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The Relationship Between Regulatory Requirements Reviews, Compliance Benefits and Costs: Evidence from Selected Commercial Banks in Tanzania

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ABSTRACT---- ***The Central Bank of Tanzania (BoT) has undergone various bank regulations reviews at different periods of time including 2008 and 2014 reviews. After the reviews some banks have shown low compliances, collapsed and merged while others have shown high compliances and greater performance. This study therefore, intended to assess how commercial banks in Tanzania benefits from complying with new regulatory requirements and to determine to what extent does compliance costs affects banks performance. The study employed an exploratory research design using the sample size of 24 commercial banks selected from Dar es Salaam headquarters; however, only 13 key informants were successfully reached. Primary data were collected from compliance and risk management managers using interview guide. Thematic analysis was used for data analysis and findings from the study show that most banks have well benefited with the new regulatory requirements in terms of increase in profit, expansion of more branches, ATMs and increase in number of customers. Considering the compliance costs; findings show that to some extent some new regulatory requirements reviews have increased operating costs to most banks. The study recommends that banks should carefully design strategies which will help them to control NPL, manage and increase more capital and liquidity requirements. To the regulator the study recommends that; BoT should think of reviewing liquidity requirements and cash reserve ratio which seem to be too high and costly for most banks to afford. The BoT can also introduce separate capital adequacy requirements as per bank size.***

Keywords--- Regulatory reviews, compliance benefits, compliance challenges, Commercial Banks.

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1. INTRODUCTION

The International Banking Association called Basel Committee (Basel I, IIand III) has been going through the process of reviewing International Banking and Financial Institutions Regulations at different periods of time (Osano and Gekara, 2018; Ndolo, 2017). The regulatoryreviews has been supported by different countries in the world whereby their government removed, maintained or added some regulations that are governing financial institutions (Masood and Ansari, 2016). However, compliance on bank regulatory reviews differs among banks(Ongore and Kusa, 2013; Ofoegbu and Okoye, 2006).After reviewing bank regulations; some banks complied well while others fail to comply hence, collapsed or merged with other banks.For instance, Southern bank in the USA failed and was shut down in the year 2010 (Jiang, Fan and Xia,2018). Twenty five banks in Nigeria were liquidated by the Central Bank of Nigeria (Ugoani, 2016). Nonetheless, in Ghana in 2018 five banking institutions failed to operate on a stand-alone basis and it was consolidated into a single bank by the Central Bank of Ghana due to rising levels of non-performing loans (Asiama andAmoah, 2019). In Kenya, after the review of bank regulations in the year 2013, Dubai bank was placed in liquidation and two large banks (Imperial and Chase bank) were placed under receivership by the Central Bank of Kenya because of capital deficiencies and high credit risk (CBK, 2018). Lotto (2018) observed that the increase in bank regulations on capital adequacy requirements influences banks decisions to improve more on its internal control systems and procedures through employing more qualified staffs, improve risk assessment methods and credit evaluation procedures to enable banks meet the credit risk management requirements.

There is debate on the benefits banks get as a result of regulatory reviews worldwide. Literatures provide contradicting views on the relationship between compliance benefits, costs in relation to regulatory reviews. Some scholars have observed that regulatory requirements reviews has enabled banks to improve their performance and efficiency while others have noted that new regulations has affected banks performance in terms of cost and resources. Using the study by Hoskins and Labonte (2015), financial regulation can result in both benefits and costs. The benefits of financial regulation include protecting consumers from fraud, discrimination, and abuse; ensuring that banks are less likely to fail; and promoting stability in the financial system. The study observed high compliance on core capital ratio and total capital ratio which improved performance of most banks in terms of return on equity and return on assets. Another study is a study by Masood and Ansari (2016) which observed that banks in Pakistan reported high compliance on various bank regulation which helped most banks to achieve good efficiency. To the other side of the negative results; a study by Vianney (2013) in Rwanda observed a negative relationship between regulatory requirements and bank performance.

The argument is that some commercial banks faced some challenges to comply with minimum capital adequacy and liquidity requirements where the reviews made on minimum capital adequacy requirements were not easily affordable and thus increased more operating costs to the banks which affected their profit. The findings were similar with the findings by Onaolapo and Olufemi (2012) who also noted increase in operating cost among commercial banks in Nigeria after the regulatory requirements reviews. . For example, high costs has been reported at the time of complying with new regulations where banks may be required to acquire more facilities, employ more people, improving technology, borrow money or issue some shares in order to comply with the requirements. All these resources and facilities demands money which may results to the increase in operating costs of banks hence, affects profit and return on shareholders

Based on some of the empirical reviews, literatures have shown that there are banks which have benefited much with the new regulations while other scholars have shown that some banks have not benefited well with the new regulations rather they have been experienced a lot of challenges when complying with the reviews. With these contradicting observations, establishing which effect is relevant in Tanzania banks remains an empirical question that this study tries to answer. This study contributes to the literature by assessing benefits acquired by banks in Tanzania after complying with the new regulatory requirements of 2014 and also finding out the challenges facing commercial banks in Tanzania when complying with the reviews. Tanzania case provides a unique framework to measure this relationship because the country has recently conducted financial regulations reviews in 2014 and also following the reviews some banks in 2018 were reported failed to comply hence collapsed and others were merged.Given the bank regulations reviews have mixed consequences outcomes, and given the events of bank collapses and merging of others caused by the increase in cases of NPL and capital shortages make this study paramount.Furthermore, this study adds value to the available literatures in Tanzania; as few studies are available in this area regarding current regulatory reviews, its benefits and the associated challenges hence, studying on the relationships between current regulatory requirements reviews, its compliance benefits and challenges motivated this study to be conducted.

2. STATEMENT OF THE PROBLEM

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), Tanzania government 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 tofifteen (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% and improved cash reserve ratio from 5% to 7%.

Apart from capital adequacy and liquidity ratio regulatory requirements, the BoT under financial reporting and disclosure regulations 2014 did the following amendments; it improved quarterly and annually disclosure of audited financial statements from using one to at least two newspapers for publications, 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%.

However, after the reviews some banks showed high performance while others failed to comply with the new regulatory requirements as a results those banks collapsed. Fore stance, earlier January 2018 five banks failed to comply with the new requirements and were closed by the BoT including; Twiga Bancorp and Bank M which collapsed and were taken over by the Central Bank of Tanzania and then merged with Tanzania Postal Bank and Azania Bank (BoT, 2018). With the collapse and merging of some banks motivated this study to be conducted so as to know what challenges are facing commercial banks in

Tanzania when complying with new regulations; but also, thegood performance which has shown by some banks motivated this study to know what benefits commercial banks get after complying with new regulations. Besides, the many regulatory reviews in Tanzania, makes follow up studies important. It is against this background that this study was designed to fill the underlined empirical gaps.

3. OBJECTIVES OF THE STUDY

i. To determine the relationship between regulatory requirements reviews and the compliance benefits among selected commercial banks in Tanzania

ii. To examine the relationship between regulatory requirements reviews and the compliance costs

iii. To determine the relationship between compliance costs and compliance benefits.

4. SIGNIFICANCE OF THE STUDY

Findings of this study will help commercial banks to find out strategies of complying well with the regulatory requirements reviews at the lowest cost. Similarly, findings of this study will inform the regulator to look the regulations which seems to be some how difficult for some banks to afford but also improve more on regulations which seems to be more beneficial to banks

5. CONCEPTUAL FRAMEWORK

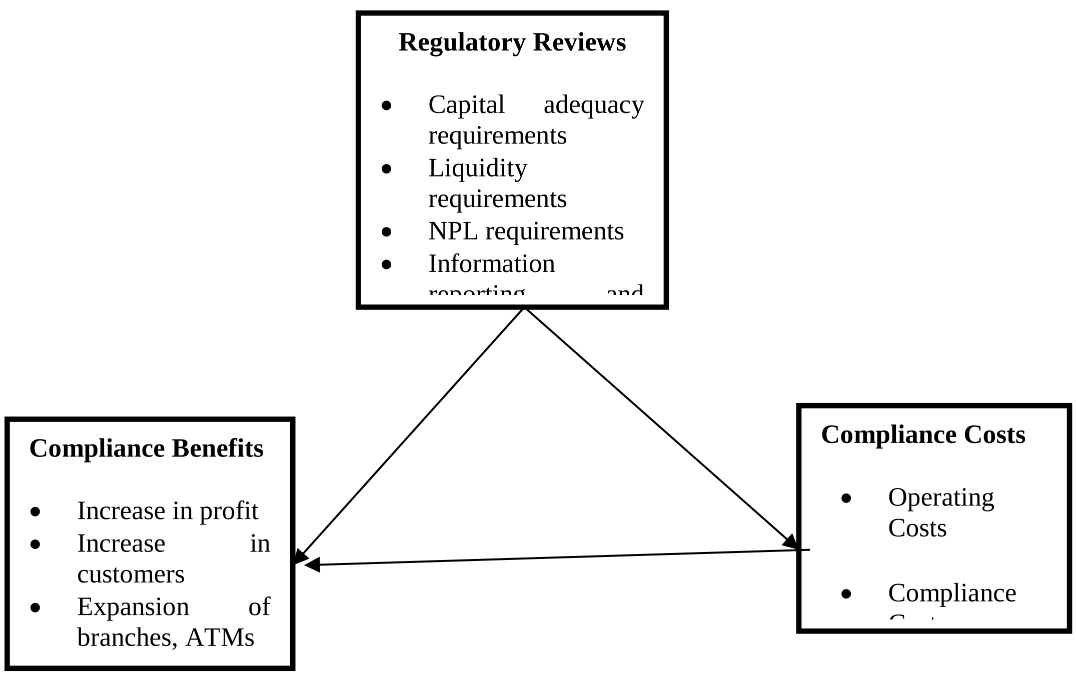

Figure 1: Conceptual framework (Source field work 2020)

Figure 1 presents a conceptual framework that shows the relationship between three variables of the study; regulatory requirements reviews (capital adequacy reviews, liquidity requirements review, NPL requirements reviews and information reporting and disclosure requirements reviews), compliance benefits (increase in profit, increase in customers, expansion of branches and ATMs, and increase in confidence and trust) together with compliance costs (operating costs and opportunity costs). The relationship between the given variables is assumed that the regulatory reviews done by the BoT benefited more banks after compliance. Another relationship is that the reviews made on the regulations affected the costs of most banks when complying with the new regulations and lastly the study assumed that probably the if the compliance costs are high they are likely to affect the benefits banks get after complying with the new regulations.

6. LITERATURE REVIEW

6.1 Theoretical Review

This study is guided by attitude theory according to (Gibson et al., 2000). Attitude of banks on regulatory requirements reviews is well described in terms of regulatory burden and unduly burdensome. The benefits of financial regulation compliance include 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 addresses the challenges or compliance costs facing banks when complying with the regulatory requirements reviews. It should be noted that when banks are complying with the regulations there are some challenges banks are facing them. One of the challenges is regulatory burden including operating costs and opportunity costs. Operating costs (or compliance costs) are the costs the bank must bear in order to comply with regulation. For example, in response to a new regulation, commercial bank may devote 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 defines concepts in ways that are unsuited with its old systems. Updating computer programs is an example of operating costs that are associated with compliances. Other costs, such as hiring additional compliance officers, are recurring costs that exist so long as the requirement is in effect. Opportunity costs are the costs associated with foregone business opportunities because of the additional regulation. Fore stance, regulations on capital and liquidity requirements demand a bank to retain more money idle instead of that money be invested and generate interest. A bank may, for example, offer fewer loans because new regulations make loans lending more expensive and instead choose to perform a different type of activity that is now more profitable.

The link between this theory, regulatory reviews, benefits and challenges is that when banks comply well with the reviews, their performance is likely to increase regarding the compliance challenges they are facing. This theory is relevant to this study in the way that the more banks have favorable attitude towards new regulations, the more likely the banks comply with the reviews and therefore, the performance is expected to increase despite the compliance costs banks face.

6.2 Empirical Literature Reviews

6.2.1 Regulatory requirements reviews and compliance benefits

Complying to the new regulations has benefited more banks in various aspects like increase in profit, expansion of banks facilities, building more banks branches and ATMs. Forinstance, Beverly, Anna and Matthew (2019) in their study noted that banks supervision practices benefited more banks in terms of profit and institutional facilities that after complying with new regulations most banks reported high profit, increase in banks assets and improve in technology. Another study is by Osano and Gekara (2018) who examined the effect of government regulations on profitability of commercial banks in Kenya. The study observed increase in profit, stability of the banking sector, expansion of more branches and therefore, the study recommended that government must continue to ensure that there is high compliance of stipulated guidelines in order to ensure the stability of the banking sector. Rachman et al., (2018) observed that compliance on credit risk management regulations enabled most banks to reduce the rate of NPL in Indonesia. This finding indicates that mostbanks benefited with the regulatory reviews made on NPL requirements. Dietrich and Wanzenried (2011) and Athanasoglou, Delis and Staikouras (2006) observed that banks perceived positively about the amendments made on bank regulations that they were manageable and beneficial to the banks.

6.2.2 Regulatory requirements reviews and compliance costs

Complying with new regulations has challenged most banks in different countries in terms of costs. Their argument is that complying with new regulatory requirements has become difficult for some banks to afford that some of the regulatory requirements are too demanding and expensive. It has been observed that, the financial cost of complying with new regulations has also increased in some banks that affect profitability of some financial institutions. A study by Vianney (2013) in Rwanda observed that some commercial banks faced some challenges to comply with minimum capital adequacy and liquidity requirements that the reviews made on minimum capital adequacy requirements were not easily affordable and thus increased more operating costs to the banks. The findings were similar with the findings by Onaolapo andOlufemi (2012) who also noted increase in operating cost among commercial banks in Nigeria after the regulatory requirements reviews. However, results of these studies were contrary with the results by Ndolo (2017) and David and Muendo (2018) who conducted a study in Kenya and observed thatmost banks were able to comply with the newamendments made by the Central Bank of Kenya on capital adequacy requirements. This finding implies that affordability of ost banks on the new capital adequacy regulations was no a challenge for most banks in Kenya.

Adekunle and Taiwo (2013) who observed that some commercial banks in Nigeria are getting challenges to comply with information reporting and disclosure regulations. Their argument is that poor infrastructures and lack of required resources has caused most banks failure to comply with publication and submission days requirements. Moreover, bankers have criticized new regulation on the ground that it would enhance the cost of funds for bank borrowers and deteriorate the bank profitability. Naceur and Kandil (2009) examine the Egyptian bank and find that small banks were challenged with the increase in financial costs when complying with the new regulations implies that the increase in regulatory requirements results to the increase in operating cost. Their findings were similar with the findings by Soedarmono and Tarazi [12] consider publicly traded banks in Asia and Maudos and Solís (2009) examine Mexican banks and find a similar positive association between capital ratios and banks' cost of financial intermediation. Contrast to that Zheng et al.,(2017) observed that By employing a dynamic panel generalized method of moments (GMM) estimator, the study find robust evidence that higher bank regulatory capital ratios reduce the cost of financial intermediation and increase bank profitability. The study also observed that switching from BASEL I to BASEL II has no measurable impact on the cost of financial intermediation and bank profitability in Bangladesh.

6.2.3 Compliance benefits and compliance costs

Some studies have shown that despite the benefits banks get after complying with regulatory reviews, compliance costs in terms of opportunity costs and operating costs have affected such benefits to some extent because complying to the new regulations require banks to employ more staffs, improve IT systems, improve infrastructures and add more resources, borrow money to meet the requirements hence, increase in both opportunity costs and operating costs which in turn if they exceed the benefits; the performance of banks is generally affected. According to Haskins and Labonte (2015) For example, in response to a new regulation, commercial bank may devote 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 defines concepts in ways that are unsuited with its old systems. Updating computer programs is an example of operating costs that are associated with compliances. These costs if are too high as compared to the benefits they lower profits. Other costs, such as hiring additional compliance officers, are recurring costs that exist so long as the requirement is in effect. According to Zheng *et al.,* (2017) Opportunity costs are the costs associated with foregone business opportunities because of the additional regulation. Fore stance, regulations on capital and liquidity requirements demand a bank to retain more money idle instead of that money be invested and generate interest. A bank may, for example, offer fewer loans because new regulations make loans lending more expensive and instead choose to perform a different type of activity that is now more profitable. Thus increase in opportunity costs can also have an impact on the banks benefits.

Studies conducted in Tanzania including (Lotto, 2018) did not say anything about information reporting and disclosure regulations and also did not report anything about banks perceptions on regulatory requirements reviews. Findings from these studies observed that amendments made on various regulatory requirements had significance influence on bank performance. Nevertheless, the majority of the previous studies like Onaolapo and Olufemi (2012), David and Muendo (2018), Dietrich and Wanzenried (2011) and Delis and Staikouras (2006) were conducted outside of Tanzania environment where bank regulations, financial policies, technology and economic status are different. Besides, most of the aforementioned previous studies on bank regulatory requirements have concentrated more on quantitative data; this study has used more qualitative approach to analyse compliance benefits and costs in relation to regulatory requirements reviews. Besides, after the implementation of bank regulatory requirements reviews in 2014 in Tanzania, there are limited studiesthat undertaken to assess the benefits and costs associated with complying with the new regulatory requirements, a follow up study was deemed important. Furthermore, collapsing and merging of some banks in 2018 after regulatory requirements reviews in 2014 motivated this study to be conducted. Furthermore, most of the reviewed literatures have focused only on the relationship between banks regulations and performance without showing the costs associated with the reviews. Previous literatures reviewed have mostly focused on profitability indicators as a measure of benefits; this study has added other benefits indicators in addition to profits such as expansion of banks branches, ATMs, number of customers and increase in trusts and confidence. Finally, the previous reviewed literatures have measured the relationship between regulatory reviews and banks benefits using quantitative measures. This study has distinguished itself from the previous studies by measuring such relationship qualitatively, purposely to determine the views banks have on regulatory reviews in terms of benefits and costs

7. METHODOLOGY

7.1 Research Design

The study used the exploratory research designs to assess the compliance benefits and challenges associated with regulatory requirements reviews. Exploratory research is applied when sufficient information is not known about a phenomenon and a problem that has not been clearly defined (Saunders et al., 2009). Exploratory research has the goal of formulating problems more precisely, clarifying concepts, gathering explanations, gaining insight, eliminating impractical ideas, and forming hypotheses using key informant interviews.

7.2 Description of the Study Area

This study was conducted at Dar-es-Salaam region in Tanzania which is the headquarter of most banks. The region also was selected because of its accessibility and assurance of getting relevant data from many registered banks as compared to other regions which have branches only and misses some bank categories (BoT, 2018).

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7.3 Methods of Data Collection

The study used interview guide to collect qualitative data from compliance and risk management managers. This instrument enabled the researcher to obtain detailed information about compliance benefits and challenges related to new regulatory requirements reviews. The individual interviews were held in their respective offices and took an average of 30 t0 40 minutes per interview as also supported by Mugenda and Mugenda (2003) who proposed that a time of at least 30 minutes is reasonable for an interview session.

7.4 Population, Sample size and Sampling Techniques

The target population of this study comprised of thirty six (36) commercial banks which are registered by the BoT (BoT, 2018). This population includes 8 large and 28 small commercial banks. Out of 36 registered banks, 12 small banks were excluded in the sample because were not in operations before the year 2008 where other major amendments were conducted in this year. Based on these criteria, a sample of only twenty four (24) key informants were selected from 24 banks (i.e 8 large and 16 small commercial banks). The reason for choosing 2008 as a base year is because the study wanted to determine the perceptions of banks on the new regulatory requirements reviews of 2014 by comparing with the old regulatory reviews of 2008. Based on this condition, it is only 24 commercial banks which met the criteria were considered in the study. During the data collection exercise and by considering the nature of bank activities, only 13 Key informants from 13 banks weresuccessfully accessed for the interview. The number was deemed to be sufficient because it included both bank categories in the accessed sample (i.e 5 large banks and 8 small banks).This number according to Cresswell (2014) is sufficient for the qualitative data because the sample size is not less than 10. The study used Purposive sampling technique to select the risk and compliance managers based on their position, status, knowledge and experience on bank regulations. In identifying the source of the responses, the five large banks were nicknamed bank “A” to “E” while the eight small banks were nicknamed bank “F” to “M”)

7.5 Data Analysis Techniques

This study opted to use thematic analysis to analyse qualitative data; thematic analysis was employed in this study to identify code, analyse and report by the aid of Atlas.ti software as suggested by Kalu (2017).Using this technique the results on banks views on compliance benefits and challenges associated with regulatory requirements reviews were displayed in the coded quotations, then the actual analysis take place during writing process by summarizing and interpreting the results in terms of interviewees’ opinions. Using thematic analysis, the researcher first get familiarization with the data, generation of initial codes, search for themes, review of themes, providing definition of themes and then write-up Braun and Clarke (2006). Familiarization process went parallel with transcription of data where at this stage the researcher first listened and presented the audible data into written form. The researcher listened to the recorded data from the key informant interviews and wrote exactly what was said.The transcripts from the audio files were read repetitively for the familiarity of the data then through the repetitive reading of 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 were generated from data transcriptions and then organized to form another step called themes development

8. FINDINGS AND DISCUSSION

8.1 Regulatory requirements reviews and compliance benefits

The first objective of this study was to determining benefits commercial banks get after complying with current regulatory requirements reviews in Tanzania. The BoT made important amendments on capital adequacy requirements, liquidity requirements, NPL requirements and information reporting and disclosure requirements. The decisions made include increasing the requirements, decreasing or maintaining them. More importantly, explanations on views of every regulatory requirements review have been well discussed as follows.

8.1.1 Capital adequacy requirements reviews and compliance benefits

During the discussion with key informants, compliance benefits was among of the common issue emerged from most respondents; both small and large banks responded positively concerning benefits banks get from new regulations that capital adequacy amendments has helped banks to improve their performance. This is evidenced with the truth that higher amount of capital buffer helps banks to invest in modern technology, investing in other profitable projects, reduce risk of becoming insolvent, and a bank can establish more new branches and can add more ATMs. During the interview, compliance and risk management managers expressed the way compliance on capital adequacy requirements reviews has benefited their banks. For instance, one respondent from bank "C" said (and was supported by three KIs from bank "D" , "J" and "l") that:

> ". *…. Amendments on capital adequacy regulations improved our bank services in dealing with customers; observance and adherence to regulations can help banks to involve them indirectly in offering better services to customers; besides, our bank has managed to reach more customers through opening more branches and ATMs*…." (Interviews field data, Dar salaam, February, 2020).

Generally, findings show that capital adequacy reviews has helped banks to improve their services in terms of dealing with customers, better customer services and also enhancement of the banks reputation. These findings are contrary to the findings by Zheng, Rahman, Begum and Ashraf (2017) who observed that banks perceived negatively on contribution of capital regulations on bank efficiency that; amendments made on capital regulations from BASEL I to BASEL II has not benefited banks in Bangladesh in getting more profit.

8.1.2 Liquidity requirements reviews and compliance benefits

Concerning the benefits banks get from complying with the liquidity requirements review, most of the banks have positive perception regarding benefits associate with keeping high cash reserve ratio with the BoT. Literatures have shown that keeping large amount of cash reserve with the Central Bank enable banks to access large amount of loan from the Central Bank. This argument was reinforced by one respondent from bank "G" and supported also by two respondents from bank "A" and "E" who said that,

> ". *….Our bank has high liquidity requirements in terms of cash reserve ratio because cash reserve ratio is one of the criteria used by the BoT when considering issuing loans to banks; it is true that the higher the cash reserve ratio the more the loans commercial bank can access from the BoT*…." (Interviews field data, Dar es Salaam, February, 2020).

The findings indicate that banks with high amount of cash reserve kept with the BoT are likely to get more loans from BoT during the period when a bank is in financial constraints. The cash reserve ratio acts as collateral when a bank wants to process a loan. It is from this argument banks have positive perception that cash reserve requirements are important due to the benefits banks get when keeping high cash reserve with the BoT.

8.1.3 NPL ratio requirements and compliance benefits.

The question intended to know whether complying with the NPL requirement of 5% helped banks to improve their performance. Findings of the study show that most banks both small and large banks supports the decision made by the BoT of maintaining NPL requirements at 5% standard that it has helped them to build confidence and trust to the public that their money are safe . For instance, KI from bank "C" said (and was supported by four KIs from bank "H", "B", "I", and "L") that:

> ". *.... the NPL requirement are affordable and that complying more with NPL requirements by reducing NPL to the lowest that is below than 5% has enabled our banks to get more customers since the lower the NPL rate the more the trust customers have on banks"*. (Interviews field data, Dar es Salaam, February, 2020).

The findings indicate that complying to the NPL requirements has helped banks to improve their performance in terms of profit and customer relationship implying that banks with low rate of NPL are much trusted by customers, depositors and investors in terms of bank stability

8.1.4 Information reporting and disclosure requirements reviews and compliance benefits

Most banks have shown positive responses on the benefits banks get when complying with the reviews. During the interview with compliance and risk management managers of banks, they expressed the way they perceive about the amendments made on the information and reporting regulations in relation to the benefits they get. For instance, KI from bank "J" said (and was supported by three KIs from bank "M", "G", and "A") that:

> ". *....our bank has managed to publish the financial statements on time in many newspapers above the minimum required. Publishing to many newspapers has enabled us to get more customers and more investors and we have opened other more branches in different places due to the increase in demand from various customers ....".*(Interviews field data, Dar es Salaam, February, 2020).

These findings as quoted from the KIs indicate that most commercial banks responded positively on the amendments 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 which enables most banks to be known to different customers. When the bank is more known it can easily improve its operations such opening more branches and ATMs, offering more products and services hence, shareholders return on equity increases.

8.2 Regulatory requirements reviews and compliance costs

The second objective of this study was to examine costs associated with regulatory reviews when banks are complying with the new regulations. The discussion of each regulatory requirement reviews and its associated costs is well discussed as follows

8.2.1 Capital adequacy requirements reviews and compliance costs

Considering compliance costs; most large banks reported that compliance costs on capital adequacy requirements are normal and affordable for their banks. This response is different from small banks who claimed that there is an increase of operating costs caused by compliance requirements to some of the regulatory requirements. During the interview with compliance and risk management managers of the small banks, they expressed the way they are incurring costs to comply with the new capital adequacy requirements reviews. For instance, KI from bank "G" said (and was supported by three KIs from bank "K", "L", and "J") that:

> ". *.... Despite the compliance role, our bank has incurred a lot of costs in complying with the requirements. The requirements have added more costs to our institution in form of interests. The requirements have automatically forced our bank to issue shares at discounts and also borrow from strong banks at high interest rate. ..."* (Interviews field data, Dar es Salaam, February, 2020).

On the same issue another compliance and risk management manager from bank "I" said;

> ". *....Besides, our bank disposed some assets last year to raise capital and meet the requirements; However, the asset was disposed at low value below the institutional expectations which has become as a cost for our institution*...." (Interviews field data, Dar es Salaam, February, 2020).

These findings as quoted from the KIs indicate that most small commercial banks are challenged with the increase in operating costs as a result of complying with new regulations. This indicates that small banks are increasingly worried about the regulatory costs that arise every time a new review is introduced. Bank managers fear that the cost of compliance such as implementation costs, substantive costs, financial costs, administration and enforcement costs are likely to affect the growth of banks business and will lead to very restrictive business. These findings are in line with the findings by study of Hoskins and Labonte (2015) who conducted a study on analysis of the regulatory burden on small banks and discovered that small banks have reported high increase in operating cost as a result of complying with new regulations.

8.2.2 Liquidity requirements reviews and compliance costs

The study was interested to know whether liquidity requirements increased more operating costs. Most respondents from both small and large banks supported that high liquidity requirements increased more opportunity costs in their banks. Their argument is that keeping too much cash in hands just wait for unforeseen events and other short term financial obligations make the money become idle instead of this money being invested somewhere and earn interest For instance, one respondent from bank "K" and another from bank "A" 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 emergences 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).

It was apparent from the findings of data on this aspect that most banks are getting difficulties to meet the requirements which put more banks into high compliance cost hence lower their profit. With this response it imply that most banks both small and large banks have negative perception on liquidity requirements reviews that the requirements put more financial burden to banks.

8.2.3 NPL requirements reviews and compliance costs

The study wanted to know whether commercial banks are getting any challenges when complying with the NPL requirements. Findings show that despite the introduction of new credit risk management policy (2010) and new risk management regulations (2014) in Tanzania; statistics show that the trend of NPL is not stable among most banks in Tanzania. During the discussion with banks managers; they raised concern that they are employing more staffs in the credit department to ensure that the rate of NPL exposures is controlled and minimized. Employing more staffs add costs to the banks. For instance, KI from bank "C" said (and was supported by four KIs from bank "H", "B", "I", and "L") that:

> ". *.... We incurred a lot of costs to minimize the rate of NPL.....especially between 2014 and 2018 our bank experienced high increase in costs NPL because between this period there was difficult business environment in our country and some of our customers defaulted their loans hence we used more costs to ensure that customers pay back their loans despite the difficult business environments facing them between this period".* (Interviews field data, Dar es Salaam, February, 2020).

Responses from key informants could be possible because between 2014 and 2018 some business people closed their businesses claiming that there was low purchasing power from customers which in turn affected loan repayments.It therefore seems evident that probably the costs of collecting the loans was high as more customers closed their businesses

8.2.4 Information reporting/disclosure requirements reviews and compliance costs

Considering the costs associated with number of newspapers used for publications, small banks express their concern that they are getting challenges to afford the cost despite the compliance role they have. For instance, one respondent from bank J and another from bank L said that

> ". *....Cost of publications is too high for our bank to afford especially in big reputable newspapers. One publication in one newspaper costs up to Tanzanian shillings 2,000,000/= (Two million).... therefore, publishing into at least two newspapers as per requirement can cost our bank up to four million shillings in one quarter. This amount is not small to our bank ....".*(Interviews field data, Dar es Salaam, February, 2020).

The findings as quoted above indicate that small banks are getting challenges to meet the publication costs to the reputable known newspapers. Therefore the regulator can look on the other means of publications or allowing banks to use even less known newspapers for publication which are less cost to some extent.

Concerning the amendments made on the publication days of financial statements, findings show that most banks are not satisfied with the decisions made by the BoT of reducing the number of publication days of financial reports from 45 to 30 days; hence most banks are incurring a lot of costs in form of overtime and additional staffs costs in order to meet the publication deadline. During the interview with compliance and risk management managers of banks, they expressed the way they are incurring costs to meet the publication days ; two respondents, one from bank "B" and another from bank "F" said that;

> ". .... *Our bank gets more challenges of meeting the publication days requirements in 30 days because our branches are many and available in different regions; some have challenges on infrastructures and resources so some time we hire other people to assist compiling the financial information and some time we pay overtime for our staff to work more extra miles to meet the deadline* …." (Interviews field data, Dar es Salaam, February, 2020).

The responses from KIs could be true because Most of the large banks and other few small banks have many branches across the whole country therefore; they need more time to collect the financial reports from their branches before publishing them. The argument here is due to lack of resource to most banks meeting the publication deadline demand banks to use extra costs. But also considering infrastructures of developing countries like Tanzania, meeting the publication requirements within 30 days might be a problem. These findings are similar to the study by Adekunle and Taiwo (2013) who observed that some banks in Nigeria are also getting challenges to comply with information reporting and disclosure regulations.

8.3 Compliance benefits and costs

The study was interested to know whether compliance costs affects benefits banks get after complying with new regulations. Most of banks both small and large banks reported that despite the increase in compliance costs still their banks are benefiting a lot with the new regulations. For instance, KI from bank "E" said (and was supported by three KIs from bank "G", "L", and "J") that:

> ". .... *Compliance costs are normal and affordable therefore we are not affected much by the regulatory costs because we are benefiting much from the reviews in terms of profit, increase in number of customers and branches. Therefore, by comparing the two situations benefits are higher than the costs*…." (Interviews field data, Dar es Salaam, February, 2020).

Responses from the key informants indicate that despite the increase in compliance costs banks continue to benefit more from the regulatory reviews hence most banks are not affected much with the costs. Every review in any country come with its costs, what is important here is compliance benefits should be higher than the costs

9. THEORETICAL CONTRIBUTIONS

The findings support the attitude theory which states that the more a person or an institution has a favorable attitude towards something, the higher likely that person is to buy or use that something. This theory focused more on regulatory reviews and compliance benefits without taking into consideration the compliance costs component. The theoretical contribution of this study is that the more banks have favorable attitude towards new regulations, the more likely the banks comply with the reviews and therefore, the performance is expected to increase despite the compliance costs banks face.The compliance cost in terms of opportunity cost has been added to this theory. Howcroft, Hamiliton and Hewer (2002) also used attitude theory in their study; consumer attitude and the usage and adoption of home-based banking in the United Kingdom and observed thatcustomers' perceptions on benefits of adoption of home-based banking were the driving force of customer involvement is home-based banking products.

10. CONCLUSION AND RECOMMENDATIONS

10.1 Conclusion

This study aimed at assessing the compliance benefits and costs commercial banks in Tanzania get when complying with new regulatory requirements reviews. The study concludes that considering benefits banks get after complying with the new reviews findings show that most banks are satisfied with the reviews made by the BoT some regulations because the new regulations have increased confidence and trust to the public on bank operations, the reviews also helped banks to improve their profits, has enabled them to expand more operations by opening more branches, ATMs. Not only that but also findings show that more publication requirements has enabled banks to be known more hence, increase the number of customers. In view of the costs associated with complying to the new regulations, the study observed that most banks are faced with the challenge of the increase in operating costs caused by hiring more staffs, overtime costs, penalties, costs associated with technological improvements and borrowing costs to meet the capital adequacy, NPL and publication requirements. Other costs observed were increase in opportunity costs caused by keeping too much liquidity assets particularly cash which becomes idle.

10.2 Recommendation

The study recommends that banks should carefully design strategies which will help them to manage and increase more capital including; list their shares in stock market (DSE), diversifying their income into other profitable projects and also merging their assets with other strong banks. Also banks need to improve their strategies on controlling NPL includingimplementing carefully the proposed risk control strategies which are well stipulated in credit risk management policies (2010) and regulations (2014). 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 will enable commercial banks to accomplish publications exercise on time.To the regulator the study recommends that; BoT should think of reviewing liquidity requirements and cash reserve ratio which seem to be too high and costly for most banks. The BoT can also introduce separate capital adequacy requirements as per bank size; the BoT can inject some funds in the growing banks in form of shares to boost their capital adequacy instead of closing them. Another recommendation is that BoT can think of reducing the amount of penalty on some cases and also if possible allow banks to publish their financial reports even in other small newspapers which are currently excluded from publications list.

10.3 Limitations of the study

The limitation of this study is that; it has concentrated more on commercial banks and ignored other financial institutions which were also affected by regulatory reviews of 2014. Besides, the study focused on few regulatory requirements reviews and ignored others. Thus, similar studies can be conducted in commercial banks or other financial institutions like SACCOS, Community banks, Microfinance banks using other regulatory requirements reviews not captured in this study

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