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ADVERSE INFORMATION ON SOCIAL MEDIA WILL ALWAYS SEND KENYANS TO WITHDRAW THEIR MONEY

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ADVERSE INFORMATION ON SOCIAL MEDIA WILL ALWAYS SEND KENYANS TO WITHDRAW THEIR MONEY.

INTRODUCTION

In the paper “The Extent to Which Social Media Can Influence a Bank Run” by Atieno,T and Mutinda, M (2014), from Strathmore University, School of Finance and Applied Economics, (SFAE), provide empirical evidence, that there is a huge risk of a bank run occurring in Kenya due to social media. This seem to be a make book of the fall of Chase bank two years later. Atieno and Mutinda took the degree of belief of social media as a measure of perceived risk of a bank run taking into consideration the relationship between banks and the depositors, number of social media platforms and demographic characteristics when certain “facts” flood the media.

EMPIRICAL FACTS

A sample size of 356 Kenyans was randomly selected. These Kenyans were on at least one social media platform as well as at least an account holder in a Kenyan bank. The study used social media, banking relations and individual attributes as independent variables and bank runs as the dependent variable. There are a number of parameters that will determine the extent of bank run. This will be important concepts for Kenyan bank and regulator, CBK, to consider at this stage when Banking sector is quickly loosing trust.

CUSTOMER LOYALTY

From this sample it was established that 72% of the sample would believe information on social media and 28% would believe the information with certainty. It is interesting to note that people who owned an account in a particular bank for more than five years would less likely believe information on social media. This may imply that the panic withdrawals may have been done by new customers or customers who have been with the Chase bank for less than 5 years.

CUSTOMER CONFIDENCE TO THE BANK – ACTUALIZATION RISK

A good proportion of Kenyans will have confidence in their bank even if there is adverse news. On the other hand an equally huge proportion will run to the bank even if they don’t believe the information. Considering withdrawals on receiving adverse information, how many Kenyans will run to the bank and withdraw their money? This is the measure of actualization risk in the case the information cascades. It is established that 12% would go ahead and withdraw their money even they do not believe the information posted. Over 86% of respondents rated their confidence as 60% for their bank to sort whatever situation may have been mentioned.

EFFECT OF NATIONAL NEWS

It will be always wise to correct the first posted news and counter it with fact before the as soon as possible. This was also confirmed by the study. Further analysis showed that withdrawal grew significantly with additional varied sources of information that were considered more credible, that is, 8% would withdraw with information solely on social media, 22% would react to information from social media in combination with information from close relations in social media. Another a critical factor being who posted the information whereas 54% would withdraw with information from social media in combination with national news sources. At this stage, it will always be advisable for the regulator to take necessary action and stop the withdrawals, as done for the case of Chase bank. Otherwise, the withdrawals would have increased.

SOURCE OF SOCIAL MEDIA ONE OF THE GREAT RISK TO BANKS

As 22% of the respondents admitted that they would run to withdraw their deposits from a bank given the information purely from social media and important personalities. This is a substantial amount to throw any bank into a black hole despite its rating in this case, in less than 28 hours Chase bank was on its knees. This is a bank that social media was a key marketing tool using popular personalities on Facebook, twitter and even Instagram a few days prior to being put under receivership celebrating their 20th anniversary in Kenya.

Many other banks are still on the line as messages are still doing rounds “If you have your money in a TIER 2 OR TIER 3 FAMILY OWNED bank get your money ASAP. Here is the ranking, thank me later” it says. Kenyans should realized that regardless of the size of a bank or the tier its been placed, such messages could cause the closure of a bank and the so called ‘saviors’ are barely destructors of the trust banks have built with their depositors over the years.

Besides the fact that social media is here to stay its growing in terms of usage and number of sites. In a country where three banks have gone down in the past few months; Dubai, Imperial and Chase bank, if no measures are taken into place with unguided messages on social media its not long before another goes down and will most likely bring about ugly implications on our economy.

So how do we avoid bank runs? Whose responsibility is it? Government or banks? Get rid of the "facts", slowing down the run or close the black hole?

ROLE OF THE GOVERNMENT IN BOOSTING CONFIDENCE

The government can "slow it down" it worked in the 19th century and avoided full blown bank runs, but in an era of Internet banking this method is futile at times. The CBK governor recently held a press briefing urging members of the public to avoid panic withdrawals and reassuring them of the stability of the financial sector but after three banks going down this may not be adequate. In extreme cases, it can close down a bank like Chase bank although it causes a lot of anxiety among members leading flooded closed doors.

Instead of closing them down why not lend the banks money, the European central bank has lent massive amounts of money to European banks in past years and this has been essential so far in preventing a full-scale bank run in Europe. This is a trend the Kenyan government taking, on 10th April 2016, cabinet secretary treasury Henry Rotich assured Kenyans that the treasury will work closely with the CBK to lend money any bank facing liquidity problems due to massive withdrawals. This will not only reduce bank runs but also rebuild trust broken between banks and its depositors by uniformed saviors on social media.

The security arm of the government should firm to ensure rumors are not encouraged. Prosecuting individual who rush to give unsubstantiated news will assist in ensuring less adverse news is sent to Kenyans.

The government can also mediate possible takeovers and mergers. The big banks with stability could be assisted with information to buy the troubled lenders.

CONCLUSION

The big question to everyone is what should be done to avoid these happening in future? There could be many answers to this question.

First, Kenyan banks should strive to make use of social media not only as a marketing tool but also as a medium to disseminate information explaining their official financial position and performance. This provides their clients with true and valid information about their banks hence easily disregarding any rumor they are bound to come across via the social networks. There is need for better relationships between banks, their customers and policyholders to be enhanced. Moreover, adverse effects of reputational risks and information cascades causing a bank run can be reduced if banks use social media as a medium of risk and performance communication (Atieno, 2014).

Secondly, in the past decade bank runs has greatly reduced in developed countries as deposit insurance becomes more popular. Giving a guarantee to members on the safety of their money is better than communicating openly as no rational person would risk losing their coins. Banking being a key sector in any economy, any factor affecting it is felt not only on the specific sector but also on a boarder macroeconomic scale, hence reduction of crisis management and application of preventive measures is key.

What goes into the black hole stays in the black hole.

REFERENCES

Olang, T. A. (2014, March). *The extent to which social social media can influence a bank run - the case of Kenya*. Retrieved from http://su-plus.strathmore.edu/handle/11071/4388