Regulatory Requirement Review and Financial Performance of Commercial Banks in Tanzania

By

Safari Stephano Majondo

Doctor of Philosophy (PhD), Moshi Co-operative Univesrity (MoCU), 2023

In 2014. Tanzania undertook regulatory requirements reviews (RRRs) on capital adequacy, liquidity management, credit risk management and information reporting and disclosure requirements. After regulatory reviews, some banks in Tanzania have shown good financial performance while others have shown unsatisfactory performance. For instance, in 2018, the BOT revoked the banking licences of five banks because their capitalization was below the prescribed capital adequacy level (CAR,2014). The banks included Covenant Bank, Efatha Bank, Njombe Community Bank, Meru Community Bank and Kagera Farmers' Cooperative Bank. In the same period, BOT took over the administration of Bank M Tanzania due to the bank's critical liquidity problems and merged it with Azania Bank. During the same year Twiga Bancorp Bank was also closed due to money laundering issues and was merged with TPB bank (BOT, 2018). This study was conducted purposely to assess the implications of the regulatory requirement amendments on bank financial performance. The study adopted both panel and cross-sectional research design and was conducted in Dar es Salaam region, Tanzania. The study applied purposive sampling technique to select 120 respondents from 24 specific commercial banks and 13 key informants. Qualitative data were analysed using thematic analysis while quantitative data were analysed using descriptive analysis, student paired t-test, random effect regression model, multiple linear regression models and Pearson correlation techniques. On first objective, findings showed that Return on Equity (ROE) and Saving Mobilization Ratio (SMR) increased positively after regulatory reviews and their amounts were significantly different at 1% level while ROA and NPL results showed increases and decline, respectively. On the second objective, the findings showed that after regulatory reviews; Tier I, Tier Il, GDP, and SIZE were observed to have higher significant influence on financial performance (ROE and SMR) of selected banks compared to the period before capital requirements reviews while liquidity ratio and cash reserve ratio had insignificant influence on banks' financial performance. In the third objective, findings show that there was high implementation of reviewed credit risk management strategies. The regression results showed that risk control and risk monitoring strategies had negative and positive significant influence on both NPL and ROE, respectively, while risk identification and risk measurement had negative and positive influence on both NPL and ROE respectively, but their relationship was not significant. For the fourth objective, the study shows that the relationship between banks' perception on capital adequacy, NPL and information reporting and disclosure requirements and the financial performance was positive and significant with high degree of correlation (r=0.588). The study concludes that after regulatory requirements reviews of 2014, about 90% of commercial banks in Tanzania have managed to implement well the new regulations except for small banks which still have some challenges on complying with new requirements. The study recommends to the commercial banks that they should continue implementing the new regulatory requirements specifically on capital adequacy, NPL and information reporting and disclosure requirements. Commercial banks should improve their loan assessment criteria through visiting customers, assessing customers' collaterals, characters and capacity building before issuing loans. On the financial reporting and publications requirements, the study recommends that commercial banks should find quick reporting and disclosure modern strategies to enable them accomplish their financial reporting and publications obligations on time and thus, avoiding unnecessary penalties. The study further recommends to the policy makers that the regulator needs to emphasize more to ensure that all banks continue to implement the new credit risk management guidelines and regulations of 2010 and 2014, respectively. Furthermore, the regulator can revisit requirements for liquidity, publication days and cash reserve ratio to ensure that they facilitate banks to improve their performance. The findings of this study contributed to the theories in different ways; considering resources based view theory, the study has analysed financial performance of commercial banks in Tanzania by considering bank categories aspect in which resources capacity differ from one bank size to another. For capital buffer theory, the studies considered other variables like liquidity and cash reserve ratios in addition to capital adequacy requirements. Furthermore, the study contributed to the credit risk theory by testing the influence of external credit risk management on financial performance of commercial banks in Tanzania in addition to internal credit risk management strategies. Lastly, the study has contributed to the attitude theory by applying the theory from marketing perception to banking industry perception in which banks have been treated as customers and regulations as products and compliance as consumption