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THE CAUSES OF BANK-RUNS ON BANKING INSTITUTIONS AND ITS IMPACTS ON MANAGEMENT OPERATIONS

Using FIFFA SA as a case study

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Acknowledging that bank-run is one of the most dangerous thing to happen to a bank as banks in our society continuously face such problems as a result, at times leads to a fall of the bank, causing problems for the government to control the monetary policy of the economy and also loss of confidence and trust in the country's banking system. The main objective of this study was to find out the extent to which insolvency can lead to bank-run. The research was also to find out the effect of loss of customer's confidence on the bank and the effect of rumors from the general public on the bank.

Considering the problem, some suggestions were provided in chapter six. The work is presented in six chapters. Chapter one is the general introduction, chapter two is all about related literature and chapter four is the background of study area FIFFA SA KUMBA and research methodology. Chapter five is presentation and data analysis and chapter six is summary of findings and recommendations.

It was noticed from the research conducted that loss of customer's confidence on a bank has a negative effect on the bank as 90.7 accepted the view. It means that if customers lack confidence on the bank, they may demand rapidly for their cash hence leading to bank-run. Banks should keep adequate liquid as a way of meeting customer's needs at all times thereby maintaining the trust of the customers on the bank. Actually, most banks do not like to hold mush cash because it conflicts with profitability which is the principal objective of most banks as they want to maximize profits at all cost.

Key words
Banking, bank-runs, customer's confidence, insolvency, liquidity

ABSTRACT
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1 INTRODUCTION

Bank run occurs when huge numbers of customers holding deposits in a bank being afraid that their bank would not pay their initial deposits in full and also in time, would actually try to withdraw their initial deposits quickly before the situation gets out of hand. Banks usually face such problems because due to the fact that they are profit seeking organizations, they keep just a porting of deposits and use part for lending and other investment purposes. Some banks because of huge appetite for profits principally invest this money in long term assets or securities such as the purchase of government bonds and shares. When banks notice they have rapid demands for cash with very little deposits, they must quickly increase their cash to meet corresponding demands and this can be done either by borrowing from other prudent banks.

GRAPH 1. A bank run situation (adopted from Northern rock bank 2015)

Bank-run has been looked upon as a very dangerous crisis to be faced by a bank. Some people hold the view that bank run is unlikely to lead to an insolvent situation faced by the bank. But the fact is that when depositors and die heart lovers of a bank fear that their bank is unreliable or their financial situation is not stable, they may start withdrawing their cash to deposit in more trust worthy banks. When there is a generally destabilized monetary policy in the economy, bank customers turn not to trust even banks regarded as prudent banks and would prefer to save their money abroad or invest in some kinds of businesses. This is due to the fact that customers believe that the destabilized monetary policy of the government must affect the banks in the economy and even god banks may be affected as well therefore they would prefer to withdraw their money and invest or deposit it in international reliable banks.

A real serious potential issue is goes to other financial institutions. The possibility of this happening holds on what the “running” customers do with their funds. The customers have many choices such as: they can redeposit their funds in banks that they believe are prudent, called direct redeposit, if they think no bank or financial institution to be safe, they can buy short term securities from the government such as treasury securities from the government as a method to safe guard money. But what do people who sell the securities do? If they deposit the profits in banks they know are safe, as is likely, this is an indirect redeposit, if none of the depositors or customers nor the sellers of the treasury securities know that any bank is safe, they hold the money as currency out of the banking system. The bank run on a single bank would then be moved into a run on the whole banking system.

When a bank run occurs, the bank must quickly increase its cash to meet depositors demand, which means if they do not increase cash, they will breach the contractual debtor-creditor relationship between the bank and its customers where the bank act as a debtor to a creditor being the customer.

The banks usually can increase their cash by giving away securities or assets normally at prices below its real value if held till their maturity (sales at fire prices). Due to the huge drive by banks to make profits, they would prefer to hold little capital and invest more as such when they start selling assets at fire prices, it pushes them into an insolvent situation. Tegwi (2010) Posits that a bank run is simply a rapid cash withdrawals of initial deposits of a bank.When customers build a lack of confidence on the bank, they are likely to start withdrawing their deposits, reason being that they know that the bank may fail them at some point in time, which equally leads to bank-run but if the bank builds a good relationship with the customer which is one of the contractual relationship of fiduciary relationship which is based on trust has to exist between the banker and the customer. The point here is that, the bank has to always boost the confidence and trust of the customers in the bank, but how to maintain this trust is the issue because human mind is never satisfied.

Again, if banks pay very little or no interest on deposits may be because of lack of enough profit, depositors may wage a war on the banks by withdrawing their deposits and hence, bank-run. But should the bank pay favorable interest on deposits, this would actually attract more deposits as such avoiding the danger of run on banks. So what interest rates will be considered as favorable and still maintaining their profitability quest is the big question here.

Also rumors about a bank can actually cause a solvent bank to fail. It is good to know that rumors always comes about because of dissatisfaction, this means that if the customers of banks are not satisfied with the services rendered, they may move about spreading false rumors about a bank which might lead to bank-run but should a bank take upon its self to satisfy its customers at all levels, it may reduce the likely hood of this situation. The issue here is that, it is not easy to satisfy everybody, so what majors should be taken?

The study was actually to find out the effects of bank-run on bank management operations. Also, the research project is a requirement for the partial fulfillment for the award of Bachelors in Business Administration from Centria University of Applied Science.

It has been observed that most banks don't understand the concept of bank run, when it happens to a bank, there is an overwhelming demand for cash by the bank's depositors, and it can push the banks into a serious bank operations difficulties. This result from lack of confidence on the bank, poor corporate governance, non-payment of interest on depositors hence the issue here is how to overcome these difficulties.

In this study our general research question is “Does bank-run have effects on the management operations in banks? While our specific research questions were as thus. Firstly the researcher wanted to find out if bank run situation is likely to make a solvent bank become insolvent? Secondly to find out if assets sold at fire prices has any effect on banks? Also to test if bank-run cause the customers to lose confidence on the bank? Again to see if bank-run come as a result of rumors from the public? And finally to know if bank-run destabilize the monetary policy of the government?

Limitations of the study

The researcher had the following problems;

Time, being a student with many activities in school, I had limited time to organize my materials gathered during my research period and also limited time to see my supervisor and equally doing some research in the library, also the fact that banking and finance is one of the most difficult departments to find its text books. Hence it was very difficult for me to lay hands on banking text books. Also, communication has been difficult for me to communicate with people especially in the administering of questionnaires and also interviews as some people can't speak English. Finally, cost was also an issue where I had to print out questionnaires and also move from one place to another to administer them as such I inquire a lot of cost in this process.

Operational definitions of terms

Bank-run: A bank-run is simply the sudden withdrawal of deposits of just one bank. It is an overwhelming demand for cash by a bank's depositors.

Fire-sale price**:** This is when the bank sales some of its assets very cheap due to lack of liquidity.

Monetary policy**:** It is a deliberate policy by the government through the central bank to control the amount of money in circulation. This is done to achieve some desire objectives such as; full employment, price stability (avoid inflation and deflation), satisfactory rate of economic growth, equitable redistribution of income, healthy balance of payment position.

Insolvency**:** It is a situation where by an organization is unable to meet their financial objectives as they fall due.

2 SELECTED FINANCE THEORIES

Bank run is actually seen as a very vital issue which bank managers have to always be very careful of its outcome. When issues starts rising in the bank like the sale of asserts at fire prices, customers money are not available to be repaid to them, the bank is unable to meet its financial obligations, all these makes the customers to start thinking and wondering if their bank can ever pay back their initial deposits as such these worries leads to loss of customer's confidence on the bank and subsequently the customers wage a war on the bank. Below we are looking at related finance and management theories which are in line with our main theme of discussion.

2.1 Liquidity assets theory

Dating back to the times of goldsmiths banking and precious metal coinage, the liquid asset theory argues that banks hold large amount of liquid assets as reserves against possible demands for payments. The original intention was to keep enough gold in the safe to redeem any notes presented for payments. With abiding home truth for bank even in modern time, emplacing the need for holding short term as a prudent cushion in the fact of uncertainty. Actually, the theory explains the fact that bank need to be solvent at all times by keeping assets that can easily be converted to cash or assets that are near money. Normally banks will want to invest in assets that has attractive returns which may basically be in the long term. The question now is, if they should invest in assets that takes very long period to mature and people who initially gave them this money as deposits come back for their money, what will they do? (Tegwi 2010.)

The theory tells us that liquidity is very important as far as banking is concern. The obvious answer to the question above is that the bank will not be able to pay the depositor's money as such it may create tension between the bank and the customers which may later spread to the general public. Banks also know that as they keep liquidity high, their profitability will be low hence they will want to maximize profits by becoming less liquid and investing in other assets therefore making them not liquid as such unable to meet financial obligations. (Tegwi 2010.)

2.2 The real bills doctraine commercial loan theory

Kaufman (1998) says the real bills doctrine commercial loan theory states that bank funds should principally be invested in short term self-liquidating loans for working capital purpose. That is confined to financing the movement of goods through the successive stage of production cycle; consumption, distribution, transportation storage and production excluding loans for purpose of long term such as financial plant, real estate, equipment etc. This theory basically says that bank funds should be invested in short term liquid assets such as treasury bills, commercial papers. This will help the bank to easily convert it when need be and not invest in assets like government bonds, shares which may take very long period of time before its maturity which may force the bank into insolvent situations. If the bank equally invest in assets that takes very long period before it mature, if the bank finds itself in insolvent situation, they will be forced to sell these assets before maturity as such a big loss on the part of the band had they held the asset till maturity.

Actually in this theory, maturity definitely refers to the time when the asset is meant to meet. It is no doubt that when investors keep their assets until maturity, they get their full reward unlike selling an asset before its maturity date. Banks which are also finance oriented and out for making profits as much as they can, will always have to keep their assets to its intended maturity date. Therefore it will more profitable for such profit making organization to invest in long term assets such as government bonds which usually have very low risks and good returns. But our commercial loan theory holds that banks should on the other hand invest in short term self-liquidating loans because these kings of investment can easily and readily be converted to cash when there is urgent need of need to meet bank`s obligations and keep customers´ confidence high.

Mason (1976) also mentioned that most banks and financial institutions run into operations difficulties because they do not keep to the commercial loan theory. They are so profit oriented and fail to see what happens in the short run if they need cash and their long term investments cannot easily be converted to cash, as such they are forced to sell their assets at fire prices (prices lower than the value of the asset) which does not yield any profit to them and if problems concerning liquidity of the bank persist, it threatens the future of that bank.

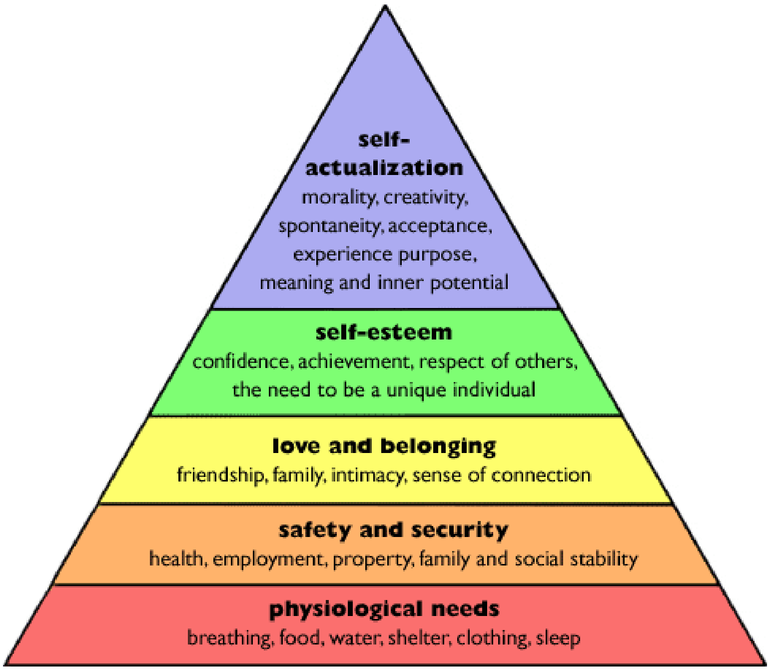
2.3 The anticipated income theory

Kaufman (1998) again says that the anticipated income theory stresses on the power to frequently check customers and regulation of the loan takers or borrowers to ensure that there is the respect of frequent or systematic repayments of loans. Looking at the importance of our previous theory (The real bills doctraine commercial theory), the anticipated income approach pointed to the movement towards self-amortizing commitment by banks. It actually holds that systematic repayments schedules on many types of loans and serial maturity dept, could provide an automatic liquidity schedule out of the repayment capabilities of the borrower as such can burst the liquidity of the bank and ease loans repayments. The outcome cash flows or these systematic repayments thus becomes an important source of cash flows to the bank or financial institution as the lender.

These theory holds the view that loans should be arranged in a way that it is paid in parts and not just in full at once. Most banks and financial institution perform the lending activity as one of their main source of raising finance and should also keep their liquidity levels very high. The more the banks give out money as loans, the more profits they make on returns but the theory says that as long as the bank wants to lend out money to raise more money, they should put emphasis on repayments which should principally be systematic and not just full repayments of loans at once. If the bank does this, they will be liquid at all times and will not have to sell assets at fire prices and also they can meet customers´ obligations at all times hence making the bank more reliable and trust worth thus regarded as a prudent bank. (Tegwi 2010.)

2.4 Maslow's theory of needs

As individuals satisfy one level of need, their motivation change as they would like to attend the higher order of needs. So, to keep an individual motivated, Maslow highlights that it is important to understand where in the hierarchy each and every employee falls so that it can always be taken into consideration when enhancing job satisfactions. Maslow presented his view looking at the fact that there are five essential needs to motivate humans and he derived a pyramid showing their needs which he termed it "hierarchy of needs"



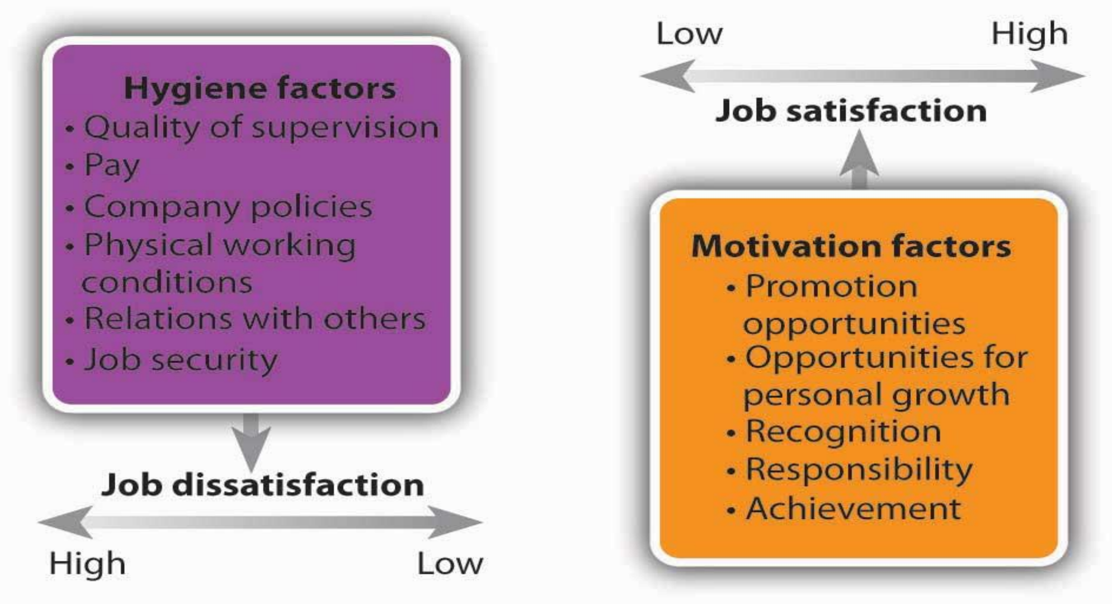
GRAPH 2. Maslow´s hierarchy of needs. (adopted from Ndenka 2011)

Abraham Maslow says that there are five important needs to motivate humans which are physiological needs, safety and security, love and belonging, self-esteem and self-actualization He showed these human needs in a pyramid which he named it as Hierarchy of needs. The biggest strength of Maslow's needs theory related to its intuitive nature. It simply makes sense that one may not be able to enjoy higher order of needs when they have no place to live and nothing to eat. While one may temporally pursue a high level need, and the desire for food and shelter would mostly assuredly become the main focus. (Ndenka 2011.)

On the other hand, the difficulty of being able to operationalize the variable. For instance researchers lack the concrete definition of needs, safety, esteem, security, and other element that makes the theory to be tested among cultures words like self-actualization have different sense making it difficult to generate this theory.

2.5 Hertzberg's theory

In this theory, Hertzberg talks of hygiene and motivation. In his hygiene factors he talked of factors that could cause employees unhappy at the work place for instance excessive company bureaucracy or an autocratic working environment. He also said his motivating factors are seen as factors that gives job satisfaction to employees such as promotions, recognition of efforts and also performance.



GRAPH 3. Hygiene and motivation (adopted from Ndenka 2011)

Good designed suggestion schemes help reduce stress and managerial time. It is the also the acknowledgement of most of employees who offer suggestions do this so as to down cast a source of frustration. It is a good answer on the part of the immediate line manager to start four other positive developments that serve as a source of motivation and inspiration. Normally, the employees will have some level of satisfaction seeing and knowing that their views are actually implemented and this is a source of satisfaction, also the notion of satisfaction is not needlessly removed, again the putting in place the means that an appropriate business situation has been produced which shows that their managers believes' the organization will save money or they will make money and finally the sense is going to lead to the success of the organization. When employees believe in the share of responsibility and sense of ownership, they are always going to have a shared responsibility to make the organization a success. Suggestion scheme actually do not make Hertzberg's work more important, it may catalyze social processes that would be enriching as such create an atmosphere in where both employees and managers can be motivated to promote and support new change and change by putting in place a sense of commitment to make things work or come realistic. Success is not just a function of a well-organized scheme but it is also being supported by good organized systems and methods that recognize that incremental new methods are a product of social interaction. There is not only needs for appropriate employees' introduction and training to work in groups to define worries or problem and formulate solutions, it also requires the putting in place of managers to act wisely and fast existence of a process that keeps both success and trials in the organizations' memory. The links between the training system, promotion and redundancy policies are, very important to success of suggestion schemes. (Ndenka 2011).

Human Resource management always makes efforts to allow persistent putting in place of organizational policies in all the levels of the firm not looking at the worker's level in the organization or post held by the employee in the organization. Employees are also held responsible for their action and is always their responsibility to be responsible. This refers holding managerial body to the same behavior and performance expected of front line employees. The first thing is ensuring that new employees go through the training and introduction at all levels in the organization as this will produce a more better output from the employee and better knowledge of job description prior to work. (Palomino & Martines 2011.)

Often, top level managers are not involved in new employee introduction programs and training with their high post and many responsibilities in the organization. When there is the presence of these training and job orientation to all levels in the organization then it makes the success of the organization more realistic (Vickers 2005, 26), but also there should be some policies put in other improve on the leadership styles and as such improving on the skills and abilities of employees. (Moreno 2010, 97.)

The main reason for arranging diversity in workplaces is actually to make way for employment chances to everyone looking at the existing of varied kinds of people looking at sex disparity, race, color religious believes (Baker 2006, 851). Human Resource Management tries to make payments towards ethical performance and putting the conduct in account and rendering training to all whenever it is needed by monitoring and counselling services for employees.

3 VARIABLES OF BANK RUNS

In this chapter, we shall be looking at what other authors have said about the various variables listed below as follows;

The relationship between bank-run and insolvency.

The relationship between bank-run and lack of confidence.

The relationship between bank-run and sale of assets or securities at fire prices.

How bank-run may destabilize the monetary policy of the government.

How bank-run could be as a result of rumors from the public or customers.

3.1 The relationship between bank-run and insolvency and its impacts on banks

Adler (1991) defines insolvency to be when an individual or organization can no longer meet its financial obligations with its lender or lenders as debts become due. Insolvency can lead to insolvency proceedings, in which legal action will be taken against the insolvent entity and assets may be liquidated to pay off outstanding debts. Before an insolvent company or person gets involve in insolvency proceedings, it will likely be involve in more informal arrangements with creditors, such as making alternative payment arrangements. Insolvency can arise from poor cash management, a reduction in forecasted cash inflow or from an increase in cash expenses.

The regulators are in charge of shutting a bank down after some kind of judgment has gone not in favor of the bank. Most of the aspects of bank nationalization seek to mean that bank regulators should begin declaring financial institutions which are not really solvent to be insolvent and the government actually taking the bank's assets because of what the regulators have put enacted. It is good if the government takes over many of these financial institutions as it will motivate investors to invest without limits because they believe that the government is more reliable. Investors would like to buy government bonds, shares, treasury bills and commercial papers.

As proposed by William Buiter in Britain, closing down a bank down is usually, then, in some sense a regulators call on judgment. Most of the issues for bank nationalization seems to notify that regulators should start declaring banks that are not meeting financial obligations insolvent, with the government getting to take all of the banks' assets as a result of what regulators decide. Also a scenario where the government takes over running enterprises will motivate investors and potential investors to put their money in one of places like mattresses or government bonds. The general impact of insolvency on a bank is bank run.

3.2 The relationship between bank-run and loss of confidence on bank and its impacts

Kotler (1994) says low customer trust matters and should be a big concern for banks. Here are three reasons why trust increases customers' satisfaction, Customers loyalty in banking can be explained to a large extend by customer satisfaction, trust and communication, a customer that does not trust its bank is likely to seek another banking partner. There is evidence that a lack of customer trust in banks may hurt large banks more than smaller banks (source; 'trust and loyalty in client-bank relationships-a qualitative perspective,' pirson, 2006). However, this is an industry issue that all institutions must address. Bank can ill afford challenges with attracting and retaining customers in this economic environment.

Kaufman (1992) posits that during a bank-run, a bank experiences huge demand for deposit withdrawals that it cannot easily meet not solvent. If the run is so serious, the bank will not be able to satisfy all the demands of the depositors trying to withdraw initial deposits and definitely, will lead to postponed payments hence there will be a situation of first come first serve therefore increasing customers loss of confidence on the bank hence bank run.

During a panic, runs happens on a good number of banks. Panics may occur due to regional or economy wide issues, such as a real estate bust, in this period the portfolios of many banks decrease in value. If the bank depositors have not completely lost confidence in the bank´s management operations, they will move their deposits from insolvent banks to more solvent banks. But panics may also occur because runs on a little banks cause depositors at big banks to lose confidence and therefore, to withdraw funds not looking if the bank is a solvent bank or an insolvent banks.

TEGWI (2012) equally says that if customers build a lack of confidence on the bank, they must likely start withdrawing their deposits. As result of this rapid demand for cash, a bank-run situation is likely to occur.

3.3 The relationship between bank-run and sale of assets/securities at fire prices and its impacts

Gorton (1991) persists that one of the major operations of banks is to provide liquidity or cash in the economy by letting depositors to withdraw or loan money from their bank accounts whenever they want to. But while banks have liquid assets and liabilities, they invest a huge portion of their portfolios in long-term illiquid assets, such as real estate or business loans. In normal circumstances, the bank's loan portfolio has some profits from loans the borrowers are paying back. Also the bank holds enough liquid assets, such as treasury securities, to meet the usual demand for withdrawals.

However, if a good number of depositors want to withdraw their money from their accounts held at the bank, the bank will have to begin selling some of its long-term securities or assets, this can be done by the by selling them in a secondary market, before their maturity. Actually, this selling of their assets before maturity means the assets will not pay off as much as they would have, had the bank been able to hold them to maturity; the bank may have to sell the asset at prices lower than its worth (selling at fire prices) prices. Actually, depositors are liquid-depositors and can take their money from the bank at the time they wish. But loans are illiquid–it can be very hard to know them and difficult for the banks to get a suitable buyer for the asset hence all buyers will always want to pay a lesser price than the actual price. If many depositors do not believe in the bank and demand to take off their deposits, a run is created. Even highly credited and healthy banks, whose asset will generate good outcome will be paid in full if held to maturity, could not succeed if faced with a sufficiently large and unexpected huge amount of withdrawals and this may go to depositors as a threat and will become worried about the solvency of their bank and its reliable which could lead to customers panic and this affects the economy in whole and will be a cause for worry to other banks as well.

TEGWI (2012) suggest that the lack of liquidity because of bank-runs may cause the banks to sell some of their assets very cheap and this will be a serious indication of going concern of problem, which may hamper the image of the banks. From the above discussion, it shows that there is a relationship between bank-run and sale of assets at fire prices. Its impact is that it leads to illiquidity and loss of customers to more confident or prudent banks.

3.4 Bank run may destabilize the monetary policy of the government

TEGWI (2012) states that the monetary policy of the government may be distorted because bank-run will reduce the lending abilities of the banks and increasing the amount of money in circulation will be difficult through these banks. It should be noted that bank-run also occur in accounts such as savings accounts, current accounts.

Gorton (1991) postulates that the monetary policy is conducted by the central bank of a nation. In the U.S, monetary policy is carried out by the FED. The fed has the main instrument that it uses to conduct monetary policy; Open Market Operation, changes in the discount rate. Note that money and banking that open market involves Fed purchases and sales of U.S government bonds. When the central wants to increase the amount of money in supply, they purchase government bonds and this increases the reserves of the banking sector and by the multiple deposit expansion process, the supply of money increases. When the central bank wants to reduce the amount of money in supply or in the economy, they sell some of its stocks of government bonds and the end result is a decrease in the supply of money. Also if the central bank increases bank reserves requirements, the banking sector's excess reserves are reduced, as such leads to a reduction in the supply of money; a decrease in the supply of money. When the bank fails or experience a bank-run situation, it becomes difficult for the government to regulate the monetary policy.

The discount rate is the interest rate the central bank charges banks that need to borrow or take money from the central bank. From time to time, unanticipated withdrawals leave banks with reductions in their reserves by borrowing from their central bank at the current discount rate. If the central bank puts the current discount rate high relative to market interest rates, it is now easier that banks can fall below reserves requirement. Also, banks will hold more excess reserves, which tend to reduce the multiple expansion and supply of money. Similarly, when the discount rate is low relative to market interest rates, banks tend to hold little excess reserve, allowing for greater deposit expansion and an increase in the supply of money, but when banks fails or experience bank-run, it becomes difficult for the government to regulate the monetary policy of the economy.

3.5 Linking variables to current study

Many similar studies on this topic the causes of bank-run in banking institutions have been carried out by different scholars and below are their views.

Gorton (1991) conducted a research on the liquidity, insolvency how they can lead to bank-run and here is his findings. Since all banks hold only part of their deposits as liquid cash, any level of illiquidity makes vulnerable if demand for withdrawals is high enough. This problem can become so severe that it can lead to insolvency. In a world without deposit insurance, if a depositor believes for whatever reason that her bank is about to become insolvent, she has an incentive to be the first to get her money out before the bank runs out of cash. If enough depositors panic and demand to withdraw their deposits, a run is created. Very good financial institutions whose assets will will yield good profits if not sold at fire prices and kept till its maturity could fail if faced with a sufficiently large and unnoticed amount of withdrawals and the run might spread if depositors at other banks become worried as well.

When depositors at one bank start a run, is it possible for depositors of other banks to equally start withdrawing their money as well? Banks´ ability to overcome high demand of cash depends on the banks` ability to convert it assets to cash. This means that even very powerful banks if their assets are most long term assets and cannot easily be converted to cash, it becomes an issue. If a bank customer that the bank is keeping his huge deposits may worry that other depositors at her bank plans to withdraw their cash, she would be worrying about her own money as well. She believes that if fellow customers of her bank want to withdraw their money and she does not withdraw her money, very little amount of money may be left before she actually comes for her money, hence she would want to be the first or be among those who will take their money safely without issues. When many other customers of that bank thinks this way, it will push the to run to the bank to be the first customer to take off their money before things get out of hand and this will lead to huge demand for cash by many customers as such causing bank-run which is also a big problem to the management operations.

Ndenka (2011) did a similar research to show how liquidity is very important to the bank. Liquidity problem come to existence in the short run when there is a huge increase in the demand for currency. When this liquidity issue comes up, the bank is unable to meet bank´s obligations on customers, and if the bank is not able to convert assets to cash or sell assets at reasonable prices and meet their obligations quickly. It should always be noted that liquidity is what keeps the doors of every financial institution open and enables them to carry their regular or daily activities in good sharp. Adequate liquidity actually makes a bank to be rated as a prudent bank and some local people call such banks as reliable banks.

Adequate liquidity enables the bank to meet three risk. Funding risk; the ability to replace net outflows of funds either through withdrawals of deposits or nonrenewable funds. When a bank grants a loan or facility repayable at a specific time, a time risk is incurred. Adequate liquidity is needed to enable the bank to compensate for non-receipts inflows of funds if the borrower fails to meet his commitment. The last risk arises from call to honor maturity obligations or request of funds from important customers. Adequate liquidity enables the bank to find new funds to honor the maturity obligations such as sudden upsurge in borrowing under automatic or agreed line of credits.

By enabling the bank to meet its financial obligations, adequate liquidity helps to generate and sustain public confidence in the solvency of the bank. The most important is the confidence of depositors and holders of bank paper who should be given no cause to doubt the solvency and viability of the bank. There is also the confidence of the financial market to enable the bank continue to raise further funds in the market. This is important, if the financial market perceives the bank to have liquidity problems, the bank will find it difficult to raise further funds except at a premium. If the perception continues, it becomes wide spread and is widely held, the bank may be unable to pay funds at any price anywhere.

Selmer (1997) did a similar research but his was based on showing how a run on a bank can equally lead to a run in other banks. He says that a run on one bank may lead to a run in other banks. He says that a run on one bank may lead depositors at other banks to form similar believes about the behavior of other depositors and start a run on other bank. In this case, failure could spread among both solvent and insolvent banks because run on a large number of banks could lead to loss of confidence on the banking system as a whole.

Alternatively, depositors might have some information about the quality of their bank assets. If the assets turns bad for example, during a period of not good economic conditions, these customers with deposits at other banks may start a run on the bank. Subsequently, depositors at other banks may start a run if they think their bank has assets similar to those of the first bank. Thus panic can be triggered when depositors in the light of new information revise their beliefs about the quality of their assets. In this case, we might expect informed depositors to start runs mainly on troubled banks. Then as they got more information about which bank was solvent, we would expect them to move their money from failing banks to healthy once. Therefore, this type of run appears to be less costly to the society. On the whole, it could even be beneficial since monitoring bank performance helps to distinguish between good and bad banks. However, accurate monitoring relies on depositors having perfection about the economic condition of banks is almost never perfect. In times of financial distress, depositors are particularly sensitive to any kind of news and may start run on some liquidity constrain but otherwise healthy banks causing them to fail.

4 BACKGROUND OF COMPANY

First Investment For Financial Assistance is a micro financial establishment created in 1997 approved by degree number 618 of MINEFI on the 20th November 2001.The register office and the head quarter of the cooperation is at Limbe Gardens junction. The head quarter is where cooperate decisions are taken to run the organization. This financial establishment has progressively existed for about 14 years.

The establishment started as a partnership business with four principal shareholders and it has spread all over the country having 52 branches. Its financial profitability and customer satisfaction has aided the establishment to diversify into other businesses like Hotel (fini hotel), first trust, Moove night club, spider security service etc and still counting. First Investment For Financial Assistance started as an idea that has develop over time. The long standing historical background can show the evolution trend of the establishment from the idea generation stage to the leading establishment

Due to the financial need for businesses in Cameroon and the need for running capital, FIFFA was created to meet these financial needs. The progressive demand for these financial services such as loans, savings accounts and the need for money transfer, FIFFA has grown having about 52 branches over Cameroon cutting across Regional capital to divisional capital and sub-divisional capital to rural areas.

The establishment has diversity from being a micro financial establishment to owning other businesses like Fini hotel, first trust, Moove night club and spider security.The bank has also changed from being a local or home based organization to enjoying international recognition by partnering with western union. This has made it possible for money to be sent and receive from Europe and other western countries through western union transfer. The following savings are available in the union branches; Classic savings, term deposits, golden bond, good will, daily cash, SMS (special mobile savings), tabasky account, nadji account etc

4.1 Organizational structure of FIFFA at the branch level

In FIFFA Kumba, there are four staffs which are divided into front operators and back office operators.

The cashier is responsible for receiving all the money coming into the bank through deposits and going out of the bank through withdrawals from personal accounts, paying of loans and overdraft. When the cashier receives the money, she checks to ensure that no fake note is given to the bank. The cashier collects money from the manager in the morning known as opening balance. At the end of the day, she calculates the money given out and taken. She gives the balance to the manager.

The counter clerk receives all the customers coming into the bank and directs them to the various services as demanded. She also helps customers to fill their forms depending on the transaction they want to carry out (either deposits or withdrawals). She equally receives all documents coming into the bank, directs customers on how to fill the information on their forms. She creates account for new customers and request for cheque booklet, passbook and any other request made by customers. She writes receipts for deposits and sends it to the cashier.

4.2 FIFFA´S operations

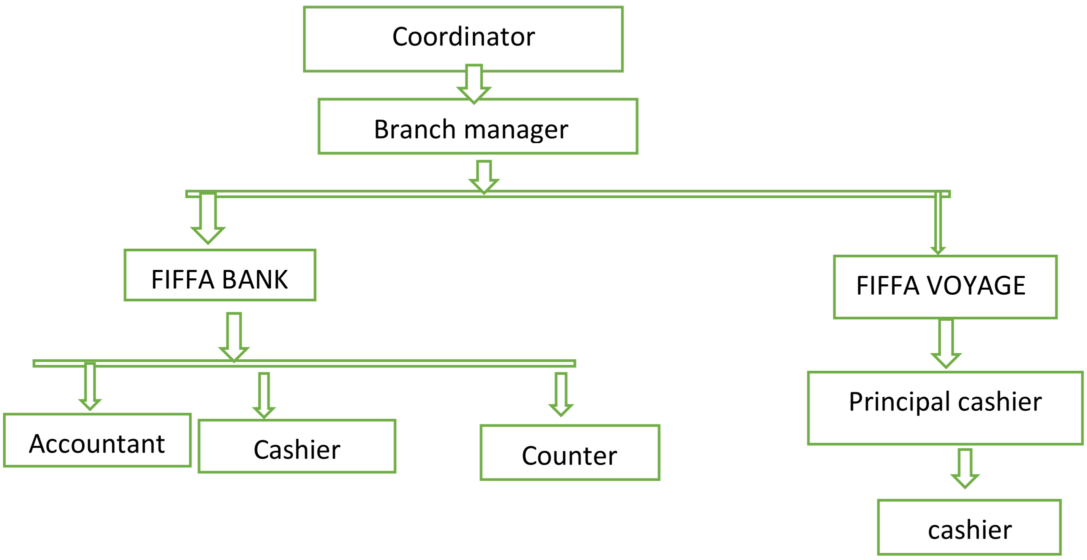
The accountant is the main operator of the back office of FIFFA bank Kumba. The software used by the accountant is known as FLEXTRA software. The accountant records all the transactions of the bank in the computer. All the book keeping here is done by the accountant. He records all the customer accounts in the computer and also records the money deposited and withdrawn from the accounts. The accountant writes out cheques which are given to the customer for further payments by the cashier, for instance cheque for CNPS overdraft, loan and signs on the cheque. He pays all the bills, taxes under the supervision of the manager. He also debits and credits various accounts when need be and equally reconciles them. At the end of each day, the accountant journalizes all the transactions of that day and sends the report to the coordinator.

The branch manager controls all the activities in the bank and makes sure that the work is well done. The manager ensures that all the rules and regulations of the bank are well observed. She ensures that there is a peaceful atmosphere for the workers, she also carries the problems of the branch to the head quarter and also leads the marketing plans. The manager signs the cheque for loans, overdraft and equally signs before and after money is withdrawn from any account. Finally the manager ensures that the objectives of the bank are realized.

Apart from the above staffs, there are equally other staffs known as controllers or internal auditors. Their duties are to see to it that all the department functions well. They check that there is no fraud, they examine the staffs and they correct them when they are wrong, that is done at the end of the month. They equally cross check the reports of the staffs daily.

Apart of FIFFA bank, there is also another department known as FIFFA VOYAGE. This department deals with money transfer. They transfer money in and out of the country. The department has two staff member that is the principal cashier and cashier.

The aim of FIFFA Kumba is to help eradicate poverty both in the rural and urban areas through banking services such as accepting deposits and granting of loans.



GRAPH 4. Organigram of FIFFA SA (adopted from FIFFA SA 2015)

5 PRESENTATION OF BANK RUN VARIABLES

This study is focused on FIFFA SA Kumba why there was rapid or overwhelming demand for cash with little or no deposits (bank-run) caused by the following;

1. An insolvent situation faced by the bank

2. As a result of rumors from the general public

3. Loss of customer's confidence on the bank

Questionnaires were used aimed at acquiring information about causes of bank-run on banking institutions and its impacts on the management operations in the bank. The questionnaires were distributed by the researcher who thinks that other methods of gathering data may not yield proper results. This method also cancels fear from those staffs who mistrusted the basis and purpose of the exercise by thinking that they may be victimized. The questionnaires were distributed online too many FIFFA SA workers and also to people living far from Finland and those living here the questionnaires were shared in hard copy which many people responded to it.

The hypotheses that were formulated in the study will be verified in order that a conclusion would be drawn. From the table 1 below, it can be viewed that the hypotheses was accepted by 78 persons (90.7%) and rejected by 8 (9.3%).Those who accepted said insolvency came as a result of poor management. The issue with FIFFA was that they had invested in long term investments which will mature after a long period of time and also many people defaulted their loans given out, as such FIFFA was unable to meet its financial obligations as such getting into an insolvent situation.

TABLE 1. The relationship between bank-run and insolvency

N^0	HYPOTHESES	RESPONSE	FREQUENT	Percentage(%)
Ha_1	There is a relationship between bank-run and insolvency	YES	78	90.7%
Ho_1	There is relationship between bank-run and insolvency	NO	8	9.3%

From the table 1 those who said there is no relationship between bank-run and insolvency was about 9.3% while those who said no was yes was 90.7%. It is actually very true that when there is insolvency, there is bound to be rush to get the small amount of cash available as such leading to a bank-run or a run on the bank.

Analysis of customer´s confidence on bank can be seen in table 2 below. It shows that 78 people (90.7%) said there is a relationship between bank-run and loss of customer’s confidence. Most of them said yes because as customer’s confidence on the bank reduces, so as they would want to stop being part of the bank as a result wanting to close their accounts as such leading to demand of cash and if the loss of confidence on the bank continues to increase, more customers would want to come and remove their money as a result leading to a bank-run situation which every bank wishes to avoid.

TABLE 2 Loss of customer’s confidence on bank

N^0	HYPOTHESES	RESPONSE	FREQUENT	PERCENTAGE (%)
Ha_2	There is a relationship between bank-run and loss of customer’s confidence	YES	78	90.7
Ho_2	There is a relationship between bank-run and loss of customer’s confidence	NO	8	9.3

On the other hand, some people said there is no relationship between bank-run and loss of customer’s confidence on the bank. 8 people (9.3%) were of the view that there is no relationship between bank-run and loss of customer’s confidence as they said confidence does not matter to the bank, whatever the bank does, it is not easy for customers to trust the bank as banks also most at times do not trust the customers as most of them default loans given to them by the bank, this was the situation with FIFFA SA Kumba as most customers did not repay principal plus interest due to the crisis that was faced by the bank.

As could be seen on table 3 below, 82 people were of the opinion that rumors from the general public could cause bank-run. They held that rumors can either be true or false, so when there is rumors that a bank is about to close down, it would make the customers whose accounts are held by the bank to rush for their money before they close down. Before you will notice many persons would come for their cash. Some people equally said that once there are so many people coming for the cash, it will force the customers to stand on long lines and customers who believed that the rumors was not true will start believing that what they were told is true and will also come for their money as well.

TABLE 3. Rumors from the general public

N^O	HYPOTHESE	RESPONSE	FREQUENT	PERCENTAGE(%)
Ha_3	There is a relationship between bank-run and rumors from the general public	YES	82	95.3
Ho_3	There is a relationship between bank-run and rumors from the general public	NO	4	4.7

4.3% persons had a different view that whatever the case, rumors would rarely cause bank-run. They said die heart lovers of a bank will never listen to rumors from the general public about the weakness of their bank as such rumors are unlikely to cause bank-run.

5.1 Analysis of information

Bank-run could be caused by many factors which some were highlighted at the beginning of this chapter. We shall now see the reactions of people to causes of bank-run starting with the most likely factor to cause bank-run. To begin with does loss of customer's confidence on the bank affect the bank? If so, to what extend? This question is answered in table 4 below

From the table 4 below, 9.3% said loss of confidence on the does not affect the bank, 30.2% were of the opinion that loss of customer's confidence sometimes affect the bank while 9.3% equally said customer's confidence often affect the bank and 51.2% said loss of confidence always affect the bank.

TABLE 4. The extent to which loss of confidence affects the bank

Assertion	Never	Sometimes	Often	Always
Number of persons	8	26	8	44
Percentage (%)	9.3%	30.2%	9.3%	51.2%

Rumors have been identified as one of the causes of bank-run. The researcher actually got to meet some of the customers to know if their rapid demand for cash was as a result of rumors from the general public.

From table 5, it can be seen that 25.6% of the customers were of the opinion that rumor does not cause demand for cash, 74.4% of the customers said rumors already could cause rapid demand for cash.

From analysis gotten, it was very clear that insolvent situation s faced by FIFFA was one of the major causes of bank-run because it equally leads to loss of customer's confidence on the bank. What most of the customers were saying is that, they were told to come the next day for their money which they will do, but when they come the next day, the bank will still beg on them to come the next day. Now what happens is that, the customers became frustrated and wanted to close their accounts if they are being given back their money in the accounts.

TABLE 5. The extent to which rumors can cause rapid demand for cash.

Assertion	Never	Sometimes	Often	Always
Number of customers	4	18	24	40
Percentage (%)	4.7%	20.9%	27.9%	46.5%

Also, the employees on their part were not happy with the current situation because they were being shouted upon by the customers and most of the employees were not satisfied with their job as some of the employees became enemies of some of the customers. The table below shows what proportion of customers said what

Table 6 shows that almost all the employees were of the view that insolvency can always lead to rapid demand for cash. The manager actually told me that bank-run is bad because everybody wants to get his/her cash at the same time.

TABLE 6. The extent to which insolvency can lead to rapid demand for cash

Assertion	Never	Sometimes	Often	Always
Number of workers	0	1	1	4
Percentage (%)	0	16.7%	16.7%	66.6%

With the case of FIFFA, they were operating on first come first serve and people who had just small amounts in their accounts were given their money and those with too much money in their accounts were told to come later. From the above analysis of **the** points that can affect or cause bank-run can be grouped or summarized on a table to make presentation very easy to understand by readers as shown on table 7 below

TABLE 7. Summary of analysis

Factors	Less than 50%	Above 50%	Total score 100
The relationship between bank-run and loss of confidence on the bank	9.3%	90.7%	100
The relationship between bank-run and insolvency	33.4%	66.6%	100
The relationship between bank-run and rumors from the general public	4.7%	95.3%	100

5.2 SUMMARY OF FINDINGS

Looking at the factors that causes bank-run, it can be seen from the data collected that the things that make customers of FIFFA SA Kumba to rush for their money from the bank are points that make them not sure of the future survival of the bank. Bank-run which is actually an overwhelming demand for cash with little or no deposits is actually caused by loss of customer's confidence on the bank, insolvency, rumors from the general public. All these factors makes the customers not to believe in the future survival of the bank as such will equally withdraw their money from the bank hence increasing the bank-run situation.

From the analysis and findings in this chapter, the researcher found out possible answers to the research questions which were highlighted earlier as the main focus of this research. These points have been discussed in details as insolvency, rumors from general public and customer´s confidence could lead to bank-runs.

A.Is there a relationship between bank-run and insolvency?

The researcher discovered during his interview that there is a relationship between bank-run and insolvency. From the analysis in the previous chapter, it was noticed that 90.7% of persons interviewed held the view that there is a relationship between bank-run and insolvency as some persons equally made mention of the fact that it could come as a result of poor management. This was actually the problem with FIFFA SA because they had invested in long-term investments and most of their loans given out were being defaulted as such the initial depositors of the money came back for their money before the investments could mature as a result forced FIFFA into insolvency thereby unable to meet depositors demand for cash causing panic on the part of the bank.
9.3% said there was no relationship between bank-run and insolvency. They defined insolvency to be a situation where the organization is unable to meet its financial obligations as they fall due, which does not mean that they do not have money but depends on how well they can manage the situation and would not face a bank-run.

A. Is there a relationship between bank-run and rumors from the general public?

Here, most of the people interviewed held the view that there was a relationship between bank-run and rumors. From analysis in the previous chapter, 95.3% of persons interviewed said there was a relationship between bank-run and rumors and most of them gave reasons that once there is a rumor that a bank is about closing, most of the customers would not verify if it is true but will rush for their cash as such causing bank-run. So, there is a relationship between the two variables. Only 4.7% said there was no relationship between bank-run and rumor, as such saying that bank-run cannot be caused by rumors from the public.

It follows from the discussion that most customers turn to believe what follow bank customers tell them than what the bank actually says because they think the bank is there to profits at all cost and would always want to keep their customers as such the bank can convince the customers that there is no worry but when another customer tells a fellow customer that there is actually a problem at the bank the customer would believe and may spread this information to other customers and before long there is a run on that particular bank.

B. Is there a relationship between bank-run and loss of customer's confidence?

The possible answer to this question was also gotten from the questionnaire question 2 and interviews with customers. In this question, the researcher asked that; can loss of confidence on the bank cause bank-run. Most of the answers gotten were loss of confidence will lead to distrust in the bank, leads to closure of accounts by customers, loan default, and demand for cash available. From these answers gotten, the researcher concluded that loss of confidence on the bank was prerequisite for bank-run. Again, TEGWI (2012) says that if customers build a lack of confidence, they must likely start withdrawing their deposits. This is to say that as the confidence dies, customers will stop depositing and start withdrawing. The researcher noticed that most of the customers who were interviewed wanted to close their accounts because they were told to come the next day which they did but nothing was there for them and they were still told to come after a week, as such they began to loss trust in the bank and wanted to close their accounts and go to a more prudent bank.

Where your money is, there is where a man´s treasure is. This means that for someone to keep his money in a bank, he or she must trust that bank, so customer´s confidence is very essential in every banking business. It shows that loss of this confidence on the bank, the immediate action is that these customers what to quickly take out their belongings from such bank and be on the safe side and when many customers come for their belongings at once makes the bank to be forced into panic as such leading to bank-runs.

6 CONCLUSION

This report has shown beyond reasonable doubt that loss of customer's confidence on the bank can lead to bank run. Also showing that there is a relationship between bank-run and loss of confidence on the bank. This conclusion is equally based on the response of questions asked. 90.8% said there was a relationship between bank-run and loss of confidence, therefore there is no point refusing that there is a relationship between bank-run and loss of confidence.

Again, from analysis shown in the previous chapter, there is also a relationship between bank-run and insolvency. Insolvency happens to be the inability of the bank to meet its financial obligations, will also lead to bank-run. This is assessed from chapter four where almost everybody held the view that there was a relationship between bank-run and insolvency.

Finally, there is a also a relationship between bank-run and rumors from the general public. From the analysis in the previous chapter, where 95.3% of persons interviewed gave maximum support to the fact that rumor could actually cause bank-run. Though some people did not support that view, their points were not outstanding as those who said there was a relationship between the variables. As such, there exist a relationship between bank-run and rumors from the general public.

Actually, FIFFA is really and outstanding micro-financial institution which has its branch almost in all the regions in Cameroon and can fight against the bank-run situation. There is no financial institution which does not face financial problems but how to deal with the problem is the point of focus. FIFFA should do the following to help fight against bank-run.

They should be solvent at all times. For them to be solvent, it means they should keep part of their capital as cushion against risk which may come as a result of loan default. If FIFFA keeps part of her capital as cushion against risk, it would help them to meet its financial obligations at time, as such will be regarded as a prudent bank.

Again, FIFFA should invest in assets that can be easily converted to cash when need be. This is to say that they should invest in assets that when they need cash, they can easily convert the asset to cash. Therefore FIFFA should invest in liquid assets so they can meet financial obligations at all times.

Also, FIFFA should do well to define the functions and responsibilities of its employees. This means that the responsibilities of employees should not overlap, this also means that each employee should know who does what so that responsibilities do not overlap, which can possibly cause conflicts between employees leading to poor management of the bank.

Further, FIFFA should try to pay attractive interest on deposits. If they do this, it will encourage customers to deposit more and as such will be making more profits on lending but if they pay very little or no interest on deposits, may be because of lack of profit, depositors may wage a war on FIFFA by withdrawing their deposits and hence bank-run.

Finally, FIFFA should encourage customers to make term deposits that cannot be withdrawn on demand. When the term deposits of a bank forms a high percentage of a bank's liability, its likelihood to go into a run will be reduced.

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QUESTIONNAIRES

Dear sir/madam,

I am a student of Centria University Of Applied Sciences Kokkola Finland, carrying out a research on the causing of bank-run on banking institutions and its impact on management operations. Please I will be grateful if you answer these questions to help me attain the purpose of my research. Your opinions will be used strictly for academic purpose and nothing more. Thanks for your understanding.

1. Can insolvency cause a bank-run situation on a bank? YES NO
2. Can loss of customer's confidence on a bank likely to cause bank-run? YES NO
3. Would the sale of assets and securities at firely prices likely to cause bank-run? YES NO
4. Is there a relationship between bank-run and rumors from the general public? YES NO
5. Does bank-run lead to instability in the economy? YES NO

Please give few reasons for your answer above..

6. Is there a relationship between bank-run and destabilization of the monetary policy of the government? YES NO
7. Is adequate liquidity necessary in fighting against bank-run? YES NO
8. Should customers listen to rumors from the general public about a bank facing bank-run? YES NO
9. Is bank-run as a result of poor management? YES NO
10. Should banks keep adequate capital as reserve to serve as cushion to the bank? YES NO

11. Does bank-run come as a result of insolvency? YES NO