RESEARCH ARTICLE

Effect of Risk Management on the Financial Performance of Money Deposit Banks in Nigeria

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ABSTRACT

This study examined the effect of risk management on the financial performance of Deposit Money Banks (DMBs) in Nigeria. The specific objectives include ascertaining the relationship between interest rate risk and return on equity and finding out the influence of interest rate risk on the return on asset. An ex-post facto research design was adopted for the study. Secondary data were obtained from the annual report and accounts of five different commercial banks. The data were analyzed using panel data regression of E-views 12.0. At the end of the study, it was found that there is a moderate influence of interest rate on the financial performance of these deposit banks and that at 5% level of significance, interest rate was found to have a positive and statistically significant effect on all the proxies of financial bank performance (such as return on equity and return on assets) of deposit money banks in Nigeria. Based on these findings, we concluded that risk management has significant positive effect on financial performance of Deposit money banks (DMB) in Nigeria. It was recommended, among other things, that credit and interest rate management and regulatory tightening are crucial in ensuring reduced interest rate risk and improved performance of DMBs in Nigeria.

Keywords: Risk Management; Financial Performance; Deposit Money Banks; Nigeria

Introduction

In order to prevent or limit losses and maximize opportunities, risk management is a systematic approach for discovering, analyzing, assessing, rating, monitoring, controlling, and communicating risks associated with any bank's operation, function, or process. It should meticulously handle every risk related to the organization's past, present, and, especially, future operations. In order to lessen the effects of credit defaults, credit risk is accessed by examining the financial performance of commercial banks. Commercial banks' ability to manage credit risk depends on their ability to do it effectively. Commercial banks may be acutely aware of the need to recognize, quantify, track, and manage credit risk as well as to make sure they have enough capital to protect themselves from these risks and are fairly reimbursed for the risks they take.

Banks are subject to credit risk due to intrinsic flaws common to all financial institutions, such as poor management. Liquidity is impacted by management deficiencies, which raise the number of non-performing loans. Additionally, the non-performing loan (NPL) on a financial institution's balance sheet represents the ratio of all non-performing loans taken together with all gross loans. Various internal and external factors affect how well banks manage credit risk. External factors are those related to the economic environment, whilst internal factors are those peculiar to a bank. The stability and ongoing profitability of any financial institution depend on proper credit management, even though declining credit quality is frequently to blame for these organizations' subpar financial results.

Stakeholders, investors, and others take into account the performance of banks as one of the most important and critical considerations when making decisions. Investors' top priority is return on investment. The result of a

company's strategy or an evaluation of how effectively a company accomplished its business goals is the performance of the company (Okpu and Obiora, 2015). For bank directors and management, understanding the factors that affect an organization's performance is essential because financial performance is one of the administrative important competencies aimed at satisfying the interests of investors and other partners. Getting a bank to its business goals involves a number of risks that could endanger its performance or perhaps survival (Muhammad & Khan, 2018). This is due to the fact that risk is involved in intermediary tasks, but that risk needs to be efficiently managed in order to boost shareholder returns, which over time will significantly affect a bank's performance and stability. Due to the widespread effects that inadequate risk management can have on a wider range of stakeholders, including depositors, managers, and shareholders of the banks, the concerns that have drawn the attention of various academics and researchers are risk management and its effect on performance.

Therefore, risk management is a crucial skill for all contemporary financial institutions since those who do so are expected to perform better (Ebenezer Ahmad & Omar, 2016). Risk management, according to Olayinka, Emoarehi, Jonah, and Ame (2017), is a thorough process that includes the identification of threats or disruptive elements, critically evaluating alternatives as to whether to eliminate or mitigate the identified threats, and helping an organization understand a broad range of risks that today's businesses face. A nation's progress depends heavily on the role that banks play. Their primary function in any economy is the ability to transfer money via loan operations from the surplus unit to the deficit unit. When approved loans and advances are promptly repaid, this encourages the provision of additional credits to current and potential consumers.

Statement of the Problems

Nigerians make deposits Banks face a variety of dangers that, if managed properly, could turn into a great opportunity; if not, they could endanger the bank's ability to continue operating. Due to competition, financial institutions tended to steer clear of risks that put their survival in jeopardy. These risks will have an impact on how well the banks perform, notably the interest rate, as there is a chance that the real profit from speculation or the advance extended may deviate from what is expected.

Objectives of the Study

The general objective of this study is to evaluate the effect of Risk management on the financial performance of Deposit money banks (DMB) in Nigeria. The specific objectives are

   i)   To ascertain the relationship between interest rate risk and return on equity
   ii)   To find out the influence of interest rate risk on the return on asset

Statement of Hypotheses

In order to achieve the objective and carry out the study properly and successfully the following hypotheses would be tested:

   i.   There is no significant relationship between interest rate risk and return on equity
   ii.   Interest rate risk has no significant positive influence on the return on asset

Review of Related Literature

Conceptual Review

Risk

Risk can be interpreted in a variety of ways, according to academics. Risk is the probability of suffering a loss or becoming injured. The likelihood of error, or the likelihood that an event will occur or not, is another way to define risk (Ciuhureanu, 2005). These descriptions all go in one direction—a loss or accident. For the purposes of this research, risk is defined as the probability of suffering a financial loss. To safeguard banks from unfavorable outcomes or risk exposure, risk management requires developing an acceptable risk environment. These can be accomplished by classifying incidents into one or more broad categories of business, credit, liquidity, operational,

and other threats, by assessing risks using data and risk measures, and by reviewing and reporting them promptly. Senior management will then be in charge of managing these risks (Sanusi, 2010).

Types of Risk

(i) Liquidity Risk

Liquidity risk is the possibility that a bank won't have enough cash on hand to cover operational costs and satisfy consumer credit requests. Lack of timely access to funds may result in revenue reduction and clientele loss. If the cash flow problem continues, the business can eventually fail.

(ii) Credit Risk

Customers' refusal to repay bank loans and the interest accrued on them are to blame for this. Customers that are unable to pay their loans default, which results in losses that may eventually deplete the bank's capital. Every time a bank offers a credit facility, credit risk is a possibility (Sanusi, 2010). Operating risks, interest rate risks, exchange rate risks, crime risks, etc. are some examples of other hazards.

Risk Management

Risk management is to enhance the accomplishment of company objectives and strategy implementation, claims Ciuhureanu (2005). Risk management offers the components required to handle the complexity of risk monitoring. The concept of risk management comprises developing a system for identifying, evaluating, and measuring certain events as well as preventing and reducing the likelihood that they will occur. Furthermore, risk management has gone through a number of stages of development and is now very helpful in the execution of policies for minimizing prospective losses. The complex risk management process includes many steps, including the identification, analysis, and evaluation of risks, the implementation of specific loss prevention or loss minimization procedures, and the adoption of judgments regarding the appropriate financial treatment to minimize inevitable losses.

Why Risk Management

The value of risk management has increased in the current, cutthroat economic environment. These must be addressed since risk management techniques reduce financial losses to the company. According to research by Ashby and Diacon (1994), which Gerald Mars (2000) noted, the practice of risk management in business is generally driven by the need to avoid legal, contractual, or regulatory liabilities that could damage the organization's reputation. Many banks have been rendered insolvent as a result of the threat of capital misallocation and reckless risk-taking, which has emerged as the leading cause of issues in the banking sector. As a result, it is essential for banks to recognize, quantify, monitor, and manage all inherent risks in their regular business operations.

Interest Rate

The amount that the lender charges the borrower over and beyond the principal amount is referred to as the interest rate. A person who deposits money in a bank or other financial institution also earns additional income in terms of the recipient, known as interest, taking into account the time value of money. Interest rates on loans and deposits may vary depending on the goal and recipient of the funds. Depending on the type of borrower and the related credit rating, interest rates on borrowings are fixed. Let's say the borrower has a bad credit history. In that circumstance, it's likely that banks will charge exorbitant interest rates or retain double the amount of collateral security, refusing to make any loans at all.

Performance

Performance is the ability to function effectively and profitably, to flourish, to change and grow in response to environmental opportunities and risks. Return on Equity (ROE), Return on Assets (ROA), and Net Interest Margin (NIM) are also used to calculate financial efficiency. This essay just discusses ROE. In addition to profitability, the banking industry also measures financial success using the following metrics: liquidity, loan disbursement, and consumer netting. Performance is defined as the capacity to carry out tasks effectively, profitably, survive, grow, and, respectively, respond to environmental opportunities and dangers (Asiligwa and Rennox, 2017). A company's

power, wealth, and supremacy in its industry can be shown by performance. Through their talents, organizations can gauge their performance. They must be able to execute their operations correctly and effectively if they are to meet their specific organizational defined objectives and benefit from them. Performance is also used as a gauge of an organization's financial health and demonstrates how well its executive leadership performs. The greater the company's performance, the more effectively and efficiently it uses its resources and the more it contributes to the economy of a nation as a whole (Wanjohi, Wanjohi & Ndambiri, 2017).In accordance with the definition given above, we will examine performance in terms of how banks use assets from their primary mode of business and generate revenues in relation to the bank's yearly profit, sales growth, return on asset, return on equity, financial performance target, and stability of earnings.

Risk Management and Performance

Increasing the performance-measurement return to shareholders is a key goal of bank management. Often, achieving the goal means taking on more risk. The dangers that can affect the bank's performance are what spur it to practice risk management. Risk management and performance were the subjects of a groundbreaking study conducted in Nigeria by Akindele (2012).

Return on Asset

A financial ratio known as return on assets (ROA) measures a company's profitability in relation to its total assets. ROA can be used by corporate management, analysts, and investors to assess how effectively a company uses its resources to make a profit. The metric is frequently represented as a percentage using the average assets and net income of a corporation. A company's ability to manage its balance sheet to produce profits is more effective and efficient when its ROA is higher; on the other hand, a lower ROA suggests there is potential for improvement. Fahmi (2015) cites the ratio of return on investment or return on investment, which is also known as return on assets in certain other sources. This ratio examines the degree to which the invested money can generate the anticipated return on investment. According to Kasmir (2015), the return on investment, also known as return on assets, is influenced by net profit margins and total asset turnover since low return on assets is a result of low profit margins that are a result of low net profit margin because of low total asset rotation. According to Munawir (2010), there are two variables that affect the amount of return on assets: a) turnover from operating assets (asset turnover rate utilized for operating profit); and b) profit margin, which is the operating profit represented as a percentage of total net sales. Profit Margin measures the level of profit that can be achieved by the company in relation to its sales. Return on Assets is measured in ratio units using the following equation:

Return on Assets (ROA) = Earning After Tax (EAT)
                                        Total Assets

Return on Equity

Fahmi (2015) claims that the term "return on equity" also refers to the ratio of return on equity. This ratio looks at how effectively a business utilizes its assets to generate a return on equity. The return on equity ratio can be used to assess how well management is using the company's capital to generate returns for shareholders; the higher this ratio, the better because it offers owners a higher rate of return. A number of things can boost return on equity, including: a) increasing sales without proportionately raising costs and expenses; b) cutting the company's cost of goods sold or operating expenses; c) increasing sales relatively on the basis of asset value, either by increasing sales or reducing the amount invested in selling assets; and d) increasing the use of debt relative to equity, up to a point where it doesn't endanger the company's financial stability.

Return on Equity can be measured in ratio units using the following equation:

Return on Equity (ROE) = Earning After Tax (EAT)
                                        Shareholders Equity

Theoretical Review

Financial risks have been known to exert a substantial influence on the stability of the banking system's performance. This underscores the need "to measure and control the determinants of financial risk, especially at the aggregated level" (Misker, 2015, 11). Four theories and one hypothesis that seeks to explain the influence of financial risk on banks' performance are presented below.

Commercial Loan Theory

This theory's main argument is that banks should only make short-term, self-liquidating loans. Because Nigerian bankers believe that bank deposits should be used in short-term loans because they are repayable quickly, the theory is well-liked among commercial banks in that country. There are various issues with the hypothesis. The main flaw is its requirement that all loans be paid off in the regular course of business; this shows a lack of understanding of the relative stability of bank deposits. Because bank deposits are stable, even though demand deposits are always in demand, only a small percentage of depositors frequently request payment at a given time, unless there are signs that the bank is in danger. Due to the stability of deposits, there is no risk of illiquidity when a bank lends a portion of the deposits for a respectably long time. Despite its flaws, the commercial loans theory persisted over time in banking, and remnants of it are still relevant in the minds of many banking industry stakeholders.

Credit Risk Theory

The probability that a client to whom the bank has granted credit may not pay on time or may not pay at all is known as credit risk (default). Credit risk mostly pertains to the lender and is made up of lost principle and interest. Prospective borrowers are subjected to thorough credit checks to verify their creditworthiness as one method of managing credit risk. The borrower may need to purchase insurance as a result of this. Generally, the risk and the interest rate that the borrower must pay are directly inversely correlated, meaning that the greater the risk, the higher the interest rate that the borrower will be required to pay on the debt (Owojori, Akintoye & Adidu, 2011).

Shift Ability Theory

The marketability of bank assets is preferred by this hypothesis, which has a solid reputation. It acknowledges that short-term self-liquidating loans are becoming less significant. The idea asserts that the marketability of bank securities is actually liquidity and that the shift ability, marketability, or transferability of a bank's assets provides a basis for guaranteeing liquidity (Ikeora and Werigbelegha, 2016; Kamunosiki, Giami, and Obari, 2017).

Asymmetric Information Theory

In a financial market, asymmetric information theory occurs when a borrower who receives a loan facility from a bank has greater knowledge of the anticipated risks and rewards related to the investment project for which the financing was requested (Edwards & Turnbull, 1994). There's a chance the lender doesn't know enough about the borrower. According to this theory, whenever customers' loan requests are being processed, banks encounter the twin issues of moral hazard (watching borrower's behavior) and adverse selection (making mistakes in the lending decision).

Signaling Hypothesis

Olokoyo (2011) and Lawal, Abiola, & Ikhu-Omoregbe (2017) both put forth the theory that banks require collateral from trustworthy consumers who request the loan facility. This is essential to safeguard customers' savings and to let banks know that they (reputable businesses) are among the less hazardous types of clients. Additionally, banks do charge high interest rates to offset the high risk of the customers' request, and high-risk customers are required to put up a lot of collateral for a lending facility.

Empirical Review

Kurawa & Garba (2014) studied the effect of credit risk management on the profitability of six Nigerian banks for the period 2002 to 2011. Using random-effect generalized least squares (GLS) regression techniques as a tool of analysis; findings established a positive and significant relationship between two credit risk variables (default rate and cost per loan asset) and profitability (ROA) of Nigerian banks.

Idowu & Awoyemi (2014) investigated the impact of credit risk management on the performance of 7 commercial banks in Nigeria for the period 2005-2011. A panel regression model was adopted as an estimation technique. Findings suggested that non-performing loan (a measure of credit risk) has a negative and significant effect on the profitability of Nigerian commercial banks.

Uwuigbe, Uwuigbe, & Oyewo (2015) critically examined the effects of credit management on banks' performance in Nigeria. A sample of 10 banks was used for 2007-2011. The study adopted panel linear regression methodology in the estimation of the coefficient of the variables. Results revealed that non-performing loans and bad debt ratios have a significant and inverse effect on the performance of banks in Nigeria. Furthermore, the relationship between secured and unsecured loan ratios and the banks' performance was insignificant.

Kodithuwakku (2015) explored the relationship between credit risk management and the performance of 8 commercial banks in Sri Lanka for a five-year period from 2009 to 2013. Return on asset (ROA) was used as a performance surrogate while four variables (loan provision to total loan, loan provision to non-performing loans, loan provision to total assets, and non-performing loans to total loans) were used as parameters of credit risk. Regression results revealed that non-performing loans and provisions have a negative impact on the financial performance of the institutions.

Methodology

In this study, ex-post facto research was employed. Only five (5) commercial banks in Nigeria were considered between 2009 and 2021 and were selected for this study and they include Heritage Bank, Ecobank, Access Bank, Stanbic IBTC and Fidelity Bank. Secondary data were employed. E-Views 12.0 was used as the statistical tool for the study, which was conducted using panel data regression.

The panel data analysis approach was utilized to analyze the data from various banks at the same time. The error term (e_{id}) in the model is based on the separation of the components of individual and time effects in the panel data analysis (Baltagi, 2001).

$$Y_{id} = \alpha + X'_{id}\beta + e_{id} \qquad (1)$$

In the above model (1) i represent banks while d represents time.

When the error term is separated out:

$$e_{id} = \mu_i + \lambda_d + \vartheta_{id} \qquad (2)$$

is obtained. This equation is called the error component model.

Here, μ_i shows the individual effect and λ_d time effects. It is expected that the data are normally distributed, contain variance, and are independently identically distributed. (white noise process). The panel data analysis first examines the status of the series stationarity using panel unit root tests. Since internality is found in the variable, explanatory factors that are thought to be explained by their close relationship must face internality tests. After the model has been estimated, it must be examined to see if heteroscedasticity has any issues on autocorrelation.

Panel Unit Root Test

Only when the time dimension information from the time series unit root tests is taken into consideration are the panel unit root tests, which confine both the time dimension and the horizontal cross-section of the data, recognized as statistically significant. (Im et al., 1997; Maddala& Wu, 1999; Pesaran, 2006; Beyaert& Camacho, 2008). This is

because the addition of the horizontal cross-section dimension increases the data's variability. Because the banks included in this study were not homogeneous, the IPS test was to be utilized. This test validates the model:

$$\Delta Y_{id} = \alpha_i Y_{id-1} + \sum_{j=1}^{p_j} \beta_{ij} \Delta Y_{id-j} + X'_{id} \partial + \varepsilon_{id} \qquad (3)$$

The IPS test, for the differentiation of the horizontal cross-section units of α_i allows for a heterogeneous panel structure. The test hypotheses for all the horizontal cross-section units are:

$H_0: \alpha_i = 1$ (The series is not stationary)

$H_0: \alpha_i < 1$ (The series is stationary for at least one horizontal cross-sectional unit).

When the test resulted in a probability value <0.05, then H_0 was rejected and it is decided that the series is not stationary. The IPS panel unit root test results are shown in table 1.

Table1: IPS Panel Unit Root Test Result

Variable	Level Stage	Prob Value	First Diff Stage	Pro Value
Interest Rate	2.17	0.62	-8.44	0.01
Return on Equity	1.14	0.11	-10.19	0.01
Return on Assets	-1.85	0.29	-12.14	0.00

When the results in Table 1 are examined, it can be seen that all the series became stationary at the first difference stage.

Correlation Test

Table 2: Pearson Correlation test

	Interest Rate	Return on equity	Return on assets
Interest Rate	1		
Return on equity	0.418	1	
Return on assets	0.333	0.567	1

The Pearson correlation test above show the relationship between all the variables used in this study. From the above table it is very obvious that interest rate has a moderate and positive relationship with the financial performance of Deposit Money Banks in Nigeria.

Breush- Pagan Lagrange Multiplier (LM) Test

The types of individual effects and the temporal effect were characterized at this stage of the investigation using the LM test (random or fixed). It was anticipated that the individual and time effects would be random because the chosen enterprises or firms did not belong to the same financial group. The LM test can be used to determine whether or not the effects are truly random. (Baltagi, 2001, pp. 15).

The LM Test is separated as LM_1 and LM_2

LM_1 represents the randomness test of the individual effects while LM_2 represents the randomness test of the time effects. In the LM_1 test, the hypothesis $H_0: \sigma_\mu^0 = 0$ (no individual effects) is tested with the LM_1 statistic, which is calculated with the following formula.

$$LM_1 = \frac{N.D}{2.(D-1)} \left[\frac{\sum_{i=1}^{N}\left(\sum_{d=1}^{D}(\hat{\varepsilon}_{id})\right)^2}{\sum_{i=1}^{N}\sum_{t=1}^{D}\hat{\varepsilon}_{id}^2} - 1 \right]^2 \qquad (4)$$

In the LM_2 test, the $H_0: \sigma_\lambda^2 = 0$ hypothesis (no time effects) is tested with the LM_2 statistic, which is calculated with the following formula.

$$LM_2 = \frac{N.D}{2.(D-1)}\left[\frac{\sum_{i=1}^{D}(\sum_{t=1}^{DN}(\hat{\epsilon}_{id}))^2)}{\sum_{i=1}^{N}\sum_{d=1}^{D}\hat{\epsilon}_{id}^2} - 1\right]^2 \qquad (5)$$

Therefore,

$$LM = LM_1 + LM_2;$$

$$H_0: \sigma_\mu^2 = \sigma_\lambda^2 = 0 \text{ (No individual or time effect)}$$
$$H_1: \sigma_\mu^2 \neq 0 ; \ \sigma_\lambda^2 \neq 0 \text{ (Atleast for one or bothe effects are random)}$$

When the obtained probability value was <0.05, H_0 was rejected and it was decided that both effects were random. In this situation, prediction is made with a two-way random effect model. The results of the LM tests are shown in Table 3.

Table 3: LM Test

Test	Prob Value	Decision
LM$_1$	0.007	Individual effects are random
LM$_2$	0.001	Time effects are also random
LM	0.002	Time and Individual effect are random

When the results in Table 3 are examined in general, the individual effects and the time effects are seen to be random. From this result, prediction is made with a two-way random effect model.

Internality Problem Test
The Hausman technique was utilized at this stage of the inquiry to assess whether or not there was a relationship (internality problem) between the causes causing the distinct impacts.

Hypotheses for testing are:
$H_0: Cov(\mu_1 i, x_1 id) = 0$ (No internality problem)
$H_1: Cov(\mu_1 i, x_1 id) \neq 0$ (There is an internality problem)

The Hausman test was used and with the results of X^2 = 12.101 with probability value = 0.74, this value was >0.05, so H_0 was accepted, the model was shown to have no internality problems after the hypothesis was accepted. The results in this instance corroborated the LM test result and called for the use of the study's random effects model.

Two-way Random Effects Model Prediction
The two-way random effects model was used to forecast the panel data analysis, and the findings are shown in Table 4.

Table 4: Estimated Result

Dependent variable	Return on Equity			
Variable	**Coefficient**	**St. Error**	**t-Statistic**	**Prob Value**
Interest rate	0.114	0.021	5.428	0.007
Constant term	1.395	0.073	19.11	0.000
Diagnostic Test				
Weighted	R^2 = 0.58	R^2- Adj=0.55	F-Statistic=77.02 (0.001)	
LM (Heteroskedasticity Test)	P-Value (0.2519)			
	Return on Assets			
Interest Rate	0.256	0.019	13.47	0.000
Constant term	1.016	0.082	12.39	0.000
Diagnostic Test				
Weighted	R^2 = 0.77	R^2- Adj=0.71	F-Statistic=32.67 (0.000)	
LM (Heteroskedasticity Test)	P-Value (0.319)			

In the random effect models, weighted statistic values were used (Baltagi, 2001). The model was statistically reliable, as can be shown from a close look at the weighted test results in Table 4. Furthermore, the estimated results were trustworthy and understandable due to the absence of heteroscedasticity or autocorrelation problems.

Results and Analysis

When the analyzed results in Table 4 are examined, return on equity and return on assets had an effect on interest rate at a statistically significant and interpretable level. Therefore, a unit increase in interest rate will cause a corresponding unit increase in the performance of deposit banks in Nigeria. This is evident from the proxies considered for performance of deposit bank such as return on equity and return on assets.

Discussion/Summary of Findings

The study examined the effect of interest rate on the performance of deposit banks. Return on equity and return on assets were used as proxies for measuring financial performance of deposit banks. The following findings were obvious:

i. The results were firstly accessed through the use of panel unit root test and stationarity of the variable was confirmed after the first difference using IPS panel unit root test approach. The correlation test in table 3 shows that there is a moderate influence of interest rate on the financial performance of these deposit banks.

ii. The LM test was used to identify whether the individual or time series effect is fixed or random. The results suggest that the effects are typically random as indicated in table 3. Lastly the result of the two-way random effect as in table 4 suggest that at 5% level of significance, interest rate was found to have a positive and statistically significant effect on all the proxies of financial bank performance (such as return on equity and return on assets) of deposit money banks used for this study.

Conclusion

This study evaluated the effect of Risk management on financial performance of Deposit money banks (DMB) in Nigeria. Based on the finding, interest rate has significant positive relationship with return on equity while in other hand interest rate has significant positive influence on return on asset. We concluded that risk management has significant positive effect on financial performance of Deposit money banks (DMB) in Nigeria.

Recommendations

1. As a result of competitiveness, the survival instinct led financial institutions to avoid risk that threatened their existence and as a result of this, banks should find the best strategies to brace up and manage these risks as linked to competitions. These risks will affect the performance of banks if not well managed.
2. Regulatory bodies should provide needed monitoring and technical support. The most important rational for regulation in banking is to address concerns over the safety and stability of financial institutions, the financial sector as a whole, and the payment system. These regulatory activities should be made to address interest rate instability since it has positive and significant effect on financial performance of Deposit Money Banks. Mandatory deposit insurance schemes should be introduced in order to avoid bank runs.

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