banks which are competing very seriously to capture the customers of their competitors. It is very common today to conduct banking business on the internet, from your mobile phone or even from your office. For example, Barclays Bank started to recruit young University graduates as, what they called, Mobile Bankers. These recruits are trained to carry the banks products to the potential customers’ offices, business places and even their homes where necessary. This strategy is now a common practice among various banks and even the modus operandi of the
non-banking financial institutions like the then UT financial Services (now UT Bank), Ghana Financial Services (now Bayport Financial Services), Opportunity International and many such financial services providers. There are several banks with several branches all over the country with many of these branches located in the major cities trying to entice mostly the salaried workers and the micro and small-scale business people. For this reasons, some of these banks and the non-banking financial institutions opened their branches or locate their offices of operation closer to the commercial areas of the city. It is very common to see several banks at the market places like Makola Market, Kaneshie Market, Kedjetia Market, Mallam Atta Market and so on. Other common areas are the commercial streets like Osu, Achimota, Spintex Road, Tema C1 Adum Kumasi, Bantuma High Street, Madina and Dansoman. All these activities are being considered in many quarters as the development of business activities in the country. Yes we all know that the banking sector all over the world is one of the most important in the development drive. But one thing that is very common about the banking industry, especially in Africa, is that they want to take good advantage of the average poor, whiles helping the rich to be richer at the expense of the struggling poor. So in simple terms they want your money, period.

Have you ever gone to the bank to deposit money and was told that the system is not functioning? Even if that was the case, they would definitely collect your money and key in the transaction later when the system starts functioning properly. On the other hand however, there are several occasion you want to take your own money and was told that the system was not working and there is no other way they could help you. Sometimes you could even be told that the system was not working but at the same time the teller is collecting deposits from other customer standing next to you. You still not believe that they are only interested in your money?

Now listen to this. Have your tried to take money from the ATM using your card and the money did not come out but your account is debited with the attempted transaction value? Were you then told that they cannot get you your money until after three days, one week or even three weeks? In fact, if you use your VISA card at another bank (thus not your original bank) and this happened, you may be looking for about a month or even more before you get access to your money. But do you know that the ATMs have automatic reversal system where the transaction could be reversed in one minute maximum after the transaction did not go true and your account is debited? I know a young man at Ecobank who had to face a panel at the head office on two or three occasions to explain why he activated the automatic reverse system on the ATM he was in charge of at his branch. Why don’t they want the machines to work to their fullest capacities for customers’ satisfaction? Don’t you think they are just trying to hold on to your money for a longer period so as to make huge profits for themselves?

Have you ever forgotten your cheque book and tried to use a counter cheque of the bank? One of the big banks in Ghana is giving customers a half piece of A4 sheet paper with some simple spaces to be filled by the customer to collect money instead of the real counter cheques that are in the form of a normal cheque leaflet. What is most annoying
is that the bank is selling this piece of paper to the customers at GH¢2.00. Isn’t this ridiculous? A bank sells a half piece of paper that cost about GH¢0.004 to unsuspecting customers for GH¢2.00, is not only ridiculous but in my opinion, it is day robbery.

Currently, the banks are charging you interest in the range of 32% – 40% on moneys you borrowed from them, whiles the central bank’s minimum rate remains at 13.5%. In fact, many banks are displaying between 20% and 27% as their base rate. This is only the base rate but not the annual percentage rate (APR), which is the actual interest payable on the loan. But they only pay you between 4% and 12% maximum on any money you left with them. So they usually make between 32% and 40% per annum on your money that you keep with them while paying you only between 4% and 12% only. This gives them a whooping 28% profit on your money.

On the extreme end are the non-banking financial institutions (what is now commonly referred to as the micro-finance companies). These microfinance companies provide easy and quick cash to various individuals and micro and small-scale business people. There are several of such companies around our various streets, from the bigger and smallest streets of Accra, Kumasi and other major cities to the smaller streets of Axim to Walewale and all over the country. They can be found everywhere around us promising you of money for your children’s school fees, for your household expenditure, for your business development and even for your new business.

Most of these microfinance companies charge you between 2% per month to 10% per month. I wonder the kind of business you could do in Ghana today that would return hundred percent interests on your capital. Even if you could return that much of profit (I really don’t know the kind of business you could do, or may be drug pushing?), that profit would not be enough for you to pay for the interest payable to the microfinance company who is charging you 10% per month. Most at times, we rush to these microfinance companies to rescue us from serious predicaments and due to the pressure, we lack the capacity to think about the effects of such loans on your future cash flows.

For example if you borrow GH¢3,000 such companies at the rate of 6.5% per month and the repayment period is 12 months, you will be paying GH¢367.70 every month for the next 12 months. The total amount payable to the microfinance company would be GH¢4,412.45. In fact the amount of GH¢3,000 can only get you may be the rent of a shop, thus if you want to start a business. Then what about the goods, which you really need, for the shop before thinking about how much and to whom you will sell before making some profit. If your monthly take home pay is about GH¢600 then I wonder how you could survive your family (if you have about two kids and a wife) if you borrowed such amount.

Many people get themselves enticed by some of these juicy offers from the financial and the non-financial (microfinance) institutions and get so tempted to go for the loans. But one thing you need to know is that the amount you borrow from the bank (e.g.
GH¢3,000 in this case) would not be able to solve the problem that you face completely. So unfortunately, you would not be able to completely solve your problems and more seriously end up with debt that would eat deep into your earnings for the next twelve (12) months in this case. I bet you that for the next 12 months, within which you have to settle this loan with the microfinance company or the bank, you would be very sad because you cannot extend your hands to do anything even if it is so agent. In fact you would become financially paralysed within those striving periods, just because you borrowed money with intent of solving your pending problems. But how can the attempt to solve your problems turn into a serious devil in your life? I don’t think being paralysed even a day would sound comfortable to you let alone for a whole year and may be more.

May be you will go for a higher amount at a longer period of payment. But I promise you the situation would not be comfortable either and the repercussions would be the same as to taking the bigger amount. You may have solved your problems completely in this case but you would still remain in the debt cycle problem for all the period within which you are paying for the loan.

For example, if you go for GH¢20,000 payable in 5 years at the interest rate of 7.5% per month. Remember the same bank or microfinance company would not give you such amount with a logger period of settlement for the same rate at 7.5% because of the risk and the uncertainty of repayment. You would also need some reasonable collateral for such a loan and if you don’t have it, hmm big problem. If you succeed in this arrangement with the bank, you will be paying GH¢1,519.83 per month for the next 60 months and your total payment to the bank will be GH¢91,189.70. This is GH¢71,189.70 more than what you have collected from the bank or the microfinance company. Wow, that is about 712,000,000 old Ghana cedis. So this company is assured that they would get seven hundred and twelve million old cedis from you alone in the next five years. I don’t know how much money you could turn the two hundred million old cedis into in five years. Can you turn such amount into about one billion old cedis in five years? If you have any business plan with that potential, I bet you can even get loan from the World Bank.

So friends, this Christmas holidays and any other festivity and funerals, don’t let your ego carry you too far. Just try to live within your means because as the adage goes, “Cut the coat according to your cloth”. The pressure would be on you when trying to make the close and extended family happy during the festive and funeral periods. The temptations would come and you would be hearing the commercials from various banks and microfinance companies on radios and televisions. But remember one thing from my previous advice, “Self-control” will do the trick. Communicate with the family the available resources at your disposal and let everyone understand that your hand can only swell according to your muscles and nothing more.
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