

Relationship between Banks' Perception on Bank of Tanzania Regulatory Reviews and Financial Performance: Evidence from selected Commercial Banks in Tanzania

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ABSTRACT

The Central Bank of Tanzania has undergone various bank regulations reviews at different periods of time such as the one undertaken in 1998, 2008 and 2014. This study therefore, intended to assess the relationship between banks perception on regulatory requirements reviews decisions and the bank performance. The study employed cross sectional design with the target population of 36 commercial banks. Sample of 120 respondents were selected from 24 commercial banks obtained in Dar es Salaam City. Primary data were collected from bank managers while secondary data were collected from audited annual financial statements. Descriptive statistics and correlation analysis were used for data analysis. Findings from the study showed that most banks had high perception regarding new regulations. However, the study noted low perception on the number of quarterly publication days, and on liquidity and cash reserve ratios requirements which seemed to be difficult for most banks to afford. Correlation analysis results showed that the relationship between banks perception on the new regulatory requirements and the financial performance was positive and significant with a high degree of correlation. The study concludes that most banks highly supported the reviews made by the BoT on capital adequacy and information reporting and disclosure requirements. The study recommends that commercial banks need to implement the new capital adequacy requirements and information reporting and disclosure requirements with special attention in order to make banks more profitable. Moreover, the regulator of banks needs to think on reviewing publication days and liquidity requirements.

Keywords: Regulatory reviews, Financial Performance, Commercial Banks, Banks' Perception, Bank of Tanzania.

INTRODUCTION

Perception of banks implies the way banks perceive concerning the amendments made on the existing regulations whether the reviews are simple, fair and affordable and also whether the reviews are beneficial or not beneficial Gibson *et al.* (2000). If banks regulations are too demanding, some banks fail to comply while others find it easy to comply; as a result, some banks collapse or are merged (Ndolo, 2017). When banks incur more costs, make losses or minimal profit because of stringent regulations, investors are discouraged from venturing into the sector which in turn affects competition in the market (Osano and Gekara, 2018). Since the 1980s the financial sector in most western countries has been going through the process of reviewing Banking and Financial Institutions Regulations, whereby their governments either removed or added some regulations that were governing financial institutions (Abdallah, 2015 and Onaolapo and Olufemi, 2012). This is because policy makers and regulators are convinced that reviewing bank regulations is the only way that can increase the efficiency and performance of banks (Masood and Ansari, 2016).

However, compliance level differs from one bank to another which results into the occurrence of different perceptions from banks that need to be balanced by the regulator, taking into consideration the ability of each bank category to afford. The Central Bank of Tanzania (BoT) has undergone various bank regulations reviews at different periods of time such as; in 1998, 2008 and 2014 (BoT, 2014) for the purpose of improving efficiency and stability of bank sector in Tanzania. In line with the standards established by International Banking and Financial Institution Committee (Basel, 2013), BoT reviewed some of its banking regulations in 2014, where in regard to capital adequacy requirements; Bank of Tanzania (BoT) increased capitalization amount from five (TZS 5/=) billion to fifteen (TZS 15/=) billion, improved core capital ratio from 10% to 12.5% and also increased total capital ratio from 12% to 14.5%. Furthermore, BoT maintained a

liquidity ratio of at least 20%. Concerning information reporting and disclosure regulations, BoT improved quarterly and annually disclosure of audited financial statements from using one to at least two newspapers for publication. Also, the time to publish quarterly financial statements was reviewed from first 45 days to 30 days after the end of each financial quarter. Similarly, the time of submitting a copy of published quarterly financial statements to the BoT was reviewed from three (3) days to five (5) days after the newspaper publications (BoT, 2014). Other amendments made were maintaining the minimum NPL ratio of 5% publications (BoT, 2014). However, these amendments have been perceived differently by banks. This is evidenced with occurrence of various events after regulatory requirements reviews where some banks have shown high compliance while others has failed to comply with the reviews hence, collapsed, suspended and others were merged. For instance, Twiga Bancorp and Bank collapsed and were taken over by the Central Bank of Tanzania and then merged with Tanzania Postal Bank and Azania Bank (BoT, 2016; 2018).

There has been an argument worldwide regarding banks' perception on benefits and costs that emerge after regulatory reviews. Literature provides different opinions on outcomes and process of regulatory requirements reviews. Some literature has shown that banks' regulations reviews have benefited more banks in terms of profit, growth, efficiency and increase in customers while other scholars have distinguished that new amendments have affected banks' performance in terms of increased cost and resources. Considering a study by Hoskins and Labonte (2015), reviewing financial institutions' regulations was perceived positively by most banks due to the benefits banks get after complying with the requirements such as shielding customers from fraud, prejudice, and abuse; making sure that banks are less likely to be unsuccessful; and upholding stability in the financial system. Masood and Ansari (2016) found out that banks in Pakistan have high perception regarding various banks requirements. To the other side, a study conducted by Vianney (2013) in Rwanda noted low perception from most banks regarding new capital adequacy regulations in Rwanda that there was an increase in banks operating costs caused by new regulations which were put into use. According to Vianney (2013), banks in Rwanda experienced

some challenges to comply with minimum capital and liquidity requirements in such a way that some of them failed to comply and others managed to comply at high cost, something which lowered their profit. The findings are related with the conclusion made by Onaolapo and Olufemi (2012) who also noted low perception from some banks in Nigeria with an argument that the new regulations in use increased banks operating costs and lowered profits. Their arguments is that high costs have been experienced at the time of fulfilling the new requirements where banks may be required to incur more costs for the purpose of acquiring some resources. Previous studies such by Vianney (2013); Onaolapo and Olufemi (2012); Masood and Ansari (2016) and Hoskins and Labonte (2015) just to mention few have shown disagreement observations regarding perceptions of banks on new regulatory requirements and its influence on financial performance hence, establishing which perception is relevant to Tanzania banks remains an empirical question that this study tries to answer. Besides, previous studies have focused more on capital adequacy and liquidity requirements and ignored other amendments like NPL and information reporting and disclosure requirements which have been included in this paper as part of the reviews made in 2014.

Furthermore, previous studies have mostly concentrated on quantitative data. For the strengths of this paper, the study used both qualitative and quantitative data. Additionally, with the collapse and merging of some banks motivated this follow-up study to be conducted in order to find out whether the reviews made on various regulations are simple, fair, affordable and also find out whether such reviews contributes to the good/ poor financial performance of banks. It is against this background that this paper was designed to fill the underlined empirical gaps. To achieve the main goal, this study was guided by the following two specific objectives; first, to determine the level of commercial banks perception regarding the new regulatory requirements reviews decisions and secondly, to analyse the relationship between commercial banks perception on regulatory requirement reviews decisions and financial performance. The study is organised in the following sections; introduction, literature review, research methodology, data analysis and conclusions and recommendations.

Literature Review

Definition of Key Concepts

Regulatory Requirements

Regulatory requirements are regulations and rules that have been put in place by the state to govern activities of all financial institutions (Olalekan and Adeyinka, 2013). These regulations aim at maintaining orderly market, licensing the providers of financial services, enforcing applicable laws as well as prosecuting cases of non-compliance with the regulations, protecting clients and investors and promoting the stability of the financial system. These regulations are supervised and regulated by the government regulator that is Bank of Tanzania (BoT) as well as international groups. Regulatory requirements in this paper include; capital, liquidity, risk, reporting and disclosure requirements.

Financial Performance

Financial Performance is a firm's ability to generate profit and become efficient in the utilization of the resources. Profit is total income generated by a firm at a given trading period. A firm is said to be operating efficiently when it is capable of generating profits (Ofeh and Jeanne, 2017). A profitable firm is capable of generating adequate return on capital and equity. The European Central Bank (2010), in measuring financial performance, has classified the measures in three major categories as traditional, market based and economic measures. In this study financial performance is measured by ROE which refers to income/ profit generated by commercial banks out of equity shares invested.

Commercial Banks

Commercial banks are financial institutions licensed by the central bank to offer banking services. Commercial banks play a major role in economic development and growth of a nation or state (Drigă and Dura, 2014). In this study, commercial banks refer to banking institutions licensed by the Bank of Tanzania (BoT) to undertake banking business and must have a capitalization amount of TZS fifteen billion to qualify for banking business (BoT, 2014). In this study, commercial banks include large and small banks according to the market share a bank owns.

Relationship

Refers to the association between banks perception on regulatory requirements reviews and financial performance to see whether the way banks perceive about the reviews have any relationship with the financial performance of banks.

Guiding Theory

The study was based on attitude theory. According to Gibson *et al.* (2000), attitude refers to the perceptions that individual or institutions have about something. Perceptions of banks on new regulations are likely to influence compliance and performance of banks. The theory proposes that if banks have higher perception on the new regulations, such perception influences banks to comply more because by doing that there are a lot of benefits banks are likely to get such as increase in financial performance regardless of the costs that might occur in the process of complying with the reviews. Perception of banks on new regulations is well explained in the concept of regulatory burden and unduly burdensome.

Beverly *et al.*, (2019) identified some benefits that banks get when complying with the requirements including protecting customers and investors from losing their deposits and shares; ensuring that banks are less likely to fail; and promoting stability and efficiency in the financial system. The weakness of this theory is that it has addressed only the benefits banks get when complying with new regulations and ignores the challenges that banks face when complying with the new regulations including operating costs and opportunity costs. According to Zheng *et al.*, (2017) operating costs and opportunity costs are the ones associated with foregone business opportunities because of the additional regulation. For instance, regulations on capital and liquidity requirements demand a bank to retain more money idle instead of that money be invested and generate interest. Considering Operating costs or compliance costs. Hoskins and Labonte (2015) observed these expenses as costs that a bank incurs in order to comply with regulation. For example, in fulfilling the new regulations, a commercial bank may use more money training its staffs to ensure they understand the new regulations, and the bank may have to procure updated computer programs because the

new requirements may demand new software which can demand more money. The theoretical gap or weaknesses of this theory is that the theory have focused only on perception and performance in terms of benefits and ignored perception of banks in terms of costs incurred. This theory is appropriate to this study because the more banks have favourable perception on new regulations, the more likely they conform to the amendments and, therefore, the performance is anticipated to grow regardless of the compliance costs banks face.

Empirical Reviews

Banks Perception on various Regulatory Requirements

Beverly *et al.*, (2019) noted a high perception among banks that, complying with banks requirements benefited more banks in terms of increase in profit, increase in banks assets and improve in technology. Osano and Gekara (2018) studied the effect of bank regulations on profitability of commercial banks in Kenya. In one of the study objectives, the study observed a high support and perception from commercial banks in Kenya regarding reviews made on capital adequacy regulations. Besides, the study noted an increase in profit, steadiness of the banking sector, growth of more branches after the implementation of the new regulatory requirements. The study suggested that the regulator must keep on ensuring that there is high conformity on stipulated guidelines in order to guarantee the stability of the banking sector. A study by Rachman *et al.* (2018) showed that fulfilment to credit risk management regulations permitted most banks to lower the rate of NPL in Indonesia. The findings showed that most banks supported the amendments made by the regulator on credit risk management practices because most banks gained a lot of advantages after regulatory reviews made on NPL requirements. Not only that, but also studies by Dietrich and Wanzenried (2011) and Athanasoglou *et al.* (2006) showed that banks had positive perception regarding the amendments made on bank regulations that the reviews were manageable and beneficial to the banks. A study by Vianney (2013) in Rwanda observed that some commercial banks faced some difficulties to comply with minimum financial institutions regulatory requirements that the appraisal made on minimum capital requirements were not reasonable to most banks hence, raised more operating costs to some

institutions. Such findings were analogous with the research results by Onaolapo and Olufemi (2012) who also observed a rise in running cost among commercial banks in Nigeria after the amendments made on financial institutions regulations. However, findings of these studies were opposite to the observations by Ndolo (2017) and David and Muendo (2018) who did a study in Kenya and found out that most banks were capable of abiding by the new regulations prepared by the Central Bank of Kenya on capital requirements. The findings from these literature sources implied that some banks had negative perception regarding costs associated with the regulatory reviews which seemed to be a challenge to most banks. Apart from capital and liquidity requirements, Adekunle and Taiwo (2013) observed that some commercial banks in Nigeria had low perception regarding some regulations on banks operations. Their main argument is that banks are getting trouble to comply with information reporting and disclosure regulations. Their quarrel is that unsatisfactory infrastructures and insufficient resources have caused most banks getting some difficulties to conform with publication and submission days requirements.

Additionally, bankers have challenged the new regulations on the basis that it would increase the financial cost for bank borrowers and worsen the bank profitability. Naceur and Kandil (2009) studied the banks regulations reviews in Egypt and find out that small banks were confronted with the raise in financial costs when obeying with the new requirements. This observation implies low perception by small banks on some regulations indicating that the increase in regulations results to the increase in operating cost. These findings are consistent with the findings by Maudos and Solís (2009) who found a similar low perception on some banks regulation that the reviews made increased banks' operating cost in Mexico. Difference to that, Zheng *et al.*(2017) discovered that using dynamic panel generalized method of moments (GMM) estimator, the research observed that changing from BASEL I to BASEL II had no influence on the cost of bank operations and bank profitability in Bangladesh which made most banks perceive differently about the contributions of the reviews on performance. Nonetheless, the majority of the previous reviewed studies such as; Zheng *et al.*(2017); Ndolo (2017); David and Muendo (2018); Beverly *et al.*, (2019); Osano and Gekara

(2018) and Rachman *et al.* (2018) just to mention few were carried out in developed countries where bank operations requirements, bank policies, technology and economic position are unlike those of Tanzania environment. Findings from previous studies have also shown disagreement with each other in terms of perceptions where, some literatures have observed high perception by banks on regulatory reviews while others have shown low perception therefore; a need to understand how commercial banks in Tanzania perceive on the banks regulations amendments is paramount. Similarly, previous reviewed studies have mostly focused on quantitative data to determine the relationship between banks regulations and financial performance. This study has distinguished itself with the previous study by using both qualitative and quantitative data. Qualitative data were preferred in this study in order to investigate the way banks perceive about the new regulations in terms of fairness and affordability hence, their views and opinions were valuable for this study. From the reviews made on various literatures, the researcher was interested to answer the question

(Q1): What is the level of banks perception regarding the new amendments made by the BoT on the regulatory requirements reviews?

This question was developed in order to answer the specific objective one, while for specific objective two the study tested the following hypothesis

(H₁): There is a significant and positive relationship between banks' perception on regulatory requirements reviews decisions and financial performance of commercial banks.

Methodology

This study was conducted using cross-sectional design; data were collected from a large population at one point in time, and it facilitated use of different methods of data collection. The design also allows the comparison of many variables at the same time without interfering with the subjects. The data were collected in Dar es Salaam Region. The Region was preferred purposely because almost all 36 commercial banks in total which are available in Tanzania have their headquarters in the region as compared to other regions in Tanzania (BoT, 2018). A sample of twenty-four (24) commercial banks

out of 36 registered commercial banks was selected because the banks had operations since 2008 to date. The reason for choosing 2008 as a base year is to get views of the banks which witnessed major amendments of the year 2008 before other major reviews conducted on 2014. To capture information about banks perception on reviewed regulatory requirements, a total of five (5) banks officers from five departments of each sampled banks namely credit department, finance department, IT department, administration department and compliance and risk management department were involved to provide the data making a total of 120 respondents. These departments were involved in the study because the reviewed regulations were mostly focusing these departments for implementation. The study involved only bank manages from the said department (finance manager, compliance and risk management manager, credit manager, IT manager and general manager). These people were given priority due to the nature of the study that bank regulations need specific key and well-informed personnel at the decision level who interact with such regulations in their daily operations hence, the targeted respondents were assumed to be knowledgeable on the required information.

The same approach has been also used by Kinyua, Muathe and Kilika (2015). Purposive sampling was used to select 24 commercial banks. Stratified random sampling method was used to select the number of departments. The functional areas were divided into strata/subgroup called departments, and then bank officers from respective departments were selected purposively because of their position. Primary data were collected from respondents using semi-structured questionnaires which were designed to get bank perceptions on reviewed regulatory requirements decisions. Secondary data on banks financial performance measured by return on equity (ROE) were obtained from the annual financial statements of each selected bank for six years after the reviews (2014-2019), then a mean and standard deviation was computed. Descriptive statistics and correlation analysis were used to analyse the data. Both qualitative and quantitative data were collected. For qualitative data, 24 risk and compliance officers were selected from 24 commercial banks which were obtained purposively. However, due to the nature of bank activities which are laborious, only 13 key informants were approached successfully.

This number included 8 respondents from large banks and 5 respondents were obtained from small banks because there are only 8 large banks in Tanzania as per BoT report (2018). Qualitative data were analysed using thematic analysis, which was employed to identify codes, analyse and report with the aid of Atlas software. The results on banks perceptions on regulatory requirements reviews were then displayed in coded quotations; then the actual analysis took place during the writing process by summarizing and interpreting the results in terms of interviewees' opinions. Using thematic analysis, the researcher first got familiarization with the data, generated initial codes, searched for themes, reviewed themes, provided definitions of themes and then wrote-up, in accordance with Braun and Clarke (2006). Familiarization with the data went parallel with transcription of data whereby at this stage the researcher first listened and presented audible data into written form.

The researcher listened to the recorded data from key informant interviewees and wrote exactly what they said. The transcripts from the audio files were read repetitively for the familiarity of the data. Then, through the repetitive process reading the transcripts, patterns of the concepts eventually emerged. Development of initial codes, in the process of developing codes, the researcher identified the key issues or variables as initial coding categories. Here, the list of codes was generated from data transcriptions and then organized to form another step called themes development. Validity and reliability of research instruments were observed before using the research instruments for the main survey. Pre-testing of questionnaires was conducted before it was administered to determine the content validity; a total of 40 questionnaire copies, equivalent to 33.3% of a sample size were administered to 5 heads of department from 8 selected banks in Moshi-Kilimanjaro but properly filled out the questionnaire copies were 41 (85.4%). Few unfamiliar terms and unclear questions were noted; hence, the items were dropped from the final questionnaire. Finally, the researcher noted all the unclear items and questions and then improved them. Besides, research experts from Moshi Co-operative University and Mwenge Catholic University assessed the questionnaire and gave comments which were incorporated. The instrument reliability was also tested before using the questionnaire. Internal consistency

was tested to determine the value of Cronbach's Alpha for each variable. In this test, a threshold of 0.7 was adopted using reliability test results. From the findings it was established that all the questions adopted in the study had an overall Cronbach's Alpha value of 0.823 which was greater than 0.7. To obtain the required alpha results, some of the items that were in the questionnaire which gave a Cronbach Alpha less than 0.7 were deleted. As a result, the questionnaire was revised before being used for the main survey. The perception of banks on reviewed regulatory reviews decision was assessed by a total of fourteen items. The items were measured on 5 levels Likert type data labelled as strongly disagree, disagree, neutral, agree and strongly agree. The five points were scored as 1= strongly disagree to 5= strongly agree. Banks perception on reviewed regulatory reviews outcomes were analysed by using mean scores and standard deviation.

Results and Discussion

Descriptive Statistics

This section presents results on the level of financial performance and level of perception that commercial banks have on new regulatory requirements and then determine whether the relationship between banks perception on new regulations and financial performance is significant or not. Table 5.19, 5.20 and 5.21 illustrates the findings.

Commercial Banks Perception on Regulatory Requirements Reviews Decisions

In order to know the level of banks' perception on reviewed regulatory requirements decisions based on the responses, the mean and standard deviation scores of each variable were computed. The perception scale is given in Table 1.0 for analysis purpose; Table 1.0 illustrates the findings of the study.

Table 1: Commercial Banks' Perception on Regulatory Requirements Reviews Decisions

Perception statements	Mean	Std Deviation
The decision of increasing capital adequacy requirements from TZS 5/= to 15/= billion was a right decision'	4.39	0.96
The decision of maintaining liquidity ratio requirements at 20% was a right decision	2.63	1.93
The decision of increasing cash reserve ratio from 5% to 7% was a fair decision	3.02	1.51
The decision of maintaining NPL requirements at 5% is affordable to our bank	3.65	1.40
The decision of increasing number of newspapers used for publication from one to at least two newspapers was a right decision	4.50	0.87
The decision of increasing number of submission days of published financial statements to the regulator from 3 to 5 days was a fair decision	4.61	0.72
The decision of decreasing number of publication days from 45 to 30 days is fair	2.41	1.82
Aggregate Mean Score and Standard Deviation	3.60	1.31

Key: Perception Scale:

Mean Range	Responses Made	Perception Interpretation
1.0-1.7	Strongly Disagree	Very Low
1.8-2.5	Disagree	Low
2.6-3.3	Neutral	Moderate
3.4-4.1	Agree	High
4.2-5.0	Strongly Agree	Very High

Source: Survey Data (2020).

As shown in Table 1.0, generally most of commercial banks had high perception regarding the amendments made by the BoT on various banks regulatory requirements as shown by the mean score of 3.53 and the lowest standard deviation of 1.31. The findings in Table 1.0 show that most commercial banks both large and small agreed strongly that the increase in number of submission days of published financial statements to the regulator from 3 to 5 days was a right decision; the increase in number of newspapers used for publications from one to at least two newspapers was a fair decision. These findings were supported with qualitative data where during the interview with compliance and risk management managers of banks, they expressed the way they perceived about the amendments made on the information and reporting regulations in relation to the benefits they get that:

“...our bank has enjoyed the act of publishing our financial statements in many newspapers. Publishing to many newspapers has enabled us to get more customers and more investors, our customers are now well informed about our services....”(Interviews field data, Dar es Salaam, February, 2020).

These findings as quoted from the KIs indicate that most commercial banks have high perception regarding reviews made by the BoT on increasing the number of newspapers used for publication from one to at least two newspapers. The findings imply that using more newspapers in publishing financial reports become a marketing tool for most banks. Findings from Table 1.0 also indicate that respondents supported the increase in capital adequacy requirements from TZS 5/= to 15/= billion was also a right decision as shown by the mean score of 4.61, 4.50 and 4.39. their arguments were supported with qualitative data where during the interview, most compliance and risk management managers from large banks expressed the way compliance on capital adequacy requirements reviews has benefited their banks that:

“... The new requirements on capital adequacy regulations improved our bank services by increasing more customers through opening more branches and ATMs in different places which have helped our bank to reach more customers and save them efficiently....” (Interviews field data, Dar salaam, February, 2020).

Generally, results indicate that capital adequacy amendments have helped most large banks to improve their services in terms of dealing with customers and providing better customer services while for some small banks they are still getting challenges to comply with the capital adequacy requirements to some extent. These findings are different with the results by Zheng, Rahman, Begum and Ashraf (2017) who observed that banks perceived negatively on amendments made on capital regulations from BASEL I to BASEL II that has not benefited banks in Bangladesh in getting more profit. Another finding is that; most of commercial banks had very high perception regarding the amendments made on submission days of published financial statements, number of newspapers used for publication and the capital adequacy requirements. This kind of perception implies that banks the increase in number of submission days enable banks to get sufficient time to correct various errors in the documents before submitting them to the regulator. Similarly, the use of more newspapers for publications creates awareness to the public on the banks operations hence, attract more customers while the increase in capital requirements enabled banks to use the capital buffer to expand more branches and ATMs hence, increases more customers and profits.

Table 1.0 indicates that commercial banks both small and large agreed that the decision of maintaining NPL requirements at 5% was affordable to most banks as shown by mean score of 3.65. The responses indicated that most of commercial banks had high perception regarding the amendments made by the BoT on decisions made by the BoT on NPL requirements. The findings implied that majority of commercial banks are working more-hard to ensure that they control the NPL exposures to the required standard using both internal and external strategies. By controlling NPL exposures to less than 5% banks become more stable, efficient and solvent. Further, most commercial banks were neutral or undecided on liquidity management requirements that; the decision of increasing cash reserve ratio from 5% to 7% and the decision of maintaining liquidity ratio requirements at 20% was a right and fair decision as shown by the mean score of 3.02 and 2.63. The responses indicated that there were some banks which were satisfied with the decision made by the BoT on liquidity management requirements while other

banks were not satisfied. Arguments for the banks which were not satisfied with the reviews was supported with the qualitative data from some respondents who said that;

“ Keeping too much liquidity is an opportunity cost for our bank because by keeping too much cash in hand waiting for unforeseen events and emergencies the money becomes idle because if this money could be invested it could generate some interests but now the interest is foregone which is a cost for us.” (Interviews field data, DSM, February, 2020).

Such findings showed that most banks both small and large banks had moderate perception regarding the amendments made on liquidity and cash reserve ratio requirements as also observed by Oganga (2018). Lastly, most large banks disagreed that the decision of decreasing number of publication days from 45 to 30 days was fair as shown by the mean score of 2.41. The findings implied that most large banks had low perception regarding the decisions made by the BoT of reducing the number of publication days after the end of every quarter. The argument here was that compiling the financial reports from different branches needed more time. Lowering the number of publication days could also increase unnecessary costs to the banks such as hiring part-time staffs and paying overtime to enable staffs work beyond their normal time to meet the deadline. The qualitative data collected from the field where one of the respondents from large banks said that;

“ Managing to meet the publication days requirements in 30 days has become a challenge to our banks because we have many branches in different regions; 30 days requirement is not enough to collect all the financial statements from our branches and validate them....” (Interviews field data, Dar es Salaam, February, 2020).

These results are consistent with the findings by Wanzenried (2011) and Athanoglou *et al.* (2006) who observed that banks perceived positively about the amendments made on bank regulations that they were fair, simple and affordable to most banks. However, findings are contrary with the studies by Zheng *et al.*, (2017) who observed that banks perceived negatively on the amendments made on capital regulations from BASEL I to BASEL II that were somehow difficult.

Financial Performance of Banks before and after Regulatory Requirements Reviews

In order to know the level of financial performance of commercial banks before and after regulatory reviews as measured by return on equity that is the ratio of net income to total equity (ROE), Table 2 summarises the findings of the study showing the means before and after reviews.

Table 2: ROE of Banks before and after Regulatory Requirements Reviews

Var	Before regulatory reviews (2008-2013)				After regulatory reviews (2014-2019)			
	Obs	Mean	Min	Max	Obs	Mean	Min	Max
ROE	144	9.01	-38.0	29.0	144	12.19	-52.0	40.0

Source: Survey data (2020)

The findings from Table 2 showed that the average mean of selected commercial banks increased by 3.18% from 9.01% before regulatory reviews to 12.19% after regulatory reviews. The increase in ROE could be possibly influenced by perceptions banks have on new regulatory requirements or could be contributed by other factors not explained in this study.

Hypothesis Testing

The Relationship between Banks Perception on Reviewed Regulatory Requirements and Financial Performance

Correlation analysis was used in this study to show the strengths of the relationship between banks perception on new regulations and financial performance as measured by ROE. The study computed inter-correlation coefficients' using the Pearson's r, which is mostly used for variables of ratio scale measurements. A higher r-value implies stronger relationship. Table 3 shows well the correlation coefficients of the variables and the strengths of the relationship.

Table 3: Correlation matrix between Banks Perception on New Regulations and ROE

Variable		Banks perception on new regulations	ROE
Banks perception on new regulations	Pearson's r	1	.558**
ROE	Pearson's r	.558**	1
	Significance	.000	.000

** Correlation is significant at 5% level (2-tailed)

Source: Survey data (2020)

Correlation Scale: 0-indicates no correlation between variables; 0.10-0.29 – low degree of correlation; 0.30-0.49-moderate correlation; 0.50-1.0-high degree of correlation

Based on the analysis as shown in Table 3, the relationship between banks perception on the new regulatory requirements and the financial performance as measured by ROE was positive and significant with a high degree of correlation; therefore, the given hypothesis (H_1) was supported. The findings implied that positive perceptions banks have on new regulations enables them to increase their profits because high compliance on capital adequacy and information reporting and disclosure requirements helps banks to issue more loans, open more branches and ATMS, reach large number of customers, become stable and solvent all the time. The findings are different with findings by Vianney (2013) who conducted a study in Rwanda and observed that the amendments made on capital adequacy requirements did not contribute much to the financial performance of banks in Rwanda.

Theoretical Contributions

This study has contributed to the attitude theory by adding some variables related to the compliance costs in relationship to the regulatory requirements reviews. The attitude theory linked only the relationship between perception and benefits without saying anything on the relationship between perception and compliance costs.

Conclusion and Recommendations

This paper aimed at assessing the relationship between banks perception on regulatory requirements reviews decisions and financial performance of selected commercial banks in Tanzania. The study concludes that most banks have high perception regarding the amendments made by the BoT on increasing the capital adequacy requirements from TZS 5/= to 15/= billion, increasing the submission days of published financial statements from 3 to 5 days, and increasing number of newspapers used for publications from one to at least two newspapers. Similarly, most banks are satisfied with the decision of maintaining the NPL requirements at 5% that the rate is fair and affordable. However, perception of some of small banks concerning capital adequacy requirements was low claiming that the TZS 15/= billion requirements is still too high for them. Concerning the liquidity requirements, some commercial banks were not satisfied with the decision of the BoT of maintaining the liquidity ratio at 20% and increasing the cash reserve ratio from 5% to 7% that the decision creates more opportunity costs to some banks.

Additionally, most large banks have low perception regarding the reviews made of lowering the publication days from 45 to 30 days that they increase more costs to banks when complying with the requirements. The results obtained from correlation analysis showed that the relationship between banks perception on the new regulatory requirements and the financial performance was positive and significant with high degree of correlation regulatory indicating that the reviews made on capital adequacy requirements, information reporting and disclosure enabled most banks to increase profit and more customers, build more branches and ATMs. This study contributes to the overall research in the related field by providing additional empirical support on emphasizing on the importance of implementing seriously the new regulatory requirements. The study recommends to the commercial banks that the new capital adequacy requirements and information reporting and disclosure requirements should be implemented with special attention in order to make banks get high profit. If commercial banks fail to implement the new regulations seriously there is a danger of most banks reporting low profit or loss, also some banks can

become insolvent and collapse. Based on the above conclusions, it is recommended that commercial banks should carefully design strategies which would help them to increase more capital buffer. Among the strategies which banks might use to improve their capital requirements are: investing in marketable securities, establishing others, diversifying their income sources by investing in other profitable projects and also merging with other strong banks. On the financial reporting and publications requirements, the study recommends that commercial banks should strategize on how to build robust Information Technology (IT) infrastructure to support their financial reporting and disclosure capabilities which would enable commercial banks accomplish their financial reporting and publications exercise on time to avoid unnecessary penalties. To the regulator, the study recommends that BoT should review liquidity requirements and cash reserve ratio which it seems to be too high and costly for many banks.

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